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Accounting Harmonization in ASEAN

The Process, Benefits and Obstacles

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Abstract

Accounting harmonization is becoming a big issue in the ASEAN region, since the ASEAN countries are now facing the globalization era, where the interest of international business and investment becomes greater for this region. The objective of this study is to find out how the process of accounting harmonization is taking place and to investigate to what degree there is accounting harmonization in ASEAN region. Furthermore, this research aims to study which efforts are made by ASEAN Federation of Accountants (AFA) to achieve accounting harmonization and to propose to AFA how to facilitate the effort to achieve harmonization at a regional level.

Through an analysis of data and empirical findings we found that although several obstacles exist, regional harmonization is beneficial for ASEAN. Regional harmonization in ASEAN depends on the effort of each ASEAN countries. In the case of national level, we found that most national accounting standards comply or are moving to comply with IAS with several modifications. From empirical study, we found that in many respects most companies use the same valuation methods. Moreover, we suggest AFA improves its function with developing the organization structure and increasing good relationship with regional capital market and government from each member country.

Key words: accounting harmonization, AFA, ASEAN, standard-setting process

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Chapter 1 Introduction

Nowadays, accounting harmonization is a big issue. The current and heated debate on the harmonization of accounting standards is hard to ignore (Keegan, 1988). In Mexico, The Instituto Mexicano de Contadores Publicos (IMCP) has made harmonization with International Accounting Standards its top priority (Jeffrey, 1999). In Australia, international harmonization is one of the factors shaping the direction of standard setting (Ravlic, 1999). Even in China, it has been suggested that reconciling the differences between accounting standards adopted in the People's Republic of China (PRC) and Western countries will help to pave the way for the harmonization of the PRCs accounting standards with international accounting practices (Ng, 1999).

In 1973, The International Accounting Standards Board (IASB) was established to harmonize international accounting standards. In a long-awaited agreement, the IASB recently issued core standards that bring some promise of harmonization (Berton, 1999). The IASB's standards (IAS) are now accepted in some form by numerous stock exchanges, including those in London, Germany, Hong Kong, Singapore, and Switzerland. The IASB receives widespread support for its efforts to harmonize international accounting. (Larson & Kenny, 1999).

According to Samuel and Piper (1985), accounting harmonization attempts to bring together different systems leading to the process of blending and combining various practices into an orderly structure, which produces synergistic results. While some see harmonization more as a process of moving to a system of uniformity or standardization, most view harmonization as a process whereby the number of allowed accounting alternatives is reduced as a means of promoting greater comparability (Larson & Kenny, 1999).

In South East Asia, accounting professionals of the countries belonging to the Association of South East Asian nations (ASEAN), have an umbrella organization known as the ASEAN Federation of Accountants (AFA). The Federation originally intended to provide technical services to its member bodies in the formulation and adoption of accounting and auditing standards and practices. However, with the on-going globalization of services, the AFA

Council encouraged its members to go for harmonization of standards and practices based on issuances of the IASB and the International Federation of Accountants (IFAC).

1.1 Research Issue

Accounting practices in different parts of the world are very diverse. For example, analysis of the balance sheet, definitions of assets and asset valuations may vary greatly from nation to nation. Several accounting groups, including the IASB and the Organization for Economic Cooperation and Development (OECD) are trying to harmonize these divergent standards (Choi, 1998).

To be useful, accounting must meet the needs of the society and culture it serves. Since these cultures are different, their accounting practices will also be different. Although it is impossible to harmonize the culture, there are similarities among various nations' accounting practices, which tend to be clustered. Harmonization on a regional basis within clusters may thus be more feasible than trying to set uniform international standards. Such an effort is already underway in ASEAN as a means of supporting foreign investment and regional joint ventures. ASEAN's efforts will complement those of the IASB and will buffer its member nations from adopting standards that not suited to their local settings (Choi, 1998)

Most of the existing research dealing with financial reporting institutions, as well as literature on accounting harmonization, has focused on the industrialized countries of North America and Western Europe. Research on other geographic regions is limited (Saudagaran, 2000). Much of the research on harmonization has been descriptive, analytical, and/or subjective in which the merits of harmonization are debated (Meek & Saudagaran 1990, Rivera 1989, Samuels & Piper 1985). Empirical research assessing the IASB's success in its pursuit of harmonization, while relatively sparse, has been of two general types: (1) studies analyzing national accounting standards, *de jure*, and (2) studies analyzing the accounting practices of corporations, *de facto* (Tay & Parker, 1990).

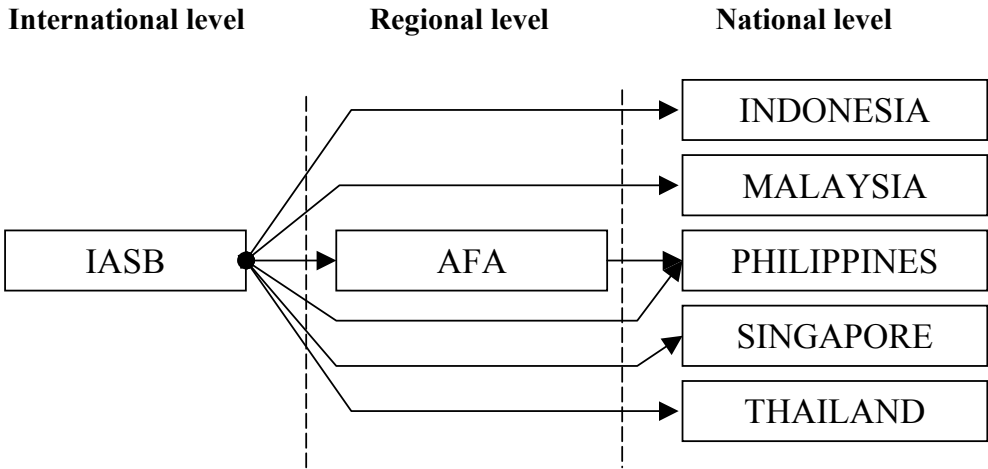
The situation has been the same in the ASEAN countries. There is little research or literature concerning accounting harmonization in this group of countries. Meanwhile, ASEAN, formed 1967, has emerged as an important

economic and political entity. With a combined population of almost a half billion people and gross domestic product in excess of US\$600 billion (in 1995), the ASEAN countries, despite of their recent problems, represent a potential market greater than European Union (EU) or North American Free Trade Agreement (NAFTA) (Saudagaran, 1998).

These potential factors can be beneficial from investors or companies' point of view. From the investors' side, this could be a great opportunity to make investments, and from the companies' point of view, this can also be good for expanding their businesses. One of many tools to facilitate the relationship between investors and companies is the annual reports that can be understood easily by the readers from different countries. These parties could obtain benefits from harmonized accounting standards.

According to the advocates of accounting harmonization, whether on a regional or global basis, there are four primary benefits. These are cost savings accruing to multinational companies, enhanced comprehensiveness and comparability of cross-national financial reports, widespread dissemination of high quality accounting standards and practices, and provision of low cost financial accounting standards to countries with limited resources (Aitken & Islam 1984).

The question of harmonization is related to three different levels, international, regional, and national level of harmonization as shown in the figure below:



In this thesis, our main research issue is how accounting harmonization taking place in ASEAN region. To deal with it, we formulate three issues as follows:

Is it advantageous for ASEAN region to achieve accounting harmonization?

What is the process and to what degree is accounting harmonization taking place in ASEAN region?

What is the best option for the ASEAN region to achieve accounting harmonization?

1.2 Objective of the Study

The objective of this study is to find out how is the process of harmonization is taking place in the ASEAN region by describing accounting harmonization in different levels: the international level, regional level, and national level. We describe the effort of AFA, and the advantages and obstacles of pursuing regional harmonization in ASEAN region. National standard setting in each country is also described in order to give deeper understanding regarding ASEAN regional harmonization. The next objective is to analyze the process of regional harmonization and national accounting standard-setting process. We also analyze the practical part to find out to what degree there is accounting harmonization taking place in ASEAN region. Finally, after we analyzed the gathered information we propose options for the AFA to achieve regional harmonization.

1.3 Scope and Limitation

ASEAN has ten members' countries but only eight countries became members of AFA; namely Singapore, Malaysia, Indonesia, Thailand, Philippines, Brunei, Vietnam, and Myanmar. In this study, we used five countries and took out three countries from our sample since two countries have less developed accounting systems and one country has a lack of information regarding accounting system. Mallory (2000), in his study, found that Vietnam has big problems in poor auditing as well as accounting systems comparing to other ASEAN countries. Brunei has less develop accounting since their professional accounting body failed to organise the accounting profession in the country or to safeguard the public interest. Furthermore, there are no local accounting standards in Brunei (Yapa, 1999). In the Myanmar case, unfortunately, there is a lack information regarding accounting in Myanmar that we can use in this study. Prior research conducted by Saudagaran and Diga (2000) found that only

five countries have more developed accounting and regulatory institutions and have national accounting standards. They are Singapore, Malaysia, Indonesia, Thailand, and Philippines. Furthermore, these countries also formed the ASEAN Federation of Accountants in 1977. Based on these facts we decided to choose five countries as our sample.

In the practical part, companies in some industries were studied. The aim of this part is to measure the degree of accounting harmonization within the regional level. We selected the electronics, telecommunication and information technology industries since today ASEAN is taking economic integration into the information age, where electronics, telecommunication and information technology industries are involved heavily. The purpose of using these technologies is to strengthen regional economic integration (Severino, 2001). These industries are the most important emerging market as they are liable to be the second largest destination of U.S. exports in electronics product, behind Mexico. As we know, that U.S. is the biggest electronics' manufacturer in the world (McHale, 1996). From the ASEAN point of view, ASEAN nations already play a critical role in the electronics business. For example, Singapore has long been the centre of world disk drive production and electronics products are the leading ASEAN exports to the US and other countries since the early 1980s (Ware, 1994). Based on these facts, the electronics, telecommunication, and information technology industries were selected.

We selected all companies within these industries which are listed on the stock exchange in their own countries. The accessibility of obtaining the annual report is also taken into account, so we preferred to take companies that have a web-site. This is due to the lack of financing for our study that prevented other ways of collecting the information. There has also been lack of time preventing us from getting the report directly from each country.

To examine the practical part, we used key asset and profit measurement practices. The key measurements are taken from a book written by Radebaugh and Gray (1997). Since this book is used widely, we believe the key measurements have validity and reliability for measuring the degree of harmonization in this study. They are goodwill, research and development expenses, valuation of fixed asset, depreciation, valuation of inventory, and cost of inventory.

Goodwill issues are raised since international mergers and acquisitions growth tremendously. Hence, intangible assets become more significant, which leads to the problem of how to account for them, since in practice a variety of approaches are found in many countries. The same case occurred in research and development expenses, where the growth in information technology has been a dramatic feature recently, and MNEs have played a major role in innovations. Consequently, the R&D expenditures have increased significantly in the overall business context. This problem arises when a variety of approaches to the treatment of R&D in practice are apparent in many countries. The other problem regarding accounting measurement is the valuation of asset, where there are two basic measurements, which applied differently in many countries, namely historical cost accounting and asset revaluation. The next problem regarding asset measurement is related to the depreciation method, where several methods are used differently in many countries. For example, in the Anglo-Saxon and Nordic countries it tends to be based on the concept of useful economic life, whereas in the Germanic, Latin, and Asian countries, the tax rules generally encourage more accelerated methods. Finally, in practice a variety of valuation and cost of inventory methods are found in many countries. Using different methods will generate different numbers of cost of inventory that lead to the different numbers for net income.

1.4 The Disposition of the Thesis

The thesis has been organized into eight chapters. The information will be presented in such a way so that the reader can read the report in a logical sequence. Therefore, we put the important background information in the beginning before going into further detail. The content of the chapters is as follows:

Chapter 2, with the title “Methodology”, describes several aspects regarding the type of research study. It contains the conceptual framework, research approach, research perspective, research method, data collection, selecting of samples, and evaluation of research. The aim of this chapter is to make the reader understand how we have carried out the research.

Chapter 3, with the title “Advantages, Disadvantages, and Interested Parties in connection with Accounting Harmonization”, describes the advantages and

disadvantages for interested parties such as multinational enterprises, management, accountants, government, trade unions and employees, investors, bankers and lenders, and auditors, and international accounting firms. The purpose of this chapter is to make the reader understand the advantages and disadvantages in connection with accounting harmonization.

Chapter 4, with the title “International Level of Accounting Harmonization”, describes accounting harmonization at the international level. It contains the international institutions involved in accounting harmonization and the efforts made by IASB to achieve accounting harmonization. The purpose of this chapter is to give the reader information on accounting harmonization at the international level.

Chapter 5, with the title “Regional Level of Accounting Harmonization”, describes accounting harmonization at the regional level. Harmonization in European and the ASEAN region is described. It contains the regional institutions involved and the effort to achieve accounting harmonization. Furthermore, the role of AFA in achieving regional harmonization is investigated. The aim of this chapter is to make the reader understand how accounting harmonization is taking place at the regional level.

Chapter 6, with the title “Accounting Harmonization in ASEAN Countries”, describes accounting harmonization at the national level. It covers actors, standard-setting process, due process, accounting harmonization, and national accounting standards in each of the ASEAN countries. This chapter also contains the practical parts, which describe to what degree the companies’ accounting principles comply with International Accounting Standards. Comparisons between countries will also be made in this chapter. The aim of this chapter is to give the reader some figures on how far the accounting harmonization process at the national level has progressed.

Chapter 7, with the title “Analysis”, presents the analysis of this thesis. It covers the analysis of advantages of regional harmonization, analysis of the process and the degree of regional accounting harmonization, and the options for ASEAN region to achieve accounting harmonization.

In chapter 8, the conclusions drawn from the study will be presented and recommendations given when it comes to how the results can be used, as well as suggestion for further research.

Chapter 2 Methodology

2.1 Introduction

Research methodology refers to the method and procedural framework within which the research is conducted. It describes an approach to a problem that can be put into practice in a research process, which could be formally defined as an operational framework within which the facts are placed so that their meaning may be seen more clearly. It also gives methods for the researcher to answer the research problems systematically.

2.2 Conceptual Framework

There are mainly two different conceptual frameworks from which to approach scientific studies, the positivistic and the hermeneutic frameworks.

The positive framework focuses on drawing conclusions based on empirically determined knowledge. A goal with the positivistic framework is to describe and explain a phenomenon. When working in a positivistic framework, the researcher aims to measure the research issue in an objective way. Therefore, the researcher should be objective, and must not be affected by non-scientific values and must also not let his or her own values affect the result. Furthermore, the researcher adopts an external position to the subject that should be examined and it is important that fact is separated from opinion. (Ericsson & Wiedersheim, 1999)

The hermeneutic framework means that the researcher interprets text, human interaction, values and norms in a process that yields a better understanding of a subject. Under the hermeneutic framework, the aim is to reach a more holistic understanding of the research issue (Ericsson & Wiedersheim, 1999). Within this framework, the researcher is trying to achieve an understanding of the totality, and obtain insight. The researcher goes from understanding parts of the whole, to the whole, and then back again. This interaction is done by using a dialogue, the researcher asks questions and is influenced by the answers he receives, and the answers lead to new questions, and thus it continues.

In our study, the point of departure is our understanding and pre-knowledge, which is used to interpret and understand the objects of our study. Our

knowledge is developed as the study moves along by interpreting material and making questionnaires, and then the new knowledge is the basis for the next step of information gathering, until a full understanding of the research topic is reached. On the other hand, we also approach our study within the positivistic framework since our aim is to identify the research issues, based on empirical findings about accounting harmonization. Within this approach we tried to understand and measure a phenomenon, finding cause and effect relationships. Hence, our study ends up being a mix of both approaches, hermeneutic in the way it uses newly found information to guide the next step in the study, and positivistic in the way it is trying to understand and measure a phenomenon based on the empirical data.

2.3 Research Approach

The researcher has to study the problem before he/she conducts the actual research. Therefore, understanding the research approach is very essential to him/her. To study a problem, there are five approaches can be used namely: explorative, descriptive, explanatory, predictive, and prescriptive. (Lekvall & Wahlbin, 1993, Patel & Davidsson, 1994, Ryan et. al., 1999)

The explorative approach is used when the information on the subject is insufficient or there is limited knowledge of the subject area. The main purpose is to collect as much knowledge about a certain problem area as possible. This approach is also commonly used during the initial phase of larger research project. (Patel & Davidsson, 1994)

The descriptive approach is used if a problem area already contains so much information that developed theory about the problem exists and is primarily used when the researcher is interested in showing the characteristics of a specific problem area. This approach only investigates the essential aspects of the phenomenon. (Patel & Davidsson, 1994 and Lekvall & Wahlbin, 1993)

The explanatory approach is used if the researcher wants to establish causal relationships between a usually fairly large number of variables. (Lekvall & Wahlbin, 1993)

The predictive approach is used when the researcher aims to do a prognosis for the future development of a phenomenon. Nevertheless, this does not imply

that researcher has established any casual relationships underlying the development. (Lekvall & Wahlbin, 1993)

The prescriptive approach is based on the researcher identifying what should happen or be done. This approach often includes elements of value judgments and theoretical speculations. (Ryan et al., 1992)

To study the research issue in this thesis, we conducted descriptive, prescriptive and some elements of explorative study. In the early stages, since the subject area is quite new, some elements of explorative approach will be used to examine the secondary resources available in order to develop our knowledge of the subject area. However, this thesis is heavily based on a descriptive approach in order to obtain a deeper understanding of the problem area. We document and describe the harmonization process at the international, regional, and national levels from many qualitative sources. The prescriptive approach is used in the recommendation part since we also focus on identifying what should be done by AFA to achieve regional harmonization. After these approaches, we will go a step further to the analysis to find answers to the research questions.

2.4 Research Perspective

The research perspective is concern with the perspective of the researcher when approaching the empirical reality, i.e. the part of the reality that is studied. There are three perspectives when approaching the empirical reality namely deductive, inductive and abduction.

A deductive perspective is characterized by the fact that a theory about the conditions of the reality exists. It means that the research goes from theory to empirical reality, and usually has an objective outlook on reality. The researcher examines whether the existing theories are combined with the reality by making observations in the reality and comparing those observations to the existing theories. (Patel & Davidsson, 1994)

An inductive perspective is characterized by going from empirical reality to theory. This approach will generate theory (i.e. discover or form a theory). The researcher conducts observations in reality and carries out the collection of

secondary measurements and interpretation of the data. From these the theory will be formulated. (Patel & Davidsson, 1994)

An abduction perspective is based on a combination of the inductive and the deductive perspective and the analysis of the empirical findings can be combined with, or based on, previous theories. (Alvesson & Skoldberg, 1994)

Since there are few studies about harmonization on both the national and the regional level within ASEAN countries, we will conduct observations on reality and interpret the data collected. We have chosen not to formulate a theory, since we think that it would be too difficult to create a good theory to work with on a subject where earlier research is limited. In this research, we are primarily directed by the knowledge or understanding that is developed as the study proceeds; therefore, the research plan cannot be fully planned but must grow during the carrying out of the project, and we must have an open and questioning thoughts. Therefore, most of the work needs to be done during and after the information gathering. On the other hand, we observed the reality and compared those observations to the existing theory by combining the empirical part and theoretical frame of reference regarding accounting harmonization. Due to these factors neither inductive nor deductive approach is used in this thesis. As a result, we used abduction perspective since we will use both empirical findings and theoretical frame of reference to establish our conclusion.

2.4.1 Research Method

The research method deals with the method of collecting, processing, and analyzing the gathered information. Therefore, this part is very important in order to support the conclusions. There is two main methods deal with these parts, namely the quantitative and qualitative method.

The purpose of the quantitative method is to investigate how pre-defined phenomena, their characteristics, and meanings are spread in populations, events or situations. The results are usually precise and narrow, and the sample tends to be large, random, and representative. The researcher collects data without his or her influence, through for example the use of tests, questionnaires, etc. In this method, information is converted into numbers and

quantities that are used for statistical analysis (Merriam, 1988 and Starrin & Svensson, 1994)

The qualitative method collects the information that will be analyzed and interpreted. The qualitative analysis is used to identify and determine so far unknown or unsatisfactory known phenomena, characteristics and meanings concerning their variations, structures and processes. (Starrin & Svensson, 1994)

Qualitative information is the information that is expressed in words or used to put forward a complete description of what being studied. It contains detailed descriptions, direct quotes, and extracts from texts, and they make up detailed and deep raw-data from the empirical reality. On the other hand, quantitative information tells how much and how many of something there is, and what the proportion looks like. Both kinds of information are interpretations of experiences, in one case the interpretation is through words, in the other it is through figures and numbers. Quantitative information can come from surveys, and can be used to support the results from qualitative data. (Merriam, 1988)

This research uses mainly the qualitative method rather than the quantitative method. This is in line with our research approach, in which we use a more descriptive approach. The qualitative method collects the information that will be analyzed and interpreted and contains detailed description and extracts from text and from empirical reality about accounting harmonization. This analysis is used to identify and determine so far unknown or unsatisfactory known phenomena, characteristics and meanings concerning the accounting harmonization at the regional and national level. The quantitative method will be used in the practical part so that we can investigate how far harmonization has taken place. This method will support and exemplify the results from qualitative data.

2.5 Data Collection

There are two fundamental methods available for collecting data, primary and secondary data collection. Primary data is material collected by researcher himself and secondary data is material that has already documented. This method is based on a research perspective and approach chosen by the

researcher. The information collected can also be both qualitative and quantitative.

2.5.1 Primary Data

Primary data is information obtained from original sources; that is, information from interviews, questionnaires, surveys, and observations. In this research, we have decided to obtain primary data by conducting questionnaires via e-mail due to the lack of financing and time. The questionnaires were sent to nine persons who have great knowledge and expertise in the standard-setting process and regional harmonization. All of them have important positions in accounting bodies at either the regional level (AFA) or the national level (professional accounting body in each country).

2.5.2 Secondary Data

Secondary data is data that has already been collected, such as research reports, books, articles, statistical reports and internet information. However, the quality and usefulness of the secondary data could be difficult to evaluate. It is always necessary to consider the purpose and method of the original data. Secondary data can be divided into two subgroups, internal and external. Internal secondary data is available within the organization and external secondary data is provided by sources outside the organization such as reports, periodicals and books.

In exploring secondary data, the researcher must critically view all documents used, especially in regard to source, originator, reasons for writing document, and the circumstances in which they were made. Using secondary data is suggested if it gives better, more, or cheaper information than primary data. Secondary data has advantages in its stability since the researcher cannot influence the material. Therefore, the secondary data is more objective than primary data.

In this research more secondary data has been used than primary data. The reason is lack of financing and lack of time for doing interviews in five countries within the ASEAN region. Furthermore, the secondary data is especially good for qualitative studies since it can give the study an empirical background for the problem being studied (Merriam, 1988).

Our study used both internal and external secondary sources such as articles in journals and research reports, annual reports, books, electronic databases, and internet documents. This gave us an overview of the subject and ideas on how to perform this type of study. Such sources provided us with ideas for what problems exist and how the process of accounting harmonization took place. The theoretical material read includes books, studies, articles, research reports, and theses by different authors. In the practical part, we use mostly internal secondary data from companies' annual reports taken from their web sites.

2.6 Selecting Samples

Selecting the sample is very important for us in order to increase the credibility of this thesis. The choice of sample must be based on the need to generalize the results, and to what purpose the sampling is made. There are two basic types of sampling strategy, namely probability and non-probability sampling. The difference between non-probability and probability sampling is that non-probability sampling does not involve random selection and probability sampling does. Therefore, the probability sample makes it possible to calculate statistical inference, where as the non-probability sample method is based on more qualitative and intuitive estimations level of inferential results. (Lekvall & Wahlbin, 1993)

In this study, since statistical knowledge is not our goal, we used non-probability sampling instead of probability sampling. Non-probability sampling can differ depending on the purpose of the sample. The purpose can be to discover and understand and gain insight. Hence, a so-called purposive sample can be used, in order to learn as much as possible. The purposeful sample is the same as a criterion-based sample, where criteria are described for an element to be included and then one looks for a sample that fits these criteria. A purposive sample is one that is selected by the researcher subjectively. The researcher attempts to obtain a sample that appears to him/her to be representative of the population and will usually try to ensure that a range from one extreme to the other is included.

This non-probability purposive method is in line with our research since we use qualitative studies. We have chosen and sent the questionnaires to nine persons who have great knowledge and expertise in both accounting harmonization and

standard-setting process. They are five people from professional accounting bodies in each country, the president of AFA, the former president of AFA, the secretary general of AFA, and one of the member boards of accounting standard setter of Indonesian Institute of Accountant. After we had sent the questionnaires, we reminded them several times to answer our questionnaires. Unfortunately, all of these respondents didn't reply due to the lack of their time, except one respondent who from him we got a lot of information and discussion. Even though we only had one respondent, we got a lot of important, beneficial and significant information since he is a key person who takes part in the accounting standard-setting process in Indonesia and has a great understanding of accounting harmonization process, especially at the regional level. He is also involved in practical part since he is a partner in an international accounting firm (big five).

We examined all companies within electronic, telecommunications, and information technology industries that are listed on the capital market in each country. We found 161 companies and then we selected the companies that have a web site according to our scope and limitations in the prior chapter. We found about 80 companies that have a web-site, then we explored companies that have annual report in their web-site because not all companies' annual reports are available on their web-site. Then, we started contacting the companies that did not have annual report on their web site via e-mail. Finally, we have collected 60 companies from five countries as our sample. It comprises eight companies from Indonesia, seven companies from Malaysia, thirteen companies from Philippines, twenty companies from Singapore, and thirteen companies from Thailand. Since we want to use all the gathered materials, the number of companies differs between countries. The complete companies' names are listed in the references.

2.7 Evaluation of the Research

The concepts of validity and reliability are very important for achieving a high level of credibility for the conclusions presented in this thesis. Therefore, these concepts are used to judge a report's scientific value by measuring the quality of research design since all research aims to produce valid and reliable knowledge in order to have an effect on theory and practice.

2.7.1 Validity

Validity refers to the extent to which a test measures what we actually wish to measure. It is defined as the absence of systematically errors of measurement. (Patel & Davidsson, 1994) Validity can be broken down into internal and external validity. Internal validity refers to whether or not the research is measuring what is supposed to measure. External validity refers to the relationship between the result of the measured object and reality and regards how the results from one study can be applicable to other situations (i.e. how generalizable they are).

The internal validity in this study has been achieved by using several sources of information in order to get clear picture of harmonization within ASEAN countries. Many written and electronic documents are chosen and used critically and carefully. The questionnaires have been sent to a person who has a high level of knowledge in the subject area. External validity in this study comes from the detailed description of how the study has been carried out, in order to create an understanding of how the results are achieved. We presented the research design and the theoretical framework, in order to avoid biased conclusion. We improved our external validity based on the sampling method by doing deliberately job of drawing a sample from a population and using a lot of materials.

2.7.2 Reliability

Reliability has to do with the accuracy and precision of measurement procedure (Patel & Davidsson, 1994). It is defined as the absence of random errors of measurements. A thesis with high reliability is not affected by who conducted the measuring. The instrument used in the study should be trustworthy, in that reliability refers to the extent to which the researcher's findings can be repeated if others carried out a new study of the same object. This is based on the idea that there is one reality that will lead to the same results if this reality is studied repeatedly, whatever instruments are used.

Reliability in this study, with regards to our subject area, is difficult to discuss since this study is mainly qualitative research. Reliability in our study comes from deliberately using of several methods for collecting and analyzing information that we believe strengthens the reliability.

2.8 Summary

In this research, we perform an inductive study within both positivistic and hermeneutic frameworks. The research is combination of descriptive, prescriptive, and some elements of explorative research approaches. The data gathered and analysed is both primary and secondary data, but we use more secondary than primary data. We have used both qualitative and quantitative data, and we have tried to organize this research carefully, systematically, and critically. Finally, we have tried to openly display all our actions during the research project so that the reader can judge the validity and reliability of the research.

Chapter 3 Advantages, Disadvantages and Interested Parties in Connection with Accounting Harmonization

3.1 Introduction

International accounting harmonization has continued to generate interest among accounting practitioners, academicians, investors, and other users of corporate financial reports. Many national and international organisations, such as ASC, FASB, IASB, and EC, are currently engaged in the process of national and international harmonization of financial reporting (Van der Tas, 1988). Before going further into the international accounting harmonization, it is necessary to consider whether the target is harmonization or standardization. Both ‘harmonization’ and ‘standardization’ are used rather loosely in accounting practice and in the literature. Harmonization is a movement away from total diversity of practice and standardization is a movement toward uniformity. Both of them are not dichotomous. The former is any point on the continuum between the two states of total diversity and uniformity, excluding these extreme states, as illustrated below:

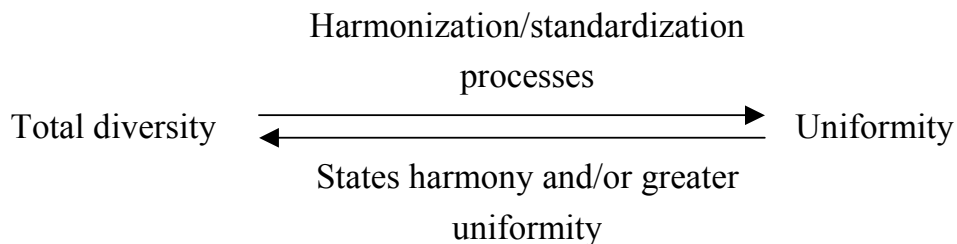


Figure 3.1 Harmonization and standardization

Source: Parket & Tay, 1990, figure 1, p.73

According to Fredrick Choi (1999), harmonization is a process of increasing the compatibility of accounting practices by setting limits on how much they can vary and standardization means the imposition of a rigid and narrow set of rules, and even a single standard or rule may be applied in all situations. From this definition, harmonization of standards will minimise logical conflicts and improve the comparability of financial information from different countries. Harmonization is much more flexible and open; it does not take a one-size-fits-all approach. On the contrary, standardization does not accommodate national

differences and is, therefore, more difficult to implement internationally (Choi, 1999). It proves that harmonization is required rather than standardization.

RD Nair and Werner G Frank, in their article “The Harmonization of International Accounting Standards, 1973-1979”, wrote that in the 1970s, serious attempts were made to harmonize international accounting practices. This effort was deemed important because the growth of international trade and of multinational corporations necessitated the comparison of accounting data across national boundaries. Differences, which existed in accounting practices, constituted a barrier to the international communication of valid financial data.

The economic and financial crisis which began in 1998 in certain Asian countries and spread to other regions of the world showed the need for reliable and transparent accounting and financial reporting to support sound decision-making by investors, lenders and regulatory authorities (www.iasc.org.uk, 11-06 -2001).

Saudagaran and Diga (1997) figurized the level of accounting harmonization in three different steps, namely total disharmony, regional harmony, and global harmony. The regional paradigm of accounting harmonization perceived harmonization as occurring among countries that are geographically proximate. The global paradigm of accounting harmonization envisions a borderless environment where accounting information is comparable across countries and is readily available to international users. One of the principal proponents of the global paradigm is the IASB, an organization that sees its role as formulating and promoting an international set of acceptable accounting standards, International Accounting Standards.

Many countries already endorse the International Accounting Standards as their own either without amendment or else with minor additions or deletions. Furthermore, important developments are taking place in the European Union, where the European Commission is developing proposals that will require all listed companies in the European Union to prepare their consolidated financial statements using International Accounting Standards. Already, both inside and outside the EU, many leading companies have stated that they prepare their financial reports in accordance with International Accounting Standards (www.iasc.org.uk, 11-06-2001).

This chapter is divided into three subtopics; the advantages of accounting harmonization; the disadvantages of accounting harmonization; and the interested parties and their interest in accounting harmonization.

3.2 The Advantages of Accounting Harmonization

One of the objectives of harmonization is to give benefit to the users. Harmonization can be considered to be a waste of time and money if there is no benefit for the accounting user groups.

There are several benefits associated with harmonization as follows:

- Cost and money savings accruing to multinational companies. Countries with limited resources will provide low cost financial accounting standards.
- Comprehensiveness and comparability of cross-national financial reports and international financial information.
- Widespread dissemination of high quality accounting standards and practices. The tendency for accounting standards throughout the world will be raised to the highest possible level and to be consistent with local economic, legal and social conditions.
- Enhancing common financial reporting language so that financial statements will give the same message on both sides of the Pacific and the Atlantic. (Turner, 1983, Tan, 1996, Aitken & Islam, 1984)

In 2001, the Australian Accounting Standards Board (AASB) issued an exposure draft concerning International Convergence and Harmonisation Policy for comment. The main benefit of Convergence and Harmonization according to this exposure draft is:

- Increasing comparability of financial reports prepared in different countries and providing participants in international capital markets with better quality information on which to base investment and credit decisions ...
- Removing barriers to international capital flows by reducing differences in financial reporting requirements for participants in international capital markets...
- Reducing financial reporting costs for Australian multinational companies and foreign companies ...
- Facilitating more meaningful comparisons of the financial performance and financial position ... and ... improving the quality of financial reporting ...

(http://www.aasb.com.au/workprog/docs/102_7-01.pdf, 07-01-2001)

Other benefits that can rise from accounting harmonization is that accounting harmonization helps in different ways different user groups. How accounting harmonization helps the users will be described separately in this chapter.

3.3 The Disadvantages of Accounting Harmonization

A study by Choi and Levich examines the impact of accounting diversity. They introduce various situations where accounting diversity is logical or illogical. In assessing the importance of accounting differences, they conclude that where the economic environments are dissimilar, as it's likely in the case of international investments, diversity may well be justified. According to them, this is relevant when the sources of such diversity are for example, in the company law, tax regulation, sources of finance, business customs, accounting cultures, etc. Thus, in this particular case they argue that harmonization would be useless. They are also of the opinion that if the world exhibits diversity, then it may also be necessary for the accounting principles to reflect the diversity. Subverting various national accounting practices away from the optimal ones for domestic purposes, particularly given that most companies are private and raise no international finance, would be disadvantages.

The obstacles against accounting harmonization give an insight into what a complex issue this is and an appreciation of the problems facing the development of international accounting. Therefore, it is very important to understand the obstacles when studying international accounting harmonization (Lawrence, 1996).

The main users of accounting information are different among countries. For example, in the UK and US, the main user is the investor since the business environments are based on the capital market. On the other hand, in Germany, and in the other continental countries, the main users are tax authorities and government where both of them take more important positions. The different user groups require different information. Investors need information that is relevant to investment decisions. The tax authorities require information produced in line with the tax regulation. Governments need information produced with national standardized planning in mind. Employees need information of social type and management need information to manage and

control companies. It is difficult to accomplish all these different financial reporting requirements within a certain standard without many alternatives and flexibility in the application of the standard.

Legal situations that vary among countries also become an obstacle for the harmonization. It is impossible for all laws to fit all nations. Therefore, certain standards may not be in the best interest of some nations, especially those who are not very influential in the standard setting process. The duty of standard setting is surrendered to a foreign institution instead of the elected representatives. This is, in a way, a threat to the independence of the nation in question. The legal system has a direct impact on accounting. Laws contain detailed accounting regulations specifying comprehensive accounting rules and procedures. In certain countries, accounting is directly dependant on legislative requirements because the government determines and enforces these requirements (Lawrence, 1996). In some cases, harmonization in financial reporting would require changes in the legislation.

The development of accounting must be considered since the historical development of accounting in each country is different. Therefore, the starting point to get into the harmonization process is also different. For countries who have a history of using accounting standards produced by independent private-sector bodies, it may be easier to use international accounting standards rather than countries that use governmental guidelines (Lawrence, 1996). The development of a professional accounting body plays an important role in the process of accounting harmonization in a country. It is difficult, therefore, for countries that lack such body to pursue the harmonization process.

Organizations, both public- and private-sector, influence the process of accounting harmonization even though they have different goals and ambitions (Lawrence, 1996). Each of them has different expectations as to suitable accounting practices and necessary financial disclosure. For example, the United Nations (UN) requires that disclosure of Multinational Enterprises (MNEs) in the developing countries in which MNEs operate be extended. The OECD focuses on the extent of the disclosure from the point of view of the developed country where the MNE is based.

The process of accounting harmonization is very time consuming. To accomplish an international standard at least months or years are needed, and it

will also take time for a standard to be applied. As globalization is speeding up, it will clearly be difficult as well as costly to keep the standards and the due process up to date. The competition between countries in order to attract investors can lead to quick movements, where changes can happen many times in a short term. The business environments have a short time focus, and in short time the costs of harmonization may seem to be high. Governments often have a shorter time focus, since they rely on voters for a limited period of time. The benefits of harmonization might not be visible during their reign. Should the political environment in the country not accept the international rules, for accounting or others, the “punishment” such as trade wars may be costly, not only in monetary terms but also in human suffering.

Harmonization tends to assume that all countries are at the same level in terms of economic development. In fact, there are great differences between countries. The world has globally accepted that countries vary very much in many aspects. Harmonization assumes the idea that all can apply one set of rules. Within the industrialized world, the benefits may exceed the cost of harmonization. They already have professional bodies, strong economies, and good education. But in the underdeveloped world, adoption of the standards may not be possible. The cost to hire professional accountants can instead be invested in lower level education that will give the country a better starting point. The investments in harmonization will only be costly.

3.4 Interested Parties and Their Interest in International Accounting Harmonization

Different parties are interested in International Accounting Harmonization. There are different users of financial reports who have different motives to give pressure to multinational corporations to provide financial reports in more harmonized and standardized way. Radebaugh and Gray (1997) named the parties as governments, trade unions, employees, investors, bankers and lenders, general public, and accountant and auditors, and multinational corporations, who are the most important party involved in this matter. How they are interested, is explained below.

3.4.1 Multinational Enterprises (MNEs)

Multinational Enterprises are very concerned with the international accounting harmonization due to their operations across countries. They have to face different accounting principles in every country in which their subsidiaries are located. According to Lawrence, several benefits could arise from the accounting harmonization for multinational enterprises as follows:

Accounting harmonization will simplify the consolidation process of foreign subsidiaries if both the parent and the foreign entity apply the same accounting and auditing standard in meeting local reporting requirements. MNEs will easily develop accounting systems to meet the reporting and disclosure requirements of the stock exchanges around the world. (Lawrence, 1996, p. 252)

It will be easier for MNEs to communicate financial information and to make internal policy within the group by using common accounting practices. It will enable MNEs to introduce consistent internal management accounting to support external reporting requirements and provide suitable information for internal performance evaluation.

3.4.1.1 Management

The management, who use information to manage MNEs, is very concerned about the differences in accounting standards across countries in order to make important decision such as international acquisition and merger. For the manager in a parent company, it will be easier to control the subsidiaries if there are similarities in the accounting standards. This party is often interested in the financial performance of corporations.

3.4.1.2 Accountants

Accountants who work in MNEs are very concerned about international accounting since they always prepare and use accounting information internationally. For accountants in a subsidiary company, it will be easier to prepare financial reporting to a parent company if they share similarities in accounting standards. Conversely, for accountants in a parent company it will be easier to make consolidated financial statements if there are similarities in the accounting standards. They are important people with respect to technical

skill, influence and responsibility in MNEs. They are heavily involved in the standard-setting processes, which influence international accounting and reporting behavior.

3.4.2 Government

The demand for greater international comparability of MNEs in their information disclosure seems to be motivated by the desire of government at the national level, especially in host countries, or through intergovernmental organizations such as UN, OECD and EU. The intergovernmental organizations help governments obtain sufficient comparable information from MNEs. Governments requires a variety of information from MNEs in order to monitor the activities of MNEs in general and as basis for policy formulations. Governments usually have the authority to demand and receive whatever information they need from MNEs.

3.4.3 Trade Unions and Employees

Trade Unions attempt to influence the behaviour of MNEs in the national context at various levels of activities from shop-floor level to influencing national government policy. The trade unions are mainly interested in information disclosure regarding the operation of MNEs subsidiaries. Therefore, they make recommendations in order for MNEs to be more publicly accountable and call for legal regulations requiring disclosure of more information, and information about performance and future prospects of the multinational enterprise. A report about the social nature and information about future prospects, investments and employment is included in the recommendations. Another recommendation is that MNEs should take a more uniform approach to accounting as well as comprehensive and detailed disclosures of financial and non-financial information (Radebaugh & Gray, 1997).

3.4.4 Investors

Investors are interested in information disclosure and future prospects of MNEs on a worldwide basis and the comparability of much of the information that is currently provided. They need comparable information about the financial position, performance, and prospects of MNEs to be used as a basis for

investments and to satisfy accountability objectives (Radebaugh & Gray, 1997). The problems arise when the companies' annual reports across countries may not be comparable due to variety of measurement methods and disclosures that hinders comparative evaluation of financial position and performance.

Accounting harmonization will assist investors in making investment decisions on the different capital markets. Investors are able to achieve a more efficient portfolio of investment by comparing the results and financial position of companies on an international scale as well as on a national scale. Accounting harmonization will help reduce the size of the barriers when investors deal with the different accounting practices and disclosures. The disclosure of financial information is important to investors as the global market increases in size. Therefore, the pressure for harmonization from the international markets is increasing and will be one of the most important influences on international accounting.

3.4.5 Bankers and Lenders

Bankers and lenders provide capital for MNEs. They need comparable information about the financial position, performance, and prospects of MNEs to be used as a basis for making lending and credit decisions and to satisfy accountability objectives. They evaluate and predict the risk of default on obligations to pay loan interest and to refund the loans when due.

3.4.6 International Accounting Firms

Accounting harmonization will help auditors to conduct audits on the MNEs that have subsidiaries across countries since they will have similar accounting practices and thereby reduce audit fees. As a verifier of corporate reports, auditors have to aware of the differences in accounting standards across countries. The level of harmonization of accounting practices will affect the international accounting firms due to make easier for accounting staff to move to other countries and reduce the cost of training. Another benefit is that it will be easier for the big accounting firms to develop the relationship between their clients and tax authorities (Lawrence, 1996).

3.5 Summary

The advantages of accounting harmonization that would be obtained are the comparability and comprehensiveness of international financial information, the time and money saved for companies consolidating different financial information, widespread dissemination of high quality accounting standards and practices, and provision of low cost financial accounting standards to countries with limited resources, and removing barriers to international capital flows. There are also several disadvantages of accounting harmonization, such as, the standards are usually not suitable for the local environment. It is difficult to accomplish that all these differing financial reporting requirements can be met from a limited accounting model, and harmonization tends to assume that all countries are at the same level in terms of economic development. Therefore, to accept and adopt the standards is difficult. Furthermore international standards will be costly to apply both to the local companies that do not have international trade and to the underdeveloped world.

Many interested parties are interested in International Accounting Harmonization. Since they come from both government and private bodies, they have different purposes and benefits. They include governments, trade unions, employees, investors, bankers and lenders, general public, accountants, and auditors, who are the most important party concerned in international accounting harmonization.

From this chapter, we imply that harmonization has more advantages than disadvantages, therefore interested parties pressure the accounting harmonization due to their interests and motives. Hence, starting from next chapter we examine the accounting harmonization process from international context to national context.

Chapter 4 International Level of Accounting Harmonization

4.1 Introduction

This chapter will describe and discuss accounting harmonization at the international level. Several international institutions will be described such as The Intergovernmental Working Group of Experts on International Standard of Accounting and Reporting (ISAR), OECD, and IFAC. We also describe the effort, due process of standard setting and the achievement of IASB as the main body toward harmonization.

4.2 The Institutions Involved in the Accounting Harmonization

Since the early 1970s, the United Nations has been interested in the field of international accounting. This started when the activities of multinational corporations in financial reporting were inconsistent and very often contained gaps in what they considered to be important areas of reporting (Lawrence, 1996). The International bodies that are concerned with international accounting harmonization are OECD, IFAC, ISAR, and IASB.

4.2.1 The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

The UN economic and social council created the Intergovernmental Working Group of Experts on ISAR in 1982. This body serves as the international body for the discussion of accounting and reporting issues and contributes to national and regional standard-setting. This body focuses on developing countries and improving the accounting and financial reporting of these countries by helping them to make recommendations on the availability and comparability of information disclosed by multinational corporations (Lawrence, 1996). Presently, ISAR is involved in discussions on international environmental reporting and the role and responsibilities of accountants and auditors. This organization is a consultative body for IASB and has devoted important resources to pursuing international accounting harmonization. (Joshi, 1998)

4.2.2 Organization for Economic Co-operation and Development (OECD)

The OECD was established to promote world trade and global economic growth. It is involved in international accounting, especially when it comes to the financial reporting requirements of MNEs in developed countries instead of in developing countries. The council of the OECD has established a Committee on International Investment and MNEs. This committee established a working group on accounting with the objective of publishing guidelines on disclosure of information by MNEs. The working group undertakes research studies to assist international harmonization of accounting standards and practices (Lawrence, 1996).

4.2.3 The International Federation of Accountants (IFAC)

IFAC was established on the 7th of October 1977. This organization is a result of an agreement signed by 63 accountancy bodies representing 49 countries. IFAC mainly focus on the globalization of the accounting profession and is involved in such topics as international auditing practices, accounting education, professional ethics, management accounting and the public sector. The most important work is undertaken by the International Auditing Practices committee, which is formed by IFAC (Lawrence, 1996). The aim of this committee is to improve the degree of uniformity of auditing and related services throughout the world by issuing exposure drafts and auditing guidelines.

4.2.4 International Accounting Standards Board (IASB)

The most important organization to promote international accounting standards is IASB, previously known as the International Accounting Standards Committee (IASC). Since April 1, 2001 IASB is responsible for international accounting standard setting.

IASB is subsidiary entity of the IASC foundation, which was formed in March 2001. This foundation, IASC, is a non-profit organization in accounting standard setters based in London, UK. Four bodies are formed under IASC foundation namely the Trustee, IASB, Standards Advisory Council (SAC), and Standing Interpretations Committee (SIC). The role of IASC foundation is to

appoint the IASB members, exercise oversight, and raise the funds needed (www.iasc.org.uk, 11-11-2001). In this subchapter we focus on IASB since this is the body responsible for setting up international accounting standards.

The IASB is an independent, privately funded accounting standard setter. The Board consists of fourteen members and comprises of a group with different qualifications, comprising a combination of technical skills and background experience of relevant international business and market. They come from several backgrounds such as auditors, accountants, academics, and other users of financial statements beyond these three professions. This combination will develop high quality of global accounting standards.

With the new structure, IASB will open its doors, formulating international accounting standards that will be used by corporations large and small wherever they may be located (Quinn, 2000).

The objectives of the IASB are:

- To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
- To promote the use and rigorous application of those standards; and
- To bring about convergence of national accounting standards and International Accounting Standards to high quality solutions (www.iasc.org.uk , 11-06-2001)

The IASB mission today is far different from the one originally envisioned when the group was founded in 1973. Originally, the objective was to produce basic standards, which reflected the view that it would be easier to reach agreement on basic standards than on highly detailed standards, and to harmonize the accounting principles, which are used by businesses and other organizations for financial reporting around the world. It focused on helping emerging markets understand and adapt accounting standards and techniques. The idea was to help set standards for those who could not do so for themselves or who needed a blue print. It also addressed the wish to have standards that would be readily usable in developing countries as well as providing a level of harmonization among the richer countries of the world. Early standards often

allowed alternative treatments to accommodate the different approaches adopted by national standard setters.

Today, the importance is attached to providing standards that will bring greater uniformity to the financial reports of multinational companies, particularly those with stock market quotations. The idea that standards should be restricted to basic matters has been abandoned. As the world develops more and more complex contractual arrangements, genuine uniformity in global accounting calls for more extensive and sophisticated standards.

International Accounting Standards (IAS) are used:

- As a basis for national accounting requirements in many countries;
- As an international benchmark by countries which develop their own requirements;
- By stock exchanges and regulatory authorities which allow foreign or domestic companies to present financial statements in accordance with IAS;
- By bodies such as the European Commission, which announced in 1995 that it relies heavily on the IASB to produce results that meet the needs of capital markets; and,
- By a growing number of reporting enterprises.

4.3 The Efforts Toward Harmonization by IASB

4.3.1 The Preparation of Standards

The process of preparing accounting standards starts with the creation of a steering committee whose members are appointed by the board. This committee studies the problems that could arise in connection with a particular issue and prepares a summary of the points that need to be considered. The Board will comment on this report. After this, the steering committee prepares a draft statement of principles (DSOP). The aim of this document is to set out the principles that will be used as the basis of the future draft standard and to describe the possible solutions and the reasons for their adoption or rejection. The Board and any other interested organizations will comment on this draft. The steering committee then produces a final version and then submits it to the Board for approval as a Statement of Principles (Walton et.al., 1998).

The steering committee prepares an exposure draft after obtaining the approval from the Board. To approve this, a two-thirds majority of the Board member is required. The process of obtaining the approval will take usually six months after the period of consultation starts. At the end of this period, the steering committee prepares a final draft standard that is submitted to the Board. The final standard is adopted if it is approved by a three-quarters majority of the members of the Board.

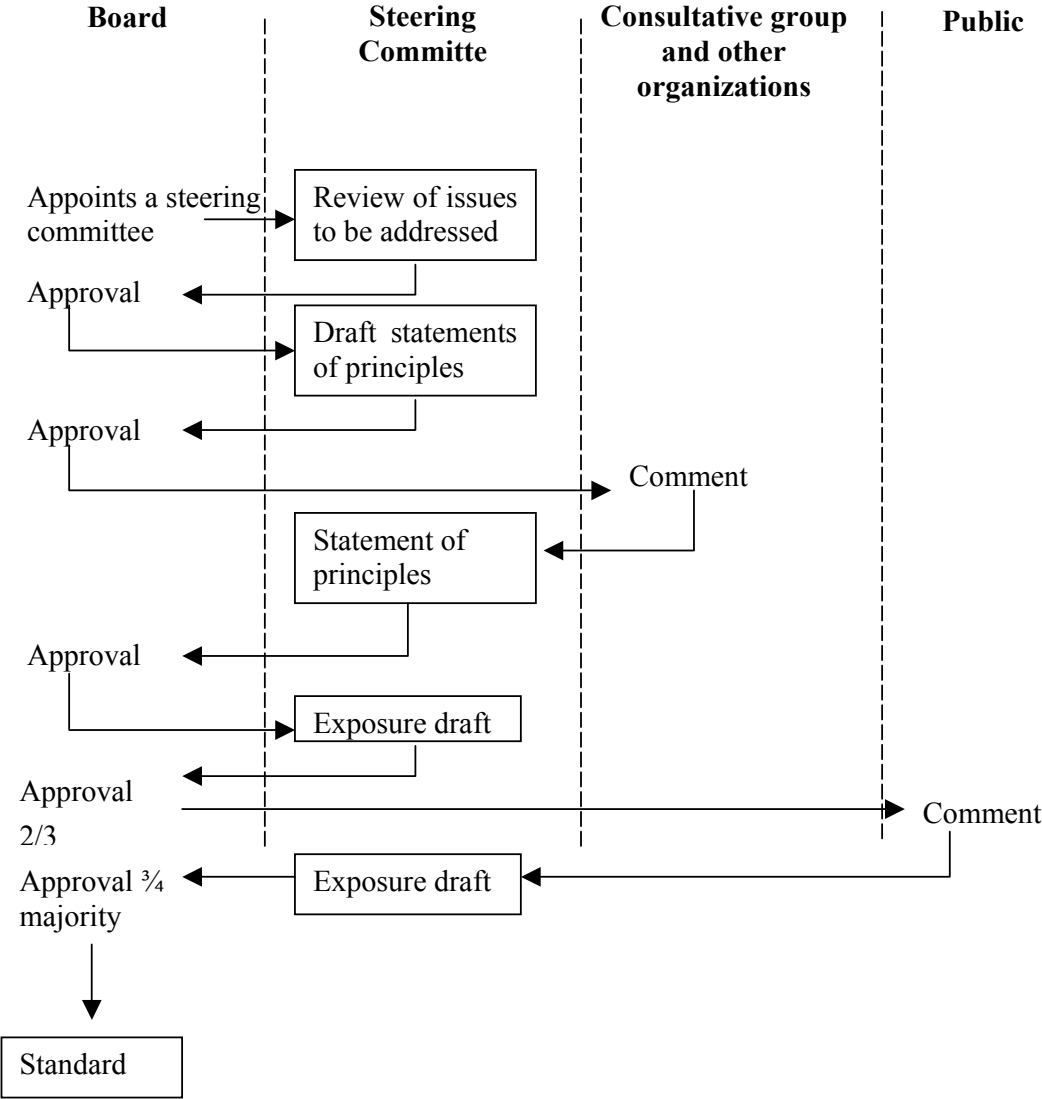


Figure 4.1: The IASB's due process
 source: (Walton et.al., 1998)

The Boards has grown stronger in the past ten years because there is a demand for standardized financial information. This is a co-ordinating body that encourages harmonization of national standards in correspondence with its own standards. The role of IASB is very important for the harmonization process, not only in Europe but also worldwide.

4.3.2 The achievements of IASB

In the late of the 1980s, IASB began a programme of reviewing major standards with a view to improve the quality of international standards particularly by removing as many options as possible, by improving disclosure, and by providing more implementation guidance so that IASs constituted a rigorous set of standards (Pricewaterhousecoopers, 1998). In 1989 the reduction of options became a priority and was reflected by the adoption of exposure draft 32 on the comparability of financial statements. According to Walton et. al (1998), a fairly significant range of options embodied all the standards approved before 1993. At this time, the IASB was basically attached to the idea of international harmonization and the formation of a body that could be applied in different countries.

The IASB also persuaded the stock exchange institutions, particularly IOSCO and its member the Securities and Exchange Commission (SEC), to accept financial statements prepared in accordance with IASs for multinational registration. This effort covers the revision of the standards in order to arrive at a situation where these are accepted for listing on all the stock exchanges in the world. Such statements are already accepted on several exchanges, for example most exchanges in Europe, but not on others, for example in New York, Tokyo, and Toronto. The first success was obtained in 1993 when IOSCO announced that it would recognize IAS 7. Another important stage was passed the following year when IOSCO said that 14 IASB standards could be accepted as they were. Finally, IOSCO recommended acceptance of the use of IAS by its members in May 2000. In June 2000, The European Commission proposed that all listed companies in the EU should be required to prepare their consolidated financial statements using IAS (IASB, 2000).

The influence of the IASB can be gauged both at an institutional level and at an individual level. At the institutional level (i.e. that of national accounting

regulatory bodies), the IASB's influence is very different depending upon the country. At the individual level, the IASB, through their standards, influence a company's accounting standards differently depending on the company (Walton et.al., 1998). IASB standards are adopted with a few minor adjustments in developing countries (e.g. Malaysia, Pakistan, Uruguay, and Thailand). This is in order to take advantage of the opportunity to cheaply provide themselves with a set of rules that are acceptable at an international level and likely to reassure foreign investors.

The former communist countries, in order to enter into a market economy, adopt either IASB standards or base their own rules heavily on them. China has produced a set of accounting standards based on the IAS.

In the continental European countries and Japan, known as developed countries, the influence of IASB is much smaller, probably because these countries have their own established traditions in this area. The 'financial markets' tradition of IASB does not correspond to the local tradition since the financing of the economy is done more through the banks than the stock exchanges (Walton et al , 1998). Nevertheless, the IASB has scored its most notable success in the European countries since these countries plan to make the use of IASB standards obligatory instead of amending the Fourth and the Seventh European Committee (EC) Directives.

The IASB has less influence in the Anglo-Saxon countries, probably because there the international standards are more directly in competition with national accounting principles. In fact, if there is an influence, it only manifests itself when new standards are being drawn up. For example, the IASB's conceptual framework was the basis of the more recent framework published by the Accounting Standard Board in the UK (Walton et.al., 1998). Finally, at the end of 2000, the IASB had produced 41 standards.

4.4 Summary

International accounting harmonization has been discussed and debated for the past three decades. Many international institutions have been involved in developing this issue. IASB was founded in 1973 as a main body concerned with the international accounting standards. To set a standard that will be applied and used internationally, a steering committee was created to be in

charge in this process. To be approved and applied, a new standard can take years in its process from the first step. By the end of 2000, IASB has produce 41 standards, and finally, in May 2000 recommended acceptance of the use of IAS by its member.

Chapter 5 Regional Level of Accounting Harmonization

5.1 Introduction

This chapter will deal with regional accounting harmonization in European region and ASEAN region. It covers the institutions involved and the efforts towards accounting harmonization at the regional level. Furthermore, this chapter focuses on accounting harmonization in the ASEAN region; such as, the history of AFA, the effort made by AFA in achieving regional harmonization, and the obstacles occurred in this process. The chapter also describes the options available to achieve accounting harmonization, although the analysis will be placed later in the analysis chapter. Then the chapter comes to an end with the summary.

5.2 The European Region

The EU was created in the 1950's by a series of treaties, namely the Treaty of Paris (1950), the Treaty of Rome (1957), and the Euratom Treaty (1957). At those stages the emphasis was on industrial and trading partnerships between member states. In 1986, the Single European Act set the aim of removing all barriers, whether physical, technical or fiscal. The title 'European Union', which is used at present, was adopted in the treaty on the European Union signed at Maastricht in 1991.

The accounting harmonization in Europe started when the founders of the EU wanted to achieve a closer union among the people of Europe in the single market context (Mueller, 1997). This was stated in terms of achieving freedom of movement of persons, services, and capital.

5.2.1 The Institutions Involved

There are several main institutions that run the EU such as the Commission, the EU Council, the European Parliament, and the Court of Justice. The Commission, which is the civil service of the EU and the executive branch of EU, initiates EU policy and enforces EU treaties. The role of the Commission is to watch over the implementation of the treaties in each member states, take legal action against companies or member states that violate EU rules, and

propose legislation and manage the EU budget. The EU Council, which is the EU's supreme body, is also known as The Council of Ministers. This is the legislative body that issues the laws. The European Parliament, known as European Assembly, is a body that is consulted on matters about legislation but it does not set laws. The last institution is The Court of Justice, which is the highest court for matters relating to community law. This institution interprets EU law on behalf of national courts and rules on legal questions pertaining to EU treaties.

There are 15 members of EU, namely: Belgium, Germany, France, Italy, Luxembourg, The Netherlands, Denmark, Ireland, UK, Greece, Spain, Portugal, Sweden, Austria, and Finland. This organization will grow bigger as there are several countries that wish to join in the future such as Malta, Cyprus, and many East European States.

5.2.2 The Effort Towards Accounting Harmonization in Europe Region

The harmonization process within EU starts from the harmonization of the legal systems of the twelve member states. These include measures affecting company law and other business-related matters, including accounting and financial reporting. The initiatives have taken the form of directives or legislative instruments proposed to the Council of Ministers (Most, 1984). The directive is the vehicle that is used in the EU to harmonize company law. A directive is a legal instrument addressed from the Commission to the member states. Member countries must implement EU Directives, so that all accounting standards they contain become legally enforceable.

The directives have led to some changes in all member countries and important changes in those countries that had little formal regulation of accounting in the past. According to Whittington and Thorell (1994), there are three aspects of the current state of harmonization of accounting within the EU that need attention in future development. These are options, gaps, and new development. Options were necessary to meet the needs of member countries at the time when the directives were published. The options are included in the Fourth Directive and the Seventh Directive. Gaps occurred when the directives failed to address certain specific issues in accounting. Some of the gaps in the coverage of the directives are caused by developments that have taken place

lately. Hence, the filling of these gaps is not necessarily best done by means of legal directives, since the pace of new developments is such that revision of the directives may not be an effective remedy, since by the time the cumbersome revision process is complete, the revisions may already be out of date.

There are several directives of EU, but the most important directive aimed at harmonizing accounting within EU are the Fourth Directives and the Seventh Directive. Below are the exhibits of the EU Company Law Directives and implementation of the Fourth and the Seventh Directives in national law.

Directive	Date of Adoption	Main Purpose
First	1968	Publications of accounts, ultra vires rules
Second	1976	Separation of private from public companies, minimum capital, limitation on distribution
Third	1978	Mergers/fusions
Fourth	1978	Annual account, content, valuation, presentation rules
Fifth	Draft (1972, 1983,1988)	Structure, management, and audit of companies
Sixth	1982	Demergers/spin-offs
Seventh	1983	Consolidated accounts, including associated companies
Eighth	1984	Qualifications and works of auditors
Ninth	(predraft stage)	Link between public company groups
Tenth	(draft 1985)	International mergers and public companies
Eleventh	1989	Disclosure relating to branches
Twelfth	1989	Single member companies
Thirteenth	1989 (draft 1980/	Mergers

Regulations	1983)	Employee information and consultation
	1979	
	1980,1982, 1987	Admission of securities to listing
European Company Statue	1982	Listing particulars
	1986	Interim reporting by listed company
European Economic interest group	1991	Accounts of banks
		Accounts of insurance companies
	(draft1970,1975)	Proposals for a European company subject to EU Laws
	1985	Proposals for a business form facilitating joint venture

Table 5.1: EU Directives and regulations relevant to corporate accounting and disclosure

Source: Radebaugh. 1987, exhibit 6.2., p. 175

Country	Fourth	Seventh
Denmark	1981	1990
UK	1981	1989
France	1983	1985
Netherlands	1983	1988
Luxembourg	1984	1988
Belgium	1985	1990
Germany	1985	1985
Ireland	1986	1992
Greece	1986	1987
Spain	1989	1989
Portugal	1989	1991
Italy	1991	1991
Sweden	1995	1995
Austria	1995	1995
Finland	1995	1995

Table 5.2: The Implementation of Fourth and Seventh Directives in National law.

Source: Roberts et al., 1998, exhibit 7.2, p. 204

5.2.3 The Fourth Directive

In all EU member countries, corporation laws govern the accounting and financial reporting closely (Mueller, 1997). Since the company laws differ between countries, accounting and financial reporting necessarily also differ. In 1957, through the Treaty of Rome, the EU member countries harmonized the corporation laws. Therefore, the EU corporation law harmonization program is the basis of EU accounting harmonization by using the instrument, known as the directive.

The Fourth Directive deals with the accounts of single companies and covers all aspects of the annual accounts. The Fourth Directive has led to significant changes in accounting legislation in EU member countries not only for the big companies, but also small companies that are not listed on the stock market. The Fourth Directive is a law and is a EU Accounting principle since the law governs accounting and financial reporting (Ordelheide, 1993).

The first objective of the Fourth Directive is to harmonize accounting principles, presentation, publication and audit by laying down minimum standards to be applied by member states. The second objective is to promote fair competition among member state companies; managers of a business anywhere in the union should be able to find out as much about a competitor company as the competitor can find out about their business. The intention in preparing the directive was that interested parties, such as investors, lenders, and suppliers, should find it easier to obtain, understand and rely on account of companies in other member states (Roberts et al., 1998)

Subsequent to the development of the Fourth Directive, The Federation des Experts Comptables Europeens (FEE) has carried out surveys of published accounts to establish the extent of harmonization. The surveys conclude that there is inconclusive evidence in relation to the harmonization effect of the Fourth Directive, and there are many areas in which the EU has not yet sought to harmonize accounting practice and within which there are significant variations of practice across EU member countries. Therefore, the Fourth Directive has achieved a minimum degree of accounting harmonization in EU. This Directive covers financial statements, valuation methods, contents of annual reports, and publication of financial statements (Most, 1984).

5.2.4 Seventh Directive

The Seventh Directive was developed by extending Fourth Directive requirements to the consolidated accounts of groups. This directive dealt with the method in the consolidation process. There were a few countries that had requirements for consolidated accounts at the time when the Seventh Directive was issued. Therefore, the Seventh Directive, like the Fourth Directive, was essentially a compromise between the extant practices of different member countries. Finally, the feature of the Seventh Directive that is very important in relation to harmonization is the concept of equivalence. This directive requires all holding companies to provide consolidated financial statements, and prescribes their form and content in some detail (Most, 1985). The Seventh Directive also contains important provisions regarding the requirement that the consolidated financial statements must be audited, published, and must conform to certain transitional requirements. (Mueller, 1992)

5.2.5 European Financial Reporting Advisory Group (EFRAG)

European Financial Reporting Advisory Group (EFRAG) is an independent private European organization. This body represents the main private sector groups closely involved in financial reporting, namely the accounting professions, stock exchanges, financial analysts and companies preparing accounts (http://europa.eu.int/comm/internal_market/en/company/account/news/creationeteg.htm, 11-11-2001). EFRAG's objectives are as follows: to give a pro-active contribution to the work of IASB; to advise the Board on the technical assessment of IASB standards and interpretations for application in Europe; to advise on changes to the accounting directives; and to provide a forum for interpretation and implementation problems.

EFRAG consists of a Technical Expert Group of 11 members and a Supervisory Board of the 10 founding from European region namely Union des Confédérations de l'Industrie et des Employeurs d'Europe (UNICE), European Banking Federation (EBF), European Savings Banks Group (ESBG), European Association of Cooperative Banks (GEBC), Comité Européens des Assurances (CEA), European Association of Craft, Small and Medium-sized Enterprises (UEAPME), European Federation of Accountants and Auditors for SMEs (EFAA), Federation of European Securities Exchanges (FESE), European

Federation of Financial Analysts Societies (EFFAS), and Fédération des Experts Comptables Européens (FEE). The Supervisory Board monitors the work of the Technical Expert Group and ascertains that the individual members work in the European interest. This board will also enhance the legitimacy and credibility of EFRAG.

The Technical Expert Group, which was set up on the 26th of June 2001, will provide high-level technical expertise relating to the use within the European legal environment of International Accounting Standards (IAS) adopted by the IASB, and play a crucial role in the international accounting standard setting process.

The four main functions of the Technical Expert Group are as follows:

- Proactive contribution to the work of IASB: Proactive coordination of European standard setters, accounting profession, users and prepares so as to contribute to and influence the IASB standard setting process efficiently ...
- Initiating changes to the EU Accounting Directives: To help the Commission in their assessment of possible non-conformity of an IAS or SIC (see page 33) with EU Accounting Directives and recommending appropriate changes to the directives.
- Technical assessment of the IASB standards and interpretations: Confirming or conversely rejecting a standard or interpretation for application in the EU.
- Implementation guidance: Identification of issues for which the IASB general interpretation guidance (i.e. SIC Interpretations) is not sufficient to ensure consistent application of a given standard in the EU ... (EFRAG, 2001, p. 4).

5.2.6 Federation des Experts Comptables Europeens (FEE)

FEE is an “Association International” and was established in 1986 under Belgian law (www.fee.be, 11-29-2001). This is the representative organisation for the accountancy profession in Europe. It comprises of 38 professional bodies from 26 countries, including all 15 Member States of the European Union.

The objectives of FEE are as follows: (Lawrence, 1996)

- To work generally towards the enhancement and harmonization of the practice of accountancy in Europe in both the public and private sectors.

- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both public and private sectors.
- To represent the European accountancy profession at the international level.
- To be the sole consultative organization of the European accountancy profession in relation to the EU authorities.
- To arrange the holding of periodic congresses and seminars (p. 269)

To achieve its objective to represent the European accountancy profession at the international level, FEE has developed close link with the IASB, IFAC, and OECD. For example, in 1999 and 2000 FEE made contribution to international accounting developments by making a comparison study between EU Accounting Directives and IAS. Recently, FEE has promoted the creation and development of professional accountancy bodies in the new emerging market economies of Central and Eastern Europe.

5.3 ASEAN Region

5.3.1 The Institutions Involved in ASEAN Region

Regional cooperation is driven by increased economic collaboration and reductions in regional trade barriers. Several organizations, such as the African Accounting Council (AAC), ASEAN, NAFTA, and EU, attempt to achieve accounting harmonization (Judith et al., 1997). This may lead to enhanced foreign investment, regional commerce, and business cooperation, since accounting harmonization bring advantages such as cost saving, removing barriers to international capital flows by reducing differences in financial reporting requirements. The objectives of regional cooperation include: (a) increasing the free movement of goods, labour and capital; (b) eliminating or reducing trade barriers; and, (c) harmonizing accounting reporting requirements on the respective countries' stock exchanges. Among the developing nations, AAC and ASEAN are examples of regional bodies that, among other things, have attempted to harmonize accounting standards among its member states (Judith et al., 1997).

A regional body that has received increasing attention is ASEAN. This is a regional political and economic alliance comprised of Brunei, Cambodia,

Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Formed in 1967, the group's goal is to create a strong economic alliance culminating in an ASEAN Free Trade Area. This body is led by the ASEAN secretariat based in Jakarta, Indonesia.

Consistent with this goal, AFA initially committed resources and time to achieve regional harmonization of the accounting standards among its member countries. Nevertheless, because the institutional differences that exist in its member countries and the strong influence of international accounting standards on domestic standard-setting in most ASEAN countries, AFA has reduced its vision of regional harmonization of accounting standards. Thus, the AFA is now concentrating on promoting regional cooperation on several issues, namely accounting education and development of training and professional standards for accountants in ASEAN countries (Saudagaran & Diga, 1997).

AFA, so far, has been unsuccessful in pushing a regional harmonization agenda, even though this organization has supported moves for regional accounting harmonization since the middle of the 1970s (Choi, 1979). Several difficulties are faced by AFA in its pursuit of regional harmonization; such as, the different of financial accounting system of its member countries and lower support from crucial public and private sector group (e.g., securities market regulators, stock exchange administrators, chambers of commerce) in ASEAN.

Conversely, AFA encouraged its members to go for harmonization of standards and practices based on issuances of IASB and IFAC. In this respect, AFA has been successful since most of its members have adopted international accounting standards into their national accounting standards.

5.3.1.1 The History of ASEAN Federation of Accountants (AFA)

AFA was established as the umbrella organization for the national associations of accounting bodies of the member countries of the ASEAN. It was organized in March 1977 and originally had only five member-bodies. These are the national accounting bodies of Indonesia, Malaysia, Philippines, Singapore and Thailand (<http://www.afa-central.com>, 06-15-2001). The membership of AFA is open to a recognized professional accounting body from each ASEAN country, except for Malaysia, which is represented by both Malaysian Institute of Accountants (MIA) and Malaysian Association of Certified Public

Accounting (MACPA). Representatives from the member bodies form AFA's governing council, which sets its agenda and overall policy direction.

The AFA was created with the following objectives:

To be the organization of ASEAN accountants for their further professional advancement and that of the accountancy profession in the region - with the end view of establishing an ASEAN philosophy for the accounting profession.

To establish a medium for closer relations, regional cooperation, and mutual assistance among ASEAN accountants.

To enhance the continuous development of the accounting profession in the region through the joint endeavours of ASEAN accountants.

To provide ASEAN accountants with a forum for the exchange of technical and other significant information on the accounting profession and its related practices.

Beyond the objectives above, the AFA also sought to identify and highlight vital problems affecting the accounting profession in the region and to formulate proposals toward the solution of these problems (Saudagaran & Diga, 1997).

5.3.2 The Standard-setting Process

The proposed procedures for preparing, approving and enforcing ASEAN accounting standards were patterned after those of the IASB. Therefore, IASB seems to have influenced the process of ASEAN Accounting Standards (AAS) standard-setting. The process for AAS standard setting included the following steps. First, the Committee of Accounting Principles and Standards (CAPS) circulated a questionnaire that surveyed the accounting principles and practices of ASEAN member countries. The survey was viewed 'as a first step in harmonizing principles and practices in the region'. Then, the CAPS sought to formalize into an accounting standard those accounting principles and practices, which were found to be substantially similar across ASEAN countries. The result was an exposure draft called AAS no.1 Fundamental Accounting Principles.

However, when it comes to differences between ASEAN and local standards, the national professional accounting bodies were called upon to exert their best

efforts to align local requirements with the ASEAN standard. If that was not possible, then they were to work for the disclosure of non-compliance with ASEAN standards in the financial statements or in the audit report. Nevertheless, the AAS was not intended to override the domestic accounting standards and regulations.

5.3.3 The Effort of AFA to Achieve Regional Harmonization

To achieve accounting harmonization was one of the main reasons for establishing AFA. Therefore, AFA has been the main proponent of regional accounting harmonization in ASEAN (Choi, 1979). Originally, AFA intended to provide technical services to its member-bodies in the formulation and adoption of accounting and auditing standards and practices.

CAPS was formed by the AFA as an initial effort to achieve regional harmonization. The main duty of CAPS is to achieve regional harmonization. Another important duty is to take charge of undertaking programs to develop accounting principles and auditing standards applicable to conditions in the ASEAN.

In 1978, CAPS issued an exposure draft called AAS no 1. This is an important step since the disclosure and measurement rules in AAS 1 provided a benchmark against which to compare accounting standards and practices in the region. AAS was not intended to override domestic accounting standards and regulation. AAS 1 contained sections on fundamental principles, disclosure, balance sheet principles, income statement principles, foreign currency transactions, and comparative figures. However, while the documents were generally well-received initially, the ASEAN accounting standards have so far not been adopted as local pronouncements by the professional accounting bodies in any of the ASEAN countries (Saudagaran & Diga, 1997). In most cases, no substantial differences were expected between AAS and domestic standards. Little was done after AAS 1 was published and, after that, the CAPS did not issue any other AAS.

Another significant effort is to invite other professional bodies to join the AFA. This effort, perhaps, could improve the AFA's effort to achieve regional harmonization. The Australian Society of Certified Practicing Accountants (ASCPA) has joined the AFA as associate member. This is the first non-

ASEAN body to be admitted to the organization. This is very important since the ASCPA has played a significant role in the development of the accounting profession in Southeast Asia. This organization assisted the formation of national accountancy bodies in Singapore and Malaysia during the 1960's. Another organization is the Association of Chartered Certified Accountants (ACCA) as associate member. This organization helps to develop and enhance the countries' accountancy profession through training and assistance. Nonetheless, the AFA has achieved little success in its efforts to pursue regional harmonization since CAPS has only issued one AAS so far. (Saudagaran & Diga, 2001)

5.3.4 The Obstacles in Pursuing Regional Harmonization

Achieving regional harmonization is very difficult, as can be seen from EU's experience of efforts to standardize the practice in all member countries. Attempting to standardize the practice in all member countries of ASEAN is very difficult due to the different political, social and economic backgrounds. Therefore, regional harmonization is a difficult task and it may create more problems that could be difficult to solve (Saudagaran & Diga, 1998).

There are five obstacles identified in pursuing regional harmonization in the European Community. They are unresolved issues, choice of options, ambiguous prescriptions, failure to implement, and non-compliance with rules (Joshi, 1998). By and large, barriers to international harmonization are cultural and environmental. They involve differences in language, legislative practices, and governments' priorities. In addition, accounting policy processes are different in each country, which makes it difficult to reach a consensus on standards. This may also be another barrier to international harmonization

In spite of the fact that the AFA adopted the harmonization process from IASB, Briston (1990) is particularly sceptical of the type of accounting harmonization currently being pursued in ASEAN countries. He asserts that the narrowly based concept of harmonization, which focuses on decision-making by capital providers, is inappropriate for ASEAN countries.

Saudagaran and Diga (1998) studied the obstacles of the regional harmonization in ASEAN countries. In this study, they compared the harmonization between EU and ASEAN as follows:

The current level of economic integration in ASEAN is considerably less than in the EU... second, unlike EU, ASEAN lacks an organizational structure that would support harmonization ... third, ASEAN has not been able to articulate a clear rationale for why regional harmonization is a preferred course of action for member countries. Until individual member countries perceive tangible benefits from regional harmonization they remain reluctant to discard traditional approaches to accounting regulation. (Saudagaran & Diga, 1998, p. 13)

The evidence supporting the third reason seem weak since one of the reasons for forming the AFA is to support accounting harmonization in the region. Recently, the development of an ASEAN free trade area, known as AFTA, is growing stronger and stronger even though it is still perhaps less strong than in the EU. Therefore, it can be inferred that regional harmonization in ASEAN is become very important and the economic integration is strong enough for supporting regional harmonization. ASEAN countries have adopted many of the IAS, which are presented in the next chapter. From this, we can see that each country in this region is aware of the importance and the benefit of accounting harmonization.

5.3.4.1 The Historical Background of the Countries

Historical backgrounds heavily influence regulation in every country and lead to the difficulty of achieving regional harmonization. For example, the political system in the PRC is the most significant underlying factor affecting the pace of development of accounting standards in this country (Ng, 1999). The PRC's historical links and reliance on the former Soviet Union have had the effect that the political system and economic policies were largely influenced by the Soviet model. In the PRC, the primary goal of accounting used to be budgetary control of appropriated resources, rather than the measurement of enterprises' operating performance and reporting of corporate financial condition. Accounting harmonization in PRC has been a long and difficult process due to the lack of uniformity in the application of accounting standards.

Most of the ASEAN countries have a different colonial background. Regional harmonization in ASEAN has suffered from different backgrounds regarding their accounting standards and practices. There are different sources of

regulation for each accounting issue. Two groups of accounting practices were clearly detectable in the ASEAN. The first group was influenced in various degrees by US accounting practices. This group comprises Indonesia, the Philippines, and Thailand (albeit the Philippines more strongly so than Indonesia and Thailand). The second group was heavily influenced by UK accounting practices and consists of Malaysia and Singapore. This argument is supported by the study by SyCip, Gorres, Velayo and Co (SGV), which is the largest multidisciplinary professional services firm in the Philippines (Saudagaran & Diga, 1998). In their study, they drew attention to the significant influence of each country's colonial history. These long-standing and influential sources of accounting differences cannot be ignored in AFA's pursuit of regional harmony.

5.3.4.2 Institutional Background

Prior studies of accounting harmonization have addressed the fact that different institutional background led to difficulty in achieving accounting harmonization. The study carried out by Blake et al. (1998) shows that there is an interesting contrast between three countries, namely Spain, Sweden, and Austria. Spain has experienced a major change in national accounting regulation driven by a voluntary association of practitioners. In Sweden practitioners have not achieved implementation of the EU directives in the spirit they would prefer. In this case, the practitioners they spoke to referred to the "Swedish GAAP", an implicit comparison with the US requirement that companies follow "generally accepted accounting principles" (GAAP). Practitioners in Austria have less influence both on legislation and through accounting recommendations. Therefore, the differences in the regulatory framework limit the influence of the accounting profession in supporting IASB.

The survey made by SGV identified significant differences in institutional mechanisms and regulations among ASEAN countries, which served as barriers to regional harmonization. More importantly, they found strong evidence that these environmental and institutional level differences were associated with differences in financial reporting practices. The SGV survey prompted a rethinking of AFA's harmonization program by underscoring the practical difficulties of pursuing regional harmonization among the five ASEAN

members. Also, Saudagaran and Diga (1998) found that the lack of institutional structure led to problems regarding regional harmonization. The differences at the government level also led to difficulties since government agencies sometimes have different objectives from professional bodies. Another problem is the conservative attitude of professional accountants. Saudagaran and Diga (1997a) analyzed that professional bodies in ASEAN are more inclined to adopt ready-made 'solutions' developed by the IASB or by other micro-user oriented industrialized countries, with more emphasis on the information needs of capital providers rather than government agencies.

5.3.4.3 Cultural and Environmental Background

Culture makes one social environment different from another and it is the dominant factor in influencing country's institutions. In a certain respect, the country's institutions will affect accounting standards (Lawrence, 1996). Furthermore, the culture of the wider society will influence the accounting practices. Therefore, each country has a different accounting system since they have different cultures. It is difficult to accept and adopt foreign accounting standards because it is usually not suitable to the local environment.

Although ASEAN countries are situated in the same region, Southeast Asia, there are several differences regarding the culture and environment such as language, legislative practices, and government priorities. These differences automatically lead to different accounting practices within this region. These obstacles affect the process of standard-setting in each country and lead to differences in the accounting development from country to country. These also, perhaps, affect the countries adoption of the International Accounting Standards. Therefore, if AFA shall succeed in achieving regional harmonization it is wise to use an option that can reduce the cultural and environment problems. Several options for AFA will be described below.

5.4 Options for AFA to Achieve Regional Harmonization

Earlier, we found that several obstacles exist regarding the process of regional accounting harmonization. Therefore, AFA needs options in order to cope with these obstacles. It is not an easy task for AFA to choose an option, since many factors should be considered. For example, the option should be in line with

ASEAN's commitment to form a regional integrated economy and could address the standards that strongly focus on ASEAN region. There are four options that are suggested by Saudagaran and Diga (1998) for AFA to achieve regional harmonization.

5.4.1 The Free Market Approach

This option presupposes de facto harmonization occurring within ASEAN by allowing market forces to order which financial reporting practices will prevail. This option will provide maximum flexibility in terms of responding to shifting demands for information. Therefore, it is necessary to supervise prudentially and provide appropriate regulations so that the market will always be maintained and strengthened. Capital providers will benefit the most from general-purpose reports since all the companies will choose their accounting standards freely. Consequently, there is no special body that is in charge and promulgates the accounting standard setting.

5.4.2 Adoption of an EU Harmonization Model

The second option is to adopt the harmonization model of EU. The EU has directives aimed at achieving regional accounting harmonization. Recently, the EU has also EFRAG that actively gives advice to IASB in order to apply IAS in Europe, and advises on changes to the accounting directives. With this option, a body that has a wide authority is formed in order to become the main body to take charge of all the processes towards regional harmonization. This main body will launch directives, which are used as vehicles to achieve regional harmonization. Using this option, the company laws from each country should be harmonized so that directives could be enacted into law by each member country and regulation would become law without the need for supporting legislation. The directive is the vehicle that is used at the regional level to harmonize company law. A directive is a legal instrument addressed from the Commission to the member states. Member countries must implement the directives, so that all accounting standards they contain become legally enforceable.

5.4.3 Merger of National Standard-setting Bodies

The third option is to merge national accounting standard-setting bodies and form an accounting supranational body within the regional level. In this option, the national professional bodies still exist but they do not set the accounting standards since there is a supranational body that conducts the accounting standard setting process. Therefore, national professional bodies become facilitators who bring together the standard-setting bodies of the member countries. Then, the supranational body promulgates accounting standards applicable to member countries. This supranational body would be more likely to respond quickly to changing commercial demands for information and to focus on the urgent needs of the member countries collectively.

5.4.4 IASB-based Harmonization

This option involves regional adherence to IASB initiatives. This is a one-sided adoption of IAS by individual member countries, where each member countries will adopt freely and directly to IAS. This option leads to a viable and low cost institutional option. Several issues need to be addressed if adherence to IASB pronouncements is to contribute positively to regional accounting harmonization. No special body will be formed within this option.

5.5 Summary

Chapter five discusses the regional accounting harmonization both in Europe and ASEAN. In the first part, we deal with accounting harmonization in European region, which covers the institutions involved, such as EU, EFRAG, and FEE. The Fourth and Seventh Directives also described in this chapter since these directives are the vehicles for achieving harmonization within the EU. EFRAG is a new body but it has very important role for the EU to achieve regional harmonization since its objective is to give a pro-active contribution to the work of IASB, to advise the Commission on the technical assessment of IASB standards and interpretations for application in Europe, and to advise on changes to the accounting directives and provides a forum of interpretation and implementation problems.

In the second part, we examine regional harmonization within ASEAN region. It covers institutional involved, the standard-setting process, and the effort and

obstacles of AFA in achieving regional harmonization. We described several obstacles of regional harmonization; namely, a country's historical background, institutional background, and cultural and environmental background. In the last part of this chapter, we describe the options that could be used by AFA not only to overcome the obstacles but also to achieve regional harmonization. They are the free market approach to harmonization, the adoption of a EU harmonization model, the merger of national Standard-setting bodies, and IASB-based harmonization. We only described these options because we will analyze them in chapter seven.

In the next chapter, we examine the accounting harmonization process at the national level. This is very important because the activity or decision that can be made in regional level, depends on the activity and decision made by regional organizations in each member countries.

Chapter 6 Accounting Harmonization in ASEAN Countries

6.1 Introduction

The progress of accounting harmonization in the ASEAN region depends on the effort of each of the ASEAN countries. The prior chapter stated that AFA's efforts concerning regional harmonization is to encourage AFA members to adopt IAS. Therefore, to examine the regional harmonization we must investigate the progress of AFA members in adopting IAS into their own standards. Due process plays important role when it comes to the standard-setting process. Due process in standard-setting is aimed at fostering acceptance of professional standards, although steps followed in each country vary in their degree of formality and the extent to which government agencies participate in the process (Saudagaran & Diga, 2000). Consequently, the process of harmonization within the countries is not at the same level since each country has a different policy; for example, when the country began to adopt IAS and how the country deals with the differences between IAS and their own standards.

ASEAN, when it was established, consisted of five countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since the door of membership is always open to all other countries in South East Asia, membership of ASEAN now consist of ten countries. Brunei Darussalam joined in 1984, followed by Vietnam in 1985, Laos and Myanmar in 1997, and the Kingdom of Cambodia in 1999.

Analysis on accounting harmonization in ASEAN Countries will only be done on the first five countries, Indonesia, Malaysia, the Philippines, Singapore and Thailand. We chose these countries because they have more developed accounting and regulatory institutions.

6.2 Accounting in Indonesia

The development of accounting standards in Indonesia can be divided into three periods of time, namely: 1973 – 1984, 1984 – 1994, and 1994 – to date. A tentative committee was formed to gather and codify generally accepted

accounting principles in 1973. This provided a reporting infrastructure to support the stock market, which was being activated by the government as part of the strategy to increase the flow of funds into Indonesia. The committee relied heavily on the work of Paul Grady of the American Institute of Certified Public Accountants (AICPA) in the US. The Indonesian Institute of Accountants (IAI), a professional body that is in charge of establishing Indonesian accounting standards, established a committee, known as the Accounting Principles Committee (APC), to set accounting standards. The standard was later called the Indonesian accounting principles. The standard did not develop until 1984. In a way, it was understandable since the number of companies listed in the stock markets was less than twenty-five.

Within the next few years, the accounting standards committee conducted a major revision of Indonesian accounting principles by promulgating additional statements of accounting standards and released interpretations of the statements. For the second time, the committee conducted a major revision on the standard that resulted in 35 financial accounting standard statements, which were mostly harmonized with the IAS issued by IASB.

In the early 1990's, The Accounting Standards Committee developed additional principles and revised some older ones. This was a response to the rapid growth in the number of companies listed in the stock markets, which increased to more than 200. Therefore, the need for a set of comprehensive and high quality standards had also increased. In this period, the due process procedures were improved, requiring the standard to be exposed to the constituents for comments and public hearing sessions to be conducted before they were approved.

In 1994, The IAI had 38 financial accounting standard statements and by the end of 1998, the standard in effect had increased to 55 statements. The standard itself regulated almost all transactions and events that affected companies in Indonesia. Some of the standards even regulated transactions or events that have not been addressed by IASB.

6.2.1.1 The Actors

The main organization involved in standard setting in Indonesia is IAI, the organizational body of the professional accountants in Indonesia. Other

organization that participate either directly or indirectly are: The Minister of Finance; The Capital Market Supervisory Agency or Bapepam; The Investment Coordinating Board (BKPM); The Indonesian Chamber of Commerce and Industry (Kadin Indonesia); and Stock Exchanges of Indonesia.

6.2.1.2 The Indonesian Institute of Accountants (IAI)

IAI is the only organization for professional accountants in Indonesia. It was established in 1957. This is the regulatory body of the accounting profession in Indonesia. The IAI publishes Indonesian Accounting Principles and Auditing Standards.

IAI is a member of IFAC, IASB, and AFA. It has entered into a memorandum of understanding with the ASCPA and the Institute of Chartered Accountants in Australia (ICAA). IAI also has very good relationships with other bodies, such as the Canadian Institute of Chartered Accountants (CICA).

IAI has a mission to provide a vehicle for continually enhancing the competence, integrity and commitment of its members, in developing the knowledge and practices of business finance, attestation services, non-attestation services and accountancy, in such a way that would contribute significantly to the society. The vision of IAI is to become the foremost professional organization as an agent of change in developing the knowledge and practices of business finance, attestation services, non-attestation services and accountancy, with the emphasis on ethical and social responsibility and the environment on a global perspective (<http://www.akuntan-iai.or.id/gate.html>, 11-28-2001).

6.2.1.3 The Ministry of Finance

The Ministry of Finance takes charge of Indonesian financial sectors. When it comes to accounting sectors, the Ministry of Finance performs the registration and the licensing of accountants. Together with Bapepam, the Ministry of Finance helps the IAI to establish accounting principles and standards.

The Ministry of Finance performs the registration and the licensing of accountants, although in practice, membership in the Indonesian Institute of Accountants is sufficient to obtain a license. The Ministry of Finance requires audited financial statements from finance companies, insurance companies and

state-owned enterprises. Together with Bapepam, the Ministry of Finance helps the IAI to establish accounting principles and standards. In 2000, the Ministry of Finance drafted the new accounting law in order to replace the old one. This was aimed at overcoming the development of accounting issues. IAI was involved in this project to increase the quality of the new accounting law (Bisnis Indonesia, 2000).

6.2.1.4 Capital Market Supervisory Agency or Badan Pengawas Pasar Modal (Bapepam)

Bapepam provides day-to-day supervision, regulation and guidance of the capital market. The function of Bapepam is to supervise, regulate and monitor capital market activities so that those activities are orderly, fair and efficient and to protect the interests of investors and public.

According to The Minister of Finance Decree, the functions of Bapepam are:

- Drafting capital market rules and regulations.
- Guiding and supervising any person granted business license, approval, and registration from Bapepam and other person related to capital market.
- Establishing disclosure principles for issuer and public companies.
- Settlement of the objection by person imposed sanction by stock exchange, clearing guarantee corporation, and central securities depository.
- Establishing capital market accounting standards.
- Protecting technical implementation Bapepam's main function according to the policy required by Minister of Finance and based on the law.

(<http://www.bapepam.go.id>, 07-10-2001)

Bapepam helped the IAI to establish accounting principles and standards. Bapepam issued the regulations on the format and contents of financial statements of listed companies. According to the Capital Market Law in Indonesia (article 69), this institution regulates all the financial reports that are submitted to Bapepam must be prepared in accordance with GAAP. These accounting principles refer to Financial Accounting Standards issued by IAI and other general accounting practices used in the capital market. Furthermore, Bapepam may establish accounting rules with respect to the Capital Market when the financial accounting standards are inadequate for the needs of the

Capital Market. For example, regarding the full disclosure principle, Bapepam may establish accounting rules with the purpose of protecting the public interest (www.bapepam.go.id, 07-10-2001). Since November 1997, accountants gave reports to Bapepam regarding conflicts made by listed companies. This effort is to protect the public interest (Bisnis Indonesia, 1998). This institution actively participates, usually in tandem with private sector bodies, in formulating financial reporting requirements.

6.2.1.5 Indonesia Investment Coordinating Board or Badan Koordinasi Penanaman Modal (BKPM)

BKPM is an investment service agency of the government of the Republic of Indonesia. It was established in 1973 through the Presidential Decree on the Establishment of the Investment Coordinating Board. It was established in response to foreign capital investment and domestic capital investment. BKPM is a Non-Departmental Government Agency, serving under and responsible directly to the President of the Republic of Indonesia.

Several functions of BKPM according to the Presidential Decree are:

- Formulating national investment policies
 - Coordinating investment planning and synchronizing all the plans into a national investment master plan as well as to perform control, supervision and evaluation the implementation of investment project.
 - Encouraging and promoting investment activities.
 - Providing information concerning investment policies and priorities.
 - Establishing effective promotions and communications with investors in particular and with business circles in general.
 - Evaluating investment applications in accordance with the national investment policies and regulations.
 - Submitting results of the project screening and evaluation of foreign investment application to the President for approval.
 - Approving application for domestic investment and application for amendment of foreign and domestic investments.
 - Issuing licenses and permits for the implementation of the approved investment project on behalf of the concerned sectoral departments.
- ([http:// www. Bkpm. go.id](http://www.Bkpm.go.id), 07-10-2001)

Beyond the functions above, BKPM also provides services to the investors, such as: assisting and guiding potential investors to find promising, feasible investment projects; and assisting the investors to overwhelm problems and constraints during the investment project implementation phases.

BKPM administers company law and regulates all forms of investment activities in Indonesia. The registration function is incidental to its main objective, although the BKPM uses its statutory powers over financial reporting to monitor the nature and level of foreign ownership of Indonesian-based enterprises (Saudagaran & Diga, 2000).

6.2.1.6 Indonesian Chamber of Commerce and Industry (ICCI)

Business and government leaders of the Republic of Indonesia established the ICCI, known as Kadin Indonesia, in 1968. The ICCI contains all of the private sector, cooperative and public enterprises.

ICCI serves as a forum and a facilitator for promoting and enhancing the vital roles of businessmen in Indonesia, increasing business interaction and enhancing regional economic growth. This organization bridges the gaps that exist among the entrepreneurs and functions as a mediator between business communities and the government. Thus, with economic co-operation as one of its main focuses, ICCI regularly holds various kinds of meetings, workshops, issues publications and establishes an information network to facilitate contact and exchange of information among businessmen (<http://www.kadin.net.id>, 07-10-2001).

ICCI provides comments regarding proposed financial accounting regulations. The comments will be provided during the due process of standard setting.

6.2.1.7 Stock Exchanges of Indonesia

The Dutch Colonial government established the Jakarta Stock Exchange (JSE). The JSE has been operating continuously since 1977. In 1991, the Government decided to privatize due to the rapid growth of the stock market. The dynamics of the market demanded a more serious and professional approach to management.

In 1990, the government established PT Bursa Efek Surabaya and at the end of 1991, PT Bursa Efek Jakarta (BEJ) or Jakarta Stock Exchange, Inc (JSX) was

established. It was not until July 13, 1992 that the privatisation of JSX became official. Bapepam maintained its acronym but changed its function from Capital Market Executive Agency to Capital Market Supervisory Agency and the management of the Jakarta Stock Exchange was officially transferred from BAPEPAM to JSX. (www.jsx.co.id, 07-10-2001). The function of stock exchanges of Indonesia, both JSX and Surabaya Stock Exchange, Inc (SSX), is to organize and provide a system and the facilities for buying and selling securities.

The development of the Indonesian stock exchange, both JSX and SSX, is very significant as can be seen from the growth of listed companies from 24 companies in 1987 to more than 200 companies in the early 1990's. The Stock exchange of Indonesia explores possibilities of collaborating with other exchanges in mobilizing regional resources. Their aim is to increase domestic investors' participation in the capital market.

JSX is dedicated to work with the Government in pursuit of sustainable growth of national economic development. It aims to become a highly efficient, liquid and transparent securities market that will facilitate resources mobilization within the Indonesian economy (www.jsx.co.id, 07-10-2001).

Stock Exchanges in Indonesia participate in regulating financial reporting practices regarding the listed companies in the capital markets in Indonesia. It promulgates listing requirements for companies that seeking to have their securities traded in the exchange. Stock exchange administrators also monitor whether listed companies comply with continuing reporting requirements after such companies have been qualified to list their securities in the exchange.

6.2.2 Due Process

In setting the financial accounting standards, IAI has two organizations, the Financial Accounting Standard Board (FASB), and Financial Accounting Standard Consultative Board (FASCB). FASB has the authorization to prepare and approve the financial accounting standard statements and its interpretation, while FASCB gives consultations and funds to the FASB in order to set the accounting standard.

Due process procedure is started by stating a standard topic by FASB with considering there is a need of new standard from the business and economic

development, development of IAS by IASB, and internal research. From the topics, FASB does research and collects materials in order to prepare a proposal of exposure draft. FASB manages a meeting regarding the proposal, and approves the proposal. The approved proposal becomes the exposure draft, and is spread to the public to get comments and suggestions through leaflets, brochures, newspapers, magazines, and other media. The time period for getting comments and suggestions is one month, but will be extended to six months to get more comments from the public and to allow sufficient time for the public to understand the concept and to submit their input. Then FASB invites those who have given written comments to speak in public hearing. The next step is to revise the exposure draft based on the comments received, and send it to a limited hearing. Finally, the new statement is approved by the FASB.

6.2.3 Indonesia Accounting Standards

In 1995, the Institute implemented a major revision bringing into effect new accounting standards, which are mainly consistent with IAS. Several standards were adopted from US GAAP and others were self-developed.

The basic financial statements are the balance sheet, income statement, statement of changes in equity and statement of cash flow. Notes that disclose the significant accounting policies used, additional information about items in the basic financial statements, and other required information are considered to be an integral part of the basic financial statements.

There are two 'pressures' for companies in regulating their accounting policies. The first pressure comes from professional body, IAI, which develops the standards that should be followed by all companies. Another pressure comes from the capital market, which establishes accounting standards for the capital market that should be followed by listed companies. Both of these pressures have to be looked as complementary instead of as working against each other. In this case, Bapepam plays a vital role since this organization supports both IAI and the Capital Market in regulating accounting standards. The FASB of the IAI is continuing its policy of harmonizing Indonesian Financial Accounting Standards (PSAK) with IAS. The table below shows numbers of PSAK that are complied with IAS.

PSAK Number	Title and Related IAS Number	Effective for periods Beginning On or After
5	Segment Reporting (IAS 14)	January 1, 2002
19	Intangible Assets (IAS 38)	January 1, 2001
31	Accounting for Banking (including disclosure requirements in IAS 30)	January 1, 2001
45	Financial Reporting for Non profit Organizations (IAS 20)	January 1, 2000
46	Accounting for Income taxes (IAS 12)	January 1, 1999 for public companies, January 1, 2001 for other companies
48	Impairment of Assets (IAS 36)	January 1, 2000
52	Reporting Currencies (IAS 21)	January 1, 2000
56	Earnings per Share (IAS 33)	December 31, 2000
55	Accounting for Derivatives and Hedging Activities (IAS 39)	January 1, 2001
57	Estimated Liabilities, Contingent Liabilities, and Contingent Assets (IAS 37)	January 1, 2001
58	Discontinuing Operations (IAS 35)	January 1, 2002

Table 6.1: Indonesian Accounting Standards that comply with IAS

Source: <http://www.iasplus.com/country/indonesi.htm>, 12-02-2001

6.3 Accounting in Malaysia

Compared with other countries, the accountancy profession in Malaysia is relatively young. Before independence, most of the accountants received their professional training overseas. At that time, they were not required to register with any local professional body.

In 1958, MACPA, a group of accountants was formed under Section 15(1) of the Companies Ordinances 1940-1946. In 1959 another group, the Malaysian Society of Accountants (MSA) was also formed under the same Companies Ordinance. During this period, Malaysia did not have any legislation to regulate the accountancy profession. This was mainly due to the fact that the Government was caring for various development and administrative programmes for newly independent nation.

The Government took the initiative to draft the Accountants Act in 1967 after it realized it was not healthy to leave the profession to develop without proper guidelines and regulations. Under this Act, MIA was established as the country's national accountancy body.. Unfortunately, the Institute merely functioned as a registration body for almost 20 years. MACPA and MIA submitted a proposal to the Government that MACPA and MIA merge into a single body, but were rejected by the Cabinet in 1984. MIA is the only body empowered by law to regulate the accountancy profession in Malaysia.

6.3.1 The Actors

The main actor in the standard setting process in Malaysia is the Malaysian Accounting Standard Board (MASB) together with the Financial Reporting Foundation (FRF). Other actors that participate directly or indirectly in Malaysian accounting standards are Jabatan Akauntan Negara Malaysia (Accountant General's Department of Malaysia), the Malaysian Institute of Accountants (MIA), the Malaysian Association of Certified Public Accountant (MACPA), the Malaysia Association of Accounting Administrators (MAAA), the Malaysian Institute of Taxation (MIT), and the Kuala Lumpur Stock Exchange (KLSE).

6.3.1.1 Malaysian Accounting Standards Board (MASB) and Financial Reporting Foundation (FRF)

MASB and FRF were established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia. These organizations together make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountant profession.

The functions and powers of the MASB as provided under the Act as follows:

- issue new accounting standards as approved accounting standards and to review, revise or adopt existing accounting standards as approved accounting standards;
- issue statements of principles for financial reporting;
- sponsor or undertake development of possible accounting standards;

- conduct public consultant as necessary;
- develop a conceptual framework for the purpose of evaluating proposed accounting standards;
- make such changes to proposed accounting standards as considered necessary;
- seek the view of the FRF in relation to new and existing standards, statement of principles, and changes to proposed standards;
- determine scope and application of accounting standards; and
- perform such other function as the Minister of Finance may prescribe.

(http://www.masb.org.my/about_masb.htm, 11-29-2001)

The FRF, as a trustee body, is responsible for the overseeing the MASB's performance, financial and funding arrangements, and as an initial source of views for the MASB on proposed standards and pronouncements. It has no direct responsibility with regard to standard setting. This responsibility rests solely with the MASB.

The functions and powers of the FRF as provided under the Act are as follows:

- To provide its views to the MASB on any matter which the MASB seeks to undertake or implement with respect to the development and issue of accounting standards and a conceptual framework;
- To review the performance of the MASB;
- To be responsible for the financing arrangements and operations of the MASB;
- To approve the MASB budget;
- To engage or to employ persons and determine the conditions of such appointments as are necessary to assist the FRF and MASB perform their functions under the Act;
- To administer the fund established to finance the ongoing operations of FRF and MASB including management of funds not expended on operations during any period;
- To maintain proper accounts and prepare an annual statement of accounts of the FRF;
- To appoint an auditor for the purpose of auditing the annual statement of accounts;

- To forward the annual statement of accounts and audit report to the Minister of Finance, and report on the activities of the FRF and MASB at the end of each financial year; and
- To perform such other functions as the Minister of Finance may prescribe. (http://www.masb.org.my/about_frf.htm, 11-29-2001)

6.3.1.2 Jabatan Akauntan Negara Malaysia (Accountant General's Department of Malaysia)

The Accountant General's Department was formed before independence with the creation of the post of Accountant General under the Ministry Of Finance. This body strives to improve public sector accountability by providing excellent accounting services and management information to the satisfaction of various users, thereby achieving the national objectives. The objective of this body is to regulate and enforce accounting and management related matters as prescribed under the relevant regulations. (<http://www.tresury.gov.my> on 07-12-2001)

6.3.1.3 Malaysian Institute of Accountants (MIA)

As the authoritative body in regulating the accounting profession, MIA has evolved rapidly as the one that provides a full range of professional activities to all accountants in the country. It has overcome changes of a harsh and extreme nature that may seem difficult and unsuitable at times, but it has survived and progressed. Much has been accomplished but this Institute intends to do much more to promote the Institute and the profession, both nationally and internationally.

The Council, which runs the Institute, recognises that for Malaysia to be the destination of international business, its business organisations must adhere to the highest international standards in accounting, and corporate and management reporting for ease of understanding, transparency and comparability. MIA is gearing itself up for the next century and it needs to not only take care of the current generation of accountants but also the future generation of Malaysian accountants.

The mission of the Institute is: “To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for

the interest of stakeholders.” (<http://www.mia.org.my/iam/institute.htm>, 11-29-2001)

The objective of MIA:

- To promote and regulate professional and ethical standards
- To enhance competency through continuous education and training to meet the challenges of the global economy
- To enhance the status of members
- To lead research and development for the enhancement of the profession
- To inculcate a high sense of social responsibility .

(<http://www.mia.org.my/iam/institute.htm>, 11-29-2001)

The Institute's statutory functions are, inter alia:-

- To determine the qualifications of persons for admission as members;
- To provide for the training, education and examination by the Institute or any other body, of persons practising or intending to practise the profession of accountancy;
- To regulate the practice of the profession of accountancy in Malaysia; and
- To promote, in any manner it thinks fit, the interests of the profession of accountancy in Malaysia (www.mia.org.my, 07-12-2001)

6.3.1.4 Malaysian Association of Certified Public Accounting (MACPA)

The Association, "The Malayan Association of Certified Public Accountants" was formed on July 26, 1958 by 20 members under the Companies Ordinances, 1940 - 1946. Subsequent to the formation of Malaysia, on July 6, 1964 the name was changed to the "The Malaysian Association of Certified Public Accountants". The goal of MACPA is to keep in step with the challenges of the times, as well as its responsibilities in the advancement of the practice and the study of accountancy.

Today, the MACPA stands for definite things:

- Technical service with excellence
- Commitment to high professional standard of training
- Commitment to independence, objectivity, integrity
- Participation in fostering an accountable society

Under the leadership and professional guidance of the Council, members of the MACPA have altogether pledged, "to give their time and energy to the furtherance of the objects of the Association". The principal objects of the Association are:

- To advance the theory and practice of accountancy in all its aspects.
- To recruit, educate, train and assess by means of examination or otherwise a body of members skilled in these areas.
- To preserve at all times the professional independence of accountants in whatever capacities they may be serving.
- To maintain high standards of practice and professional conduct by all its members.
- To do all such things as may advance the profession of accountancy in relation to public practice, industry, commerce, education and the public service. (<http://www.macpa.com.my/public/aus.asp>, 11-29-2001)

6.3.1.5 Malaysian Association of Accounting Administrators (MAAA)

MAAA, which was previously known as the Malaysian Association of Accounting Technicians (MAAT) was incorporated in 1990 with limited liability under Section 16(4) of the Companies Act, 1965, in recognition of the two-tiered nature of the accountancy profession, and under the sponsorship of the Malaysian Institute of Accountants.

The objectives of the Association are:

- To provide a qualification to be known as Accounting Technician/Administrators for persons employed on duties customarily undertaken by assistants to accountants registered with the Malaysian Institute of Accountants.
- To provide an organisation and membership for such persons who are desirous of acquiring such qualification and persons who are granted such qualification.
- To promote in the public interest the technical competence of such persons and to make provision for the exercise of professional supervision over them by the Malaysian Institute for Accountants.

- To provide a homogeneous and recognizable qualification for persons engaged in positions and performing the functions of accounting technicians.

(<http://www.mia.org.my/iam/search.htm>, 12-02-2001)

Accounting technicians in the offices of Public Accountants would be those involved in the preparation of accounts and other financial data and in personal and corporate taxation. They also assist in the audit of companies.

In commercial and industrial organisations and in the public sector, they are involved in the provision of financial and accounting information, budgeting and costing, financial and management accounting, internal audit and credit control under the supervision of Registered Accountants. Experienced technicians would normally hold senior or supervisory positions with responsibility for planning, and monitoring the work of other staff.

The Association's qualifications are, therefore, appropriate for all finance and accounting staff undertaking financial and accounting duties whether in industry, commerce or the public sector, or in the offices of Public Accountants.

6.3.1.6 Malaysian Institute of Taxation (MIT)

The Malaysian Institute of Taxation was incorporated on October 1, 1991 under Section 16 (4) of the Companies Act, 1965. The Institute aims to provide an organisation for all accountants, tax agents, academicians and persons in commerce interested in or concerned with taxation matters in Malaysia.

The objectives of the Institute are, inter alia:

- To provide an organisation for persons interested in or concerned with taxation matters in Malaysia.
- To advance the status and interest of the taxation profession and to work in close co-operation with the Malaysian Institute of Accountants.
- To exercise professional supervision over the members of the Institute and frame and establish rules made herein for observance in matters pertaining to professional conduct.

- To hold conferences and meetings for the reading of papers and the delivery of lectures, and for the acquisition and dissemination by other means of information connected with the profession of taxation.
- To promote and to join any other body of taxation professionals with similar objects with a view to the attainment of the above objects or of any of them.
- To provide examination for persons interested in or concerned with the taxation profession.
- To affiliate, as the Institute thinks fit, with any body or organisation whether in Malaysia or abroad whose interests and or objects are similar, related or complementary to those of the Institute.

(<http://www.mia.org.my/mia/miaWeb.nsf/pages/MIT>, 12-02-2001)

6.3.1.7 Kuala Lumpur Stock Exchange (KLSE)

The Kuala Lumpur Stock Exchange (KLSE) is a self-regulatory organisation, which governs the conduct of its members and member stock broking companies in securities dealings. It enforces the listing requirements, which spell out the listing and disclosure standards to be maintained by public listed companies, and is also responsible for the surveillance of the market place. (<http://www.klse.com.my/website/aboutus/aboutus.htm>, 11-29-2001)

Related to accounting regulation, the KLSE has its own regulation for the companies to be listed on the stock exchange in order to inspire higher standards of disclosure and accountability. This move is largely aimed at improving the transparency of public listed companies and to ensure that small investors are better protected.

6.3.2 Due Process

The first step of due process in setting the accounting standards is to identify and review rising issues. From the issues, the Working Group identifies and discusses the issues. This Working Group is appointed by MASB. The Working Group prepares draft discussion paper and needs consideration from MASB. A draft of a discussion paper is also submitted to FRF for review within fourteen days. With consideration and review from FRF, refinement of a draft discussion paper is done by MASB, and a discussion paper is issued for comment with general distribution and media release. The Working Group does

the analysis of comments and develops the Draft Statements of Principles (DSOP). DSOP is sent to MASB and FRF for consideration and review, and MASB based on review from FRF makes refinements on the DSOP. DSOP is issued for comment through general distribution and media release. The Working Group does the analysis of comments and develops a draft of the Exposure Draft. The Exposure draft is sent of MASB for consideration. The final step of due process is for MASB to approve the standard for publication.

6.3.3 Malaysia Accounting Standards

The MASB initially adopted 24 of the existing IAS and Malaysian Accounting Standards (MASs) issued prior to the creation of the MASB by the Malaysian professional accountancy bodies. Adoption by the MASB gave these IASs and MASs the status of approved accounting standards until each of these standards is amended, rescinded or replaced by a new MASB Standard.

MASB Standards are developed in accordance with the principles, objectives and concepts presented in the Proposed Framework for the Preparation and Presentation of Financial Statements. In addition, MASB Standards are developed with reference to the work of other national standard setters, such as Australia, Canada, New Zealand, the United Kingdom, the United States of America, and IASB. As such, MASB standards are broadly consistent with present international practice.

One of MASB's aims is to pursue a policy of internationalization and harmonization of MASB standards to be compatible, in all significant respects, with standards and concepts of other national and international standard setters, primarily the IASB. In developing its own standards, MASB reviews the standards previously issued by the Malaysian accountancy profession and the IASB and also the current practices in Malaysia. It will modify IASB standards, when necessary, or develop other technical pronouncements to address issues or matters to suit the Malaysian environment.

The table below shows the standards that have been complied by IAS as of October 1, 2001, when the data was collected.

MASB Number	Title and Related IAS Number	Effective for periods Beginning On or After
1	Presentation of Financial Statements [IAS 1 (revised)]	July 1, 1999
2	Inventories [IAS 2(revised)]	July 1, 1999
3	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies [IAS 8 (revised)]	July 1, 1999
4	Research & Development Costs [IAS 9 (revised)]	July 1, 1999
5	Cash Flow Statement [IAS 7 (revised)]	July 1, 1999
6	The Effects of Changes in Foreign Exchange Rates [IAS 21 (revised)]	July 1, 1999
7	Construction Contracts [IAS 11 (revised)]	July 1, 1999
8	Related Party Disclosures [IAS 24]	January 1, 2000
9	Revenue [IAS 18 (revised)]	January 1, 2000
10	Leases [IAS 17 (revised)]	January 1, 2000
11	Consolidated Financial Statements and Investments in Subsidiaries [IAS 27]	January 1, 2000
12	Investments in Associates [IAS 28]	January 1, 2000
13	Earnings Per Share [IAS 33]	January 1, 2000
14	Depreciation Accounting [IAS 4]	July 1, 2000
15	Property, Plant and Equipment [IAS 16 (revised)]	July 1, 2000
16	Financial Reporting of Interests in Joint Ventures [IAS 31]	July 1, 2000
17	General Insurance Business	July 1, 2001
18	Life Insurance Business	July 1, 2001
19	Events After The Balance Sheet Date [IAS 10(revised)]	July 1, 2001
20	Provisions, Contingent Liabilities and Contingent Assets [IAS 37]	July 1, 2001
21	Business Combinations [IAS 22(revised)]	July 1, 2001
22	Segment Reporting [IAS 14 (revised)]	January 1, 2002
23	Impairment of Assets [IAS 36]	January 1, 2002
24	Financial Instruments: Disclosure and Presentation [IAS 32 (revised 1998)]	January 1, 2002

Table 6.2: Malaysian Accounting Standards that comply with IAS

Source: <http://www.iasplus.com/country/malaysia.htm>, 11-29-2001

Exposure Drafts that are issued for comment are:

- ED 25, Impairment of Assets [IAS 36]

- ED 26, Financial Reporting by Units Trusts
- ED 27, Property Development Activities
- ED 28, Goodwill
- ED 19(revised), Borrowing Cost
- ED 29, Income Taxes
- ED 30, Interim Financial Reporting
- ED 31, Investment property
- ED 32, Discontinuing Operations
- ED 33, Employee Benefits

(<http://www.iasplus.com/country/malaysia.htm>, 12-02-2001)

6.4 Accounting in Philippines

In the Philippines, financial statements are prepared in accordance with GAAP, which is a set of accounting and reporting rules and standards for financial statements issued to the general public. The Philippines' GAAP contains the principles and rules, which were not scientifically nor objectively determined at the beginning. It evolved through continued usage and acceptance by accountants and the financial community at large. These conventions were formalized, summarized and rationalized by the Accounting Standards Council (ASC).

There is a *de jure* system where the state, through the ASC, the Auditing Standards and Practices Council (ASPC) and the Professional Regulations Commission (PRC), regulates the practice of accountancy with the accredited official organization of accountants, the Philippines Institute of Certified Public Accountants (PICPA). For example, regulatory functions pertaining to licensing, maintenance of ethical standards, and disciplining of members are vested in the PRC. Accounting standards, on the other hand, are largely approved by PICPA, subject to approval by the PRC (Dyball & Valcarcel, 1999).

The Philippines' GAAP was influenced by GAAP in the US. Recent development, however, takes into account the guidelines of the IASB. The Statements of Financial Accounting Standards (SFAS) represent the primary source of accounting standards in the country, which are issued by the ASC, and approved and endorsed by the PRC and Board of Accountancy (BOA). In

cases where the ASC may have not yet published an opinion, pronouncements issued by the PICPA and international standard setting bodies (such as the IASB, the U.S. FASB, and the AICPA) heavily determine GAAP in the Philippines. ([http://www.usatrade.gov/website/CCG.nsf/CCGurl/CCG-HILIPPINES2001-CH- 7:-0050B83A, 07-11-2001](http://www.usatrade.gov/website/CCG.nsf/CCGurl/CCG-HILIPPINES2001-CH-7:-0050B83A,07-11-2001))

6.4.1 The Actors

In the Philippines, the major players in the process of standard-setting are the Board of Accountancy, the PICPA, ASC, and ASPC. Every sector in the business community will be affected. Other organizations that participate direct or indirectly are the Securities and Exchange Commission (SEC), the Bangko Sentral ng Pilipinas (BSP), the Financial Executives Institute of the Philippines (FINEX), and the Philippine Stock Exchanges (PSE)

6.4.1.1 Board of Accountancy (BOA) and Professional Regulations Commission (PRC)

BOA has the authority to promulgate rules and set professional standards for PICPA members in the Philippines, subject to the approval of the PRC. The objectives of this organization are to supervise, control and regulate accounting practices in the Philippines (Lakshimi, 1998). The Board of Accountancy, under PRC, is in charge of the licensing and regulation of the profession. This organization published a code of professional ethics with the assistance of PICPA members, which was approved by PRC. The function of PRC is to supervise BOA, give licenses to accountants, approve accounting and auditing standards, and administer, implement and enforce regulatory policies of accounting profession, including the maintenance of professional standards and ethics.

6.4.1.2 Philippine Institute of Certified Public Accountants (PICPA)

PICPA was founded in November 1929 by a group of illustrious pioneers in the accounting profession. In 1975, the PICPA was recognized by the PRC as an official body represented by members in the public practice, industry, government and education sectors in Philippines.

The mission of this institute is to enhance the integrity of the accountancy profession in the Philippines, serve the best interest of its members and other

stakeholders, and contribute to the attainment of the country's national objectives. These can be achieved through a responsible organizational structure, committed leadership, effective professional development programs abreast with state-of-the-art technology, strict implementation of professional ethics, promotion of high standards of accounting education, and advocacy of and participation in relevant national issues. (<http://www.picpa.com.ph/aboutus.html>, 07-11-2001)

The Institute's objectives as follows:

- To enable the accountancy profession to discharge its public responsibilities more effectively;
- To promote and maintain high professional standards in the accountancy profession;
- To develop among its members high ideals of competence, ethical, integrity and civic consciousness;
- To foster cordial, harmonious and fruitful relations among its members;
- To elevate the standards of accountancy education;
- To guard against the practice of the profession by unauthorized persons or entities; in general;
- To protect and enhance the integrity of the certificate of registration of the Certified Public Accountant.
- To develop a treaty of friendship among its members.

(<http://www.picpa.com.ph/aboutus.html>, 07-11-2001)

The PICPA Foundation paved the way for the creation of the ASC and the ASPC. These two bodies are assigned to review and promulgate the standards of the profession. In the early 1970s, the PICPA issued APBs and Special Bulletins (SBs) on specific accounting issues to provide recommended guidelines for financial reporting.

6.4.1.3 Accounting Standards Council (ASC)

The ASC was formed by PICPA as an independent body to formalize the accounting standard-setting function in the Philippines in 1981. The ASC's main function is to establish and improve accounting standards that will be generally accepted in the Philippines.

This organization issues the SFAS, the major sources of GAAP in the Philippines. The ASC consists of eight members: four from PICPA; one each from the PSEC, the Central Bank, and BOA; and one from the Financial Executives Institute of the Philippines (Lakshimi, 1998).

The ASC is responsible for establishing and improving GAAP in the Philippines. The ASC drafted the rules governing financial reporting practices, issue in the form of Exposure Drafts for public comment. The final rules are codified and issued as Statements of Financial Accounting Standards. The standards then have to be submitted to the PRC for final approval.

6.4.1.4 Securities and Exchange Commission (SEC)

The SEC is a governmental regulatory body that sets the requirements for financial reporting in the Philippines. It is a quasi-judicial governmental agency whose primary role is to protect the investing public from fraud and deception in securities transactions and to encourage investments. The SEC derives its regulatory powers and functions from Presidential Decree 902-A (as amended), The Revised Securities Act (RSA), Corporation and Partnership Laws, Investment Company Act, and Investment Houses Law. The function of the SEC is to implement provisions of the Revised Securities Act and the Corporate Code covering forms and content of financial statements, definitions of accounting terms, and creation amendment and rescission of accounting rules and regulations, subject to the approval of the Minister of Finance.

The Commission is a collegial body composed of the Chairman and four Associate Commissioners. Its policies, rules and regulations are implemented through the various departments and extension offices whose activities are coordinated by the Executive Director (<http://www.pse.org.ph/orgs/sec.htm>, 07-11-2001). The Commission has absolute regulatory jurisdiction, control and supervision over corporations, partnerships and associations (excluding cooperatives, homeowners' associations, and labour unions). (http://www.supremecourt.gov.ph/CSJ/MAR_00/SEC_Vtg.htm, 07--11-2001)

6.4.1.5 The Bangko Sentral ng Pilipinas (BSP)

BSP is the central bank of the Republic of the Philippines. It was established as an independent central monetary authority pursuant to the Philippine

Constitution and the New Central Bank Act of 1993 as part of the restructuring of the old Central Bank of the Philippines, which was originally established in 1949 (http://www.bsp.gov.ph/about_bsp/about_creation.htm, 07-11-2001).

Under the New Central Bank Act, the BSP was granted increased fiscal and administrative autonomy from other sectors of the Government. As such, the BSP no longer undertakes the quasi-fiscal activities described above. In addition, pursuant to the New Central Bank Act, the BSP is not permitted to engage in development banking or financing.

6.4.1.6 Financial Executives Institute of The Philippines (FINEX)

FINEX is a private organization and is composed of eminent professionals, entrepreneurs, public servants and academicians, whose knowledge and skills are key factors in the formulation of policies and decisions in the financial management of their respective organizations. It is also a forum for the development and advancement of its members, particularly in the field of modern business practice, and in the promotion of business ethics and social involvement in the Philippines. (<http://www.finex.org.ph/>, 11-07-2001)

6.4.1.7 Auditing Standards and Practices Council (ASPC)

The Auditing Standards and Practices Council (ASPC) is the organization that sets auditing standards in the Philippines. (http://www.albany.edu/acc/Account_Dptmt/Research/pacificrim/philippines.html, 07-11-2001). This organization was created by the PICPA foundation in 1985 to review and promulgate the standards of the profession. The ASPC has not been active for quite some time.

6.4.1.8 Philippine Stock Exchanges (PSE)

The PSE traces its roots from the country's two old stock exchanges -- the Manila Stock Exchange (MSE) and the Makati Stock Exchange (MkSE). Although the two exchanges remained as separate entities, they basically were trading the same listed issues. The idea to unite the two exchanges and have it managed by a professional group was geared towards the development of a more efficient capital market. (<http://www.pse.org.ph/>, 07-11-2001)

In the Philippines, a company's shares of stock may be listed on the PSE. Companies wishing to raise equity financing through this route are required to apply to the SEC and to the PSE. Certain requirements have to be met, including a good record of performance, and minimum capitalization and number of existing stockholders. Actual distribution of the shares would be done through the stockbroker members of the Exchange, banks and non-bank financial intermediaries (at least one of whom would be the issue's underwriter) and direct investors (<http://www.deloitteap.com>, 07-08-2001).

6.4.2 The Actors and the Process of Standard-setting

Compared with the more developed equity-oriented capital markets, the participation of users and preparers of financial statements in the ASEAN financial reporting is less formal. In most ASEAN countries, national chambers of commerce and industry provide comments regarding proposed financial accounting regulations. It is only in the Philippines where the participation of preparers of financial statements in standard-setting activities is formalized. FINEX is represented in the ASC, the designated standard-setting agency (Saudagaran & Diga, 2000).

SEC, the Insurance Commission, the BSP, the Public Service Commission, and the Bureau of Internal Revenue (BIR), to some extent, have also exercised influence in determining GAAP. BIR interprets and enforces the National Internal Revenue Code and the Tax and Customs Code, respectively. This organization has several functions, such as approving changes in accounting policies or methods by corporations, and requiring certain corporations, partnerships or persons to file audited financial statements. The organization also hears and decides cases involving independent CPAs engaged to examine and audit books of accounts of taxpayers involving misrepresentation of a report bearing on any examination or audit or certification of financial statements. The misrepresentation contains misstatement of facts or omission of transactions or taxable income and exemption of his clients.

SEC plays a strong role in defining financial reporting regulation. It prescribes the minimum reporting requirements for all corporations that are registered under the Corporation Code and for securities issued to the public under the Revised Securities Act. Together, SEC and BSP require all companies to

comply with SFAS and to undergo an audit by a licensed CPA. SEC issues its own regulations, which are based on the US SEC Regulation S-X (Saudagaran & Diga, 2000). Although SEC allows ASC to formulate accounting principles, which should be adhered to in all financial reports submitted to SEC, it has kept the right to impose additional financial reporting requirements.

BSP participated in formulating GAAP for the banking industry, together with representatives from the ASC and the Bankers Association of the Philippines. However, BSP also issues its own set of Regulatory Accounting Policies, which are to be complied with in all submissions to it. In practice, a joint task force between the ASC and BSP minimize the differences between SFAS and Regulatory Accounting Policy.

6.4.3 Due Process

ASC establishes a project committee to determine whether an accounting standard in a particular area is needed. Then, the project committee prepares a draft accounting standard. A draft that is approved by at least five of the eight ASC members is then released officially to PICPA members, FINEX members, pertinent government agencies and interested parties in commerce and industry for comment. After a 60-day exposure period, responses are evaluated by the project committee and changes are made, if necessary. If a majority of ASC members approve the revised draft, it is issued as a formal accounting standard; otherwise, a review process is initiated. The ASC-approved standard is submitted to BOA for endorsement and then to PRC for approval, although this is usually a formality. Once approved by the government, the standard becomes effective for all licensed accountants (Saudagaran & Diga, 200). In the Philippines, the government formally approves new standards.

6.4.4 Philippines Accounting Standards

SFAS issued by the ASC are the most authoritative source of Philippine GAAP and cover recognition, measurement and disclosure issues in accounting practice. ASC has the full support of the regulatory agencies with which financial statements are filed (SEC and Central Bank of Philippines), the Commission that supervises CPAs and auditors (Professional Regulation Commission) through the Board of Accountancy, and the largest organization

of financial executives who are ultimately responsible for preparing the financial statements of their companies (Financial Executive Institute of The Philippines).

Most of the accounting principles applied in the Philippines are adopted heavily from US FASB statements and, recently, towards International Accounting Standards. For issues or pronouncements not addressed or covered by SFAS, the practices and procedures of the IASB or FASB will be referred to. If none of these bodies has addressed the subject, accounting principles and practices for which there is a long history of acceptance and usage will govern.

In the Philippines, the private sector body, FINEX officially involves in the standard-setting process. The body not only provides the comments on financial accounting regulations, but is also actively involved in the process since this organization is represented in the ASC. In the process of harmonization via IAS, this process will gain an advantage since FINEX, which represents business parties, will play an important role in how IAS will be adopted and applied in all companies. As a result, the process of adopting IAS will be easier compare to other countries.

The ASC has an on-going project to replace existing SFAS with their counterpart IAS issued by the IASB. ASC has issued ten new accounting standards that became effective on January 1, 2001. SFAS, as well as the recent exposure drafts are shown in tables below:

SFAS Number	Title and Related IAS Number	Effective for Periods Beginning On or After
1 (revise 2000)	Presentation of Financial Statement(IAS 1), revise the previous SFAS no.1,2,3,5,15	January 1, 2001
4 (revise 2000)	Inventories (IAS 2)	January 1, 2001
13 (revise 2000)	Net Income or Loss for the period, Fundamental Errors and Changes in Accounting Policies (IAS 8)	January 1, 2001
22	Statement of cash flow (IAS 7)	January 1, 2001
30	Interim financial reporting (IAS 34)	January 1, 2001
31	Segment Reporting (IAS 14)	January 1, 2001

Table 6.3: Philippines Statements of Financial Accounting Standards

Source: <http://www.iasplus.com/country/philippi.htm>, 12-05-2001

Recent Philippine Exposure drafts of Standards

Outstanding Exposure Draft	Expected Effective Date
ED 43, Discontinuing Operations.	January 1, 2002
ED 44, Impairment of Assets (IAS36)	January 1, 2002
ED 45, Provision, Contingent Liabilities and Contingent Assets (IAS 37)	July 1, 2002
ED 46, Event After the Balance Sheet Date (IAS 10)	July 1, 2002
ED 47, Business Combinations (revised) (IAS 22)	January 1, 2003
ED 48, Intangible Assets (IAS 38)	January 1, 2003

Table 6.4: Philippines Outstanding Exposure Drafts

Source: <http://www.iasplus.com/country/philippi.htm>, 12-05-2001

6.5 Accounting in Singapore

In Singapore, the Institutes of Certified Public Accountants of Singapore (ICPAS) issued a Statement of Recommended Accounting Practices, which regulates matters of disclosure in 1977. This statement provides guidance to companies for complying with the disclosure requirements found in the Singapore Companies Act 1967. Singapore Companies Act governs all Singapore business corporations and branches of foreign companies

In 1977, ICPAS set the rules of accounting and reporting in Singapore. Standards are issued as Statements of Accounting Standards (SASs) and Statements of Recommended Accounting Practices (RAPs).

In 1994, ICPAS indicated that it was necessary to comply with these standards for financial statements to provide a true and fair view, in accordance with the Singapore Companies Act. While compliance with the standards is expected, the SASs are not legally binding and are not intended as a rigid, comprehensive set of rules. However, professional judgement should be exercised in their application

6.5.1 The Actors

In Singapore, the private sector body, ICPAS, has been at the forefront of standard setting activities. Beside ICPAS, many other organization participate directly or indirectly in accounting standard setting, such as the Registrar of Companies and Business, the Monetary Authority of Singapore, the Public

Accountant Board, the Stock Exchange of Singapore, and the Singapore Federation of Chambers of Commerce and Industry.

6.5.1.1 Institute of Certified Public Accountants of Singapore (ICPAS)

The ICPAS is the national organization of the accounting profession in Singapore. This is the only official accounting body in Singapore and responsible for all professional matters of the accounting profession. It was formed in June 1963 as the Singapore Society of Accountants under the Accountants Act. The Society was reconstituted and renamed the ICPAS on 11 February 1989, under the Accountants Act 1987. The ICPAS promulgates the accounting standards and auditing standards in Singapore (www.accountants.org.sg, 07-12-2001).

The ICPAS' network of members span the globe and its international outlook and connections are reflected in its membership of regional and international professional organizations such as the AFA, IASB and IFAC. (<http://www.accountants.org.sg/institute.html>, 12-02-2001)

6.5.2 Registrar of Companies and Business

The principal task of Singapore's company registrar is to maintain records of domestic companies, as stipulated by company laws. Registrar of Companies and Business in Singapore ensures that companies comply with specific disclosure requirement found in company laws. In Singapore, exclusively designated company registrars handle company administration (Saudagaran & Diga, 2000).

6.5.2.1 Monetary Authority of Singapore (MAS)

MAS, as the statutory regulator, has the authority to regulate all elements of monetary, banking and financial aspects of Singapore (www.mas.gov.sg, 2001). It was formed in 1971 by the parliament of Singapore. The MAS monitors compliance with the laws and regulations that govern the integrity of the markets, seeks enforcement of the laws and proposes amendments in order to keep them relevant in a changing market environment.

MAS' mission is to promote sustained and non-inflationary growth of the economy, as well as foster a sound and progressive financial services sector.

Several MAS' objectives as follows:

- To conduct monetary policy and to manage the official foreign reserves and the issuance of government securities;
- To supervise the banking, insurance, securities and futures industries, and develop strategies in partnership with the private sector to promote Singapore as an international financial centre;
- To build a cohesive and integrated organization of excellence.
(www.mas.gov.sg, 07-12-2001)

6.5.2.2 Public Accountant Board (PAB)

PAB is the regulatory body of the accountancy profession in Singapore. It was formed in 1989, following the restructuring of the Singapore Society of Accountants. The 10-member Board is responsible for the registration and discipline of practising members in Singapore. It acts as a watchdog body by checking irregularities in the professional conduct and practices of ICPAS practising members (www.accountants.org.sg, 07-12-2001). PAB is the government body that licenses practising accountants. Law and professional self-regulation regulate the accountancy sectors in Singapore. Regulations are found in the Accountants Act, whilst the rules are found in PAB rules 1989 and the ICPAS Rules 1989, respectively (Saudagaran & Diga, 2000).

6.5.2.3 Stock Exchange of Singapore (SES)

SES was formed on 1st of December 1999 by the merger of two well-established and respected financial institutions, SES and the Singapore International Monetary Exchange Limited (SIMEX). In 2000, SES became a public-listed company. The broadened shareholder base better positions SES to seize the opportunities of the future, and to enjoy the flexibility available to any listed company in terms of capital structure, corporate finance, mergers and acquisitions (www.ses.com.sg, 07-12-2001).

SES is the first fully electronic and floorless exchange in Asia and is the first demutualised, integrated securities and derivatives exchange in Asia Pacific. The SES supports Singaporean and global companies to raise capital, and for investors to transact and clear financial products. The SES owns and operates the only integrated securities exchange and derivatives exchange in Singapore

and their related clearinghouses. Its exchanges have a presence and prominence that extends beyond the borders of Singapore. (www.ses.com.sg, 07-12-2001).

6.5.2.4 Singapore Federation of Chambers of Commerce and Industry

The Singapore Federation of Chambers of Commerce and Industry is a private sector body that acts as the national peak body representing the private sector in Singapore. It provides comments regarding proposed financial accounting regulations (<http://www.redas.com/sfcci/>, 07-12-2001).

The principal functions of this body is to promote and protect the interests of member organization by:

Acting as the national peak body representing the private sector in Singapore and serving as its spokesman to ASEAN private and public sector organizations.

Representing Singapore in the affairs of regional and international business organizations such as: ASEAN Chambers of Commerce and Industry, Confederation of Asia-Pacific Chambers of Commerce and Industry and International Chamber of Commerce. (www.ses.com.sg, 07-12-2001).

6.5.3 The Actors and the Process of Standard-setting

SES plays a key role in preserving fair and transparent markets. Therefore, they are responsible for the listing rules for companies that raise capital and have their shares traded on the exchange, and for ensuring that conditions exist for orderly trading of listed securities. When it comes to financial reporting, the SES participates in regulating financial reporting practices and promulgates listing requirements for companies seeking to have their securities traded in the exchange (Saudagaran & Diga, 2000). SES also issues its own Listing Manual and Disclosure Policy Guidelines containing requirements beyond those specified by the Companies Act. On the other hand, stock exchange administrators monitor whether listed companies comply with continuing reporting requirements after such companies have been qualified to list their securities in the exchange.

In Singapore, the government influences financial reporting and support of professional accounting initiatives. This influence and support occurs directly thorough legislation and indirectly, thorough audit requirements. The 1990

amendments to the Ninth Schedule of the Singapore Companies Act have directly incorporated most of the accounting standards and recommended accounting practices issued by ICPAS. Government agencies, such as the Registrar of Companies and Businesses and MAS, require companies to be audited by a licensed CPA.

As the securities agency, the MAS monitors whether companies prepare financial reports in accordance with securities market regulations. The MAS, based on its mandate under the Banking Act and the Securities Industry Act, has specified disclosure requirements for financial institutions and companies issuing their own securities to the public. The MAS also requires companies to be audited by a licensed CPA

The role of other private sector groups in accounting standard setting and preparation of financial statements and user groups, appears minimal (Saudagaran & Diga, 2001). However, these groups influence standard setting activities in Singapore. These groups mainly influence the consultative process adopted by ICPAS. This process is designed, in part, to accommodate the concerns of the business community. For this reason, drafts are often sent to the national chamber of commerce and industry groups, and then this body gives comments. The other way by which a preparer of financial statements could influence standard setting outcomes indirectly is through explanation made by public accountants who, in view of their association with their clients, are aware of the likely impact of new accounting standards on companies.

6.5.4 Due Process

ICPAS is governed by a Council comprised of eight elected practicing members, eight elected non-practicing members (e.g. commerce, industry, education), and three members nominated by the Singapore Government and appointed by the Minister for Finance. The Council may appoint members of the Institute to be a co-opted member of the Council but no more than two co-opted members can hold office in the Council at any one time (www.accountants.org.sg, 07-12-2001). The particular committee of the professional body takes charge of preparing proposed accounting standards. This committee generally is comprised of representatives from public practice,

government, commerce and industry, and education, all of whom must be members of the professional accounting body.

The ICPAS' Accounting Standards Committee examines the current IAS to determine its relevance to Singapore. If deemed suitable, the Committee distributes the IAS for comment to various government and private sector organizations, including the Stock Exchange of Singapore, the Association of Banks of Singapore, and the Chamber of Commerce. The Committee, using the comments received as well as various legal and regulatory considerations, make modifications to IAS. The revised standard is sent to the Institute's Council for approval. Once it is approved, it is promulgated as a Singapore accounting or auditing standard (Han, 1994)

6.5.5 Singapore Accounting Standards

The colonial history of Singapore dictates that its accounting system was also under British influence. After independence, and the emergence and development of IAS, Singapore also turned to the IASB as its major source of accounting standards. Singapore started adopting IASs as national standards in 1977, two years after the first IAS rolled off the press. As an independent country severing its links with the UK, Singapore found the IASs a politically correct substitute for the informal influence of UK accounting standards.

All IAS standards are examined for their propriety of adoption in the Singapore context, and most had been adopted by the end of 1995. Some IAS standards have been amended to be more relevant in the Singapore context, but the amendments generally are not significant and the essence of each IAS statement has been retained (Ball, Robin, Wu, 1998). In Singapore, IASs are heavily adopted, but with minor modifications in some cases, as Statements of Accounting Standards. Although Singapore is a country that adopts IASs as national standards, SASs are not limited to IASs. There is no IAS on earnings per share yet, but there has been an SAS on this since 1983. More recently, with the introduction of the goods and services tax (GST) in Singapore, an SAS on accounting for GST was added. Both of these SASs are based on UK standards. (Tan, 1996)

Accounting Standards are applicable to financial statements of reporting entities (not just companies) that are intended to give a true and fair view of

state of affairs at the balance sheet date. However, the ICPAS is continuing its policy of harmonizing SAS with IAS. This effort is in line with the AFA's policy encouraging the members to adopt IAS.

Accounting standards in Singapore include all of the professional releases issued by the ICPAS. All members of ICPAS, whether in preparing or auditing financial statements, are required to observe these accounting standards. Some of the professional releases include SAS, Provisional Statements of Accounting Standards, and Statements of Recommended Accounting Practice.

Although the Accountants Act regulates the accountancy profession in Singapore, technical standards (accounting and auditing) are not directly regulated. There is no requirement in the Companies Act for companies' financial statements to be prepared in accordance with SASs. The Companies Act requirements pertain to the form and content of the balance sheet and the profit and loss account deal with disclosures, but not presentation or measurement issues. The *raison d'etre* of SAS rests on the statutory requirement that the accounts give a 'true and fair view'. The role of SASs in Singapore is the same as that of accounting standards in the UK before the Dearing reforms introduced the Accounting Standards Board and before the UK Companies Act of 1985.

The ICPAS is continuing its policy of harmonizing SAS with IAS. The ICPAS has announced their plan to simultaneously issue exposure drafts and standards with the IASB and to make the standards effective in the quarter following adoption. The ICPAS has issued five new accounting standards, which became effective on the 1st of April, 2001.

In late 2000, the Disclosure and Accounting Standards Committee (DASC) of the ICPAS was formed to propose changes to the Singapore Companies Act. This committee announced its recommendation that Singapore adopt the IAS and US standards as the only acceptable accounting standards in Singapore. If this were done, Singapore accounting standards would be eliminated. The table below shows the SAS number that comply with IAS:

SAS Number	Title and Related IAS Number	Effective for Periods Beginning On or After
1	Presentation of Financial Statements (IAS 1)	January 1, 2000
6	Earnings Per Share (IAS 33)	December 31, 1999
8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policy (IAS 8)	July 1, 2000
10	Events Occurring After the Balance Sheet Date (IAS 10)	October 1, 2000
12	Income Taxes (IAS 12 including E68 revisions)	April 1, 2001
15	Leases (IAS 17)	January 1, 2000
17	Employee Benefits (E67 revisions)	April 1, 2001
22	Business Combinations (IAS 22)	October 1, 2000
23	Segment Reporting (IAS 14)	January 1, 2000
31	Provisions, Contingent Liabilities and Contingent Assets (IAS 37)	October 1, 2000
32	Financial Instruments: Disclosure and Presentation (IAS 32)	October 1, 2000
33	Financial Instruments: Recognition and Measurement (IAS 39)	April 1, 2001
34	Intangible Assets (IAS 38)	October 1, 2000
35	Discontinuing Operations (IAS 35)	October 1, 2000
36	Impairment of Assets (IAS 36)	October 1, 2000
37	Information Reflecting the Effect of Changing Prices (IAS 15) (note that this standard is required under Singapore standards and optional under IAS)	April 1, 2001
38	Financial Reporting in Hyperinflationary Economies (IAS 29)	April 1, 2001

Table 6.5: Singapore Accounting Standards that comply with IAS

Source: <http://www.iasplus.com/country/singapor.htm>, 07-12-2001

The following exposure drafts issued in 2000 are still outstanding:

- ED/SAS 30, Interim Financial Reporting (IAS 34)
- ED/SAS 39, Agriculture (IAS 41)
- ED/SAS 40, Investment Property (IAS 40)

(<http://www.iasplus.com/country/singapor.htm>, 07-12-2001)

6.6 Accounting in Thailand

Thailand's Recommended Accounting Concepts and Principles are generally based on US GAAP, although to be prudent they also incorporate concepts from the UK and Germany. However, Thailand is considered a less-developed Asian area, and as such, would be most influenced by the accounting values of statutory control, uniformity, conservatism, and secrecy. Thailand would likely reflect the values of its fellow Asian neighbours.

Thailand appears to be very ripe for international growth and will probably continue to follow International and United States accounting standards. Because of this, IASB and the US will probably provide an even greater source of influence for accounting values in the future.

6.6.1 The Actors

The main actor in standard setting in Thailand is the Institute of Certified Accountants and Auditors of Thailand (ICAAT). However, in the process of standard setting, the Ministry of Commerce, exercises a significantly dominant role in regulating financial reporting. Thailand is the only ASEAN country that has promulgated Accounting Acts to regulate financial reporting practices and has an accounting law administrator. Other parties that participate directly or indirectly are SEC, the Ministry of Commerce, the Bank of Thailand, the Security Exchange of Thailand, and the Thai Chamber of Commerce.

6.6.1.1 Institute of Certified Accountants and Auditors of Thailand (ICAAT)

The ICAAT was established in 1948. This is the only institute for the accounting profession in Thailand. This institution is the authoritative group promoting the application of GAAP.

The ICAAT publishes The Accountants' Journal and Accounting Standards and Technical papers. ICAAT also disseminates other technical papers relating to seminars and training course held, such as the ASEAN Accountants' Conference. These documents are available to members. Non-members and interested individuals may also purchase them.

6.6.1.2 Securities and Exchange Commission (SEC)

SEC's main duty is to supervise and develop the primary and secondary markets of the country's capital market system, as well as financial or securities related participants and institutions. The SEC formulates policies, rules and regulations regarding the supervision, promotion, and development of securities businesses. This organization manages other activities pertaining to the securities businesses, such as issuance and offer of securities for sale to the public, securities exchange, the Over-the-Counter Centre, and prevention of unfair securities trading practices (www.sec.or.th., 07-13-2001).

SEC has regulatory control of the securities industry. The objectives of the SEC are as follows:

- To provide a single legal framework for the development of Thailand's capital markets. The SEC is responsible for overseeing the issuance by private companies of debt securities to the public and the review and approval of prospectuses.
- To improve the level of investor protection. The SEC is responsible for the investigation of any breach of the laws relating to stringent information disclosure requirements, insider trading and take-over.
- To develop Thailand's capital markets. For example, the SEC has sanctioned the establishment of foreign-backed mutual funds. (<http://www.us-asean.org/arthur/Thailand>, 07-13-2001)

6.6.1.3 Ministry of Commerce

The Ministry of Commerce divides its core responsibilities into seven departments, namely the departments of foreign trade, internal trade, commercial registration, export promotion, business economics, insurance, and intellectual property. The Ministry of Commerce has two offices namely office of secretary to the minister, and office of permanent secretary for the ministry; and one public warehouse organization. The Department of Commercial Registration is the most related unit in accounting practices, where it supervises business firms' accounting and auditing practices.

The Ministry of Commerce is mainly responsible for:

- Domestic and International Trade Policy.
- International Trade Cooperation, Arrangement and Agreement.

- Export Promotion and Regulating Import.
- Business Registration and Control such as Registration of Private and Public Companies.
- Protection and Supervising Usage of Insurance Business, Warehouses and Control of Oil Reserve.
- Intellectual Property Protection and Registration of Patents, Designs and Trade - marks.
- Trade Information System (TIS). (<http://www.dbe.moc.go.th/Intro/mocintro.html>, 07-13-2001)

6.6.1.4 Bank of Thailand

The Bank of Thailand was first set up as the Thai National Banking Bureau. The Bank of Thailand Act was promulgated on April 28, 1942 decreeing the Bank of Thailand a juristic person responsible for all central banking activities. The Bank of Thailand started operations on December 10, 1942 with His Highness Prince Viwatanachai Chaiyan as the first Governor (<http://www.bot.or.th>, 07-13-2001).

As a central bank, the Bank of Thailand undertakes the following:

- Formulate monetary policy to maintain monetary stability
- Supervise financial institutions to ensure that they are secure and supportive of economic development.
- Act as banker to the Government and recommend economic policy to the government.
- Act as banker to financial institutions.
- Manage the international reserves.
- Print and issue bank notes. (www.bot.or.th, 07-13-2001)

6.6.1.5 Securities Exchange of Thailand (SET)

The SET is the stock exchange authority in Thailand. Under the Securities and Exchange Act 1992 the SET operates under the SEC. A board elected from the SEC and the member brokers operates the new SET. The SET is responsible for the operating side of the exchange while the SEC is responsible for enforcement. The SET is also responsible for determining which companies will be allowed to list on the stock exchange. The SET has complete power to

approve a company's listing. (http://www.us-asean.org/arthur/Thailand/The_Mechanics_of_Investment.htm , 07-13-2001)

6.6.1.6 Thai Chamber of Commerce (TCC)

TCC is a non-profit organization. It was founded in 1933 by a distinguished group of Thai businessmen and traders to act as spokesman for the private sector and as a coordinator between the public and private sectors with the aim of promoting trade, industry, agriculture, finance and the economy. (<http://www.tcc.or.th/dep1/main/indexe.htm>, 07-13-2001). TCC has played a key-role promoting both local and international trade in order to collaborate with the Government's policy to strengthen the Thai economy.

TCC has the following objectives:

- To render assistance and support to all sectors of the business community for the betterment and benefit of local trade, industry, agriculture, finance and the overall economy.
- To render advisory services to members on general and specialized affairs on trade, industry, agriculture, finance and the national economy, as well as to extend support and assistance on the administrative and operative functions of member companies.
- To render advisory services to government agencies by conducting research and submitting proposals for the development of the national economy.
- To act as a coordinator between businessmen and authorities.
- To assist and promote public welfare.
- To carry out other activities as specified by the Act.
- To have no concern with politics. (<http://www.tcc.or.th/dep1/main/indexe.htm>, 07-13-2001)

6.6.2 The Actors and the Process of Standard-setting

The Ministry of Commerce takes charge of various functions, such as company registration and issues regulations, which provide uniform formats and a detailed list of disclosures for companies. The Thai Internal Revenue Department also exercises strong influence on accounting practices by requiring companies to use the same accounting policies for financial and tax reporting purposes. Moreover, the opinion of the tax department is sought

specifically before accounting standards are approved. The Ministry of Commerce-Account Registration Department performs functions similar to company registrars in other ASEAN countries. The Ministry of Commerce-Board of Supervision of Audit Practice licenses accountants, while the ICAAT plays an advisory role to the Ministry of Commerce.

ICAAT, as a professional body, promulgates accounting standards. ICAAT issued Recommended Accounting Concepts and Principle, which discusses the fundamental bases for preparing financial statements. ICAAT also promulgated the Thai Financial Accounting Standards (TFAS), which addressed specific accounting areas. ICAAT's standards are mandatory only for its members. ICAAT has stated that following TFAS is necessary in order to achieve compliance with the Ministry of Commerce rules.

The Stock exchange of Thailand also participates in the standard-setting process by regulating financial reporting practices. They promulgate listing requirements for companies that seek to have their securities traded in the exchange. The stock exchange administrators also monitor whether listed companies comply with continuing reporting requirements after such companies have been qualified to list their securities in the exchange.

SEC has the authority to promulgate financial reporting rules for public companies. To date, it has delegated this task to ICAAT and SET. The SET imposes comprehensive disclosure requirements on listed companies. While these requirements go beyond those prescribed by the Ministry of Commerce and the ICAAT, they do not deal specifically with accounting measurement issues. Finally, the Bank of Thailand (Central Bank) sets disclosure and measurement rules applicable to banks and financial institutions.

6.6.3 Due Process

Thailand has similar standard setting process as the other ASEAN countries. Nevertheless, there is one important difference in the formal approval process. In Thailand, formal approval is required from the Ministry of Commerce-BSAP for all accounting standards. In the process of preparing standards, drafts are sent to ICAAT members and presented in public seminars or hearings. In addition, questionnaires are sent to individuals occupying senior positions in public practice, government, commerce, industry, and academia, which are

selected by the Sub-committee on Accounting principles. Changes are made in response to the feedback received. The revised draft standard is then presented to the ICAAT Board of Directors and Ministry of Commerce for approval, whereupon the Thai Financial Accounting Standards become binding for registered auditors (Saudagaran & Diga, 2000).

6.6.4 Thailand Accounting Standards

The ICAAT is the authoritative group promoting the application of generally accepted accounting principles. Since Thailand's accounting standards were heavily influenced by the US accounting source, the accounting principles applied in the United States are recognized and accepted in Thailand. In addition, accounting methods and conventions sanctioned by law are considered to be generally accepted accounting practices.

Thai accounting standards reflect significant IASB influence and moderate UK influence. US FASB and AICPA pronouncements are also examined in formulating Thai standards. The concept of fair presentation is emphasized in the Thai auditor's report. Thai accounting standards, therefore, also reflect common-law influence. (Ball, Robin, Wu, 1998)

The Ministry of Commerce plays a significant role in the accounting regulation in Thailand. In this case, there could be different objectives in accounting standards since the government's objective can be different from business' objective. Problems could be eliminated since the accounting standards are influenced by US standards and recently the IAS. The advantage of this is that the government supports the process of adopting IAS.

Thailand acknowledges formal written accounting standards. Thai accounting literature includes 31 published financial accounting standards. Any accounting method that is adopted by a company must be used consistently and may be change only with the approval of the Revenue Department.

ICAAT has issued ten new accounting standards, eight of which became effective on the 1st of January, 2000. These new accounting standards are primarily based on IAS. The tables below show the TASs that comply with IAS, and the outstanding exposure drafts as per the date of data collection.

TAS Number	Title and Related IAS Number	Effective for Periods Beginning On or After
41	Interim Financial Information (IAS 34)	January 1, 2000
42	Accounting for Investment Companies (based on the AICPA Audit and Accounting Guide: Audits of Investment Companies) TAS No. 43, Business Combinations (IAS 22)	January 1, 2000
43	Business Combinations (IAS 22)	January 1, 2000
44	Consolidated Financial Statements and Accounting for Subsidiaries (IAS 28)	January 1, 2000
45	Accounting for Investments in Associates (IAS 28)	January 1, 2000
46	Financial Reporting of Interests in Joint Ventures (IAS 31)	January 1, 2000
47	Related Party Disclosures (IAS 24)	January 1, 2000
48	Financial Instruments: Disclosure and Presentation (IAS 32)	January 1, 2000
49	Construction Contracts (IAS 11)	January 1, 2001
50	Segment Reporting (IAS 14)	January 1, 2002

Table 6.6: Thailand's Accounting Standards that comply with IAS
Source: <http://www.iasplus.com/country/thailand.htm>, 07-13-2001

Recent Thailand exposure drafts of standards

Draft Thai Accounting Standard	Expected Effective Date
Accounting for Income Taxes (IAS 12)	January 2002
Contingencies and Events Occurring After the Balance Sheet Date (IAS 10)	July 2001
Provisions, Contingent Liabilities and Contingent Assets (IAS 37)	July 2001
Discontinuing Operations (IAS 35)	July 2001
Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (US SFAS 140)	January 2003
Intangible Assets (IAS 38)	--
Long-Term Leases (IAS 17)	January 2001
Accounting for Government Grants and Disclosure of Government Assistance (IAS 20)	January 2002
Financial Instruments: Recognition and Measurement (selected portions of IAS 39)	January 2003

Table 6.7: Thailand outstanding exposure drafts

Source: <http://www.iasplus.com/country/thailand.htm>, 07-13-2001

Other projects the ICAAT is expected to issue exposure drafts on in the next twelve months are:

- Development stage enterprises (SFAS 7)
- Derivatives (IAS 39)

6.7 Empirical Study, Review on Financial Statements from ASEAN Countries

In this section, the information from practical part will be shown to give a deeper understanding of the development of accounting standard setting at the national level. Furthermore, this practical part will exemplify the harmonization process. It will describe whether the companies in each country follow the accounting standards in their own country and their compliance with IAS. Six valuation methods are used to address the degree of harmonization, such as stock valuation methods, depreciation methods, treatment of goodwill and R&D cost methods, valuation bases for fixed assets, and cost of inventory methods. A table of empirical finding is shown in the next page.

Items	International Accounting Standards	Companies' accounting policy				
		Indonesia (8 companies)	Malaysia (7 companies)	Philippines (12 companies)	Singapore (20 companies)	Thailand (13 companies)
Valuation of fixed assets	Historical cost (IAS 16)	<ul style="list-style-type: none"> Historical cost(8) 	<ul style="list-style-type: none"> Historical cost (3) Historical Cost & Revaluation(4) 	<ul style="list-style-type: none"> Historical cost (12) 	<ul style="list-style-type: none"> Historical cost (20) Historical Cost & Revaluation (3) 	<ul style="list-style-type: none"> Historical cost (13) Historical Cost & Revaluation (1)
Depreciation method	Straight line method Balance method sum-of-the units method (IAS 16)	<ul style="list-style-type: none"> Straight line method (6) Balance method (1) SL & Balance method (1) 	<ul style="list-style-type: none"> Straight line method (7) 	<ul style="list-style-type: none"> Straight line method (10) Balance method (1) SL & Balance method (1) 	<ul style="list-style-type: none"> Straight line method (17) Balance method (1) SL & Balance method (2) 	<ul style="list-style-type: none"> Straight line method (13)
Valuation of inventory	Lower of cost and net realizable value (IAS 2)	<ul style="list-style-type: none"> Lower of cost and net realizable value (7) N/A (1) 	<ul style="list-style-type: none"> Lower of cost and net realizable value (5) Lower of cost and market value (1) N/A (1) 	<ul style="list-style-type: none"> Lower of cost and net realizable value (10) N/A (1) 	<ul style="list-style-type: none"> Lower of cost and net realizable value (19) N/A (1) 	<ul style="list-style-type: none"> Lower of cost and net realizable value (12) Lower of cost and market value (1)
Cost of inventory	FIFO basis Weighted average basis LIFO basis (IAS 2)	<ul style="list-style-type: none"> FIFO (3) Weight average (3) FIFO &WA (1) N/A (1) 	<ul style="list-style-type: none"> FIFO (1) Weight average (3) FIFO &WA (2) N/A (1) 	<ul style="list-style-type: none"> FIFO (5) Weight average (4) FIFO &WA (1) N/A (2) 	<ul style="list-style-type: none"> FIFO (10) Weight average 9) N/A (1) 	<ul style="list-style-type: none"> FIFO (3) Weight average (5) FIFO &WA (1) FIFO,WA,Special identification (1) N/A (3)
Goodwill	Write off Amortization (IAS 22)	<ul style="list-style-type: none"> Amortization (2) N/A (6) 	<ul style="list-style-type: none"> Amortization (2) Write off (2) N/A (3) 	<ul style="list-style-type: none"> Amortization (5) N/A (7) 	<ul style="list-style-type: none"> Write off (5) Amortization(5) taken into cap rsv (4) debit to rev rsv (1) N/A (5) 	<ul style="list-style-type: none"> Amortization (4) Write off (1) N/A (8)
Research and development	Amortization Write off (IAS 38)	<ul style="list-style-type: none"> Write off (1) N/A (7) 	<ul style="list-style-type: none"> Amortization(1) Write off (2) N/A (4) 	<ul style="list-style-type: none"> Amortization (2) N/A (10) 	<ul style="list-style-type: none"> Amortization (1) Write off (9) Amrt & WO (2) N/A (8) 	<ul style="list-style-type: none"> Amortization (1) Write off (1) N/A (11)

6.7.1 Indonesia

Eight companies were selected for our sample. All of the companies' financial statements are prepared under the historical cost convention modified to include the revaluation of certain fixed assets and comply with the applicable approved accounting standard in Indonesia. The results are as follows:

- The valuation of fixed assets in all companies is stated at historical cost.
- Three methods are used in depreciation. They are the straight-line method, which is used by six companies; the balance method, which is used by one company; and both the straight line and balance method, which is used by one company.
- In the cost of inventory, three companies use First In First Out (FIFO), three companies use weight average basis, one company uses both weight average and FIFO basis, and one company do not disclose its methods.
- All companies value inventory using valuation at the lower of cost and net realizable value, except one company who does not disclose its methods.
- For goodwill, only two companies disclose their method and they use amortization. The rest of the companies do not disclose their methods.
- In the treatment of research and development expenses, only one company uses the write off method. The rest of the companies do not disclose their methods.

Based on the information above, certain methods are used uniformly by companies. They are cost valuation in the valuation of fixed assets, the straight-line method in depreciation, and valuation at lower of cost and net realizable value in inventory valuation. The variety of method occurs in the cost of inventory, so that it is difficult to infer what method is used heavily for this item. However, FIFO and weight average basis seem more favorable for the companies in the cost of inventory. The problem arises in the goodwill and research and development treatment due to the lack of disclosure.

6.7.2 Malaysia

In Malaysia, there are eleven companies classified in technology or electronics. From these companies, seven companies were selected for our sample. All the companies' financial statements are prepared under the historical cost

convention modified to include the revaluation of certain fixed assets and to comply with the applicable approved accounting standard in Malaysia. The results are as follows:

- In the valuation of fixed assets, three companies stated the fixed assets only at cost, and four companies use both at cost or revaluation value.
- The inventory valuation method was disclosed by six companies, five of them value their inventory by using the lower of cost and net realizable value, and one company uses the lower of cost and market value. Only one company does not disclose its method.
- In the cost of inventory, only one company uses FIFO, four companies use weighted average basis, and one company uses both FIFO and weighted average basis. One company does not disclose its method.
- All companies depreciate assets based on a straight-line method with a different useful life for different types of assets or companies.
- In the treatment of goodwill, there are only four companies who disclose this item, where two of them amortize the goodwill within a certain period, and two others write it off directly subject to yearly reviews done by the directors. Three companies do not disclose their methods.
- Only three companies disclose research and development expenses. One company amortizes the expenses and two companies charge it directly to the income statement in the year it is incurred. Four companies do not disclose their methods.

Certain methods are used rather uniformly in the sample companies. They are historical cost in valuation of fixed assets, straight-line method in depreciation, and valuations at lower of cost and net realizable value in inventory valuation. For cost of inventory, the companies use both FIFO and weighted average basis. The companies use both amortization and write off in goodwill treatment, so that it is difficult to judge what is the favourable method that is most used by companies. Four companies do not disclose their treatment of research and development expenses.

6.7.3 Philippines

In the Philippines, we investigate twelve companies classified as technology or electronics. All the companies' financial statements are prepared under the

historical cost convention modified to include the revaluation of certain fixed assets and comply with the applicable approved accounting standard in the Philippine. The results are as follows:

- All companies value their fixed assets by using historical cost.
- In the treatment of depreciation, ten companies use a straight-line method, one company uses the balance method, and one company uses both the straight line and balance method.
- In the basis of cost of inventory, five companies use FIFO, four companies used weight average basis , and one company uses both weight average and FIFO basis. Two companies do not disclose their methods.
- Ten companies value their inventory by using valuation at the lower cost and net realizable value, and two other companies do not disclose their methods.
- For goodwill, five companies amortize the goodwill and seven companies do not disclose their methods.
- For research and development expenses, two companies amortize the cost and the rest of the companies do not disclose their methods.

In the Philippines' case, companies use certain methods rather uniformly. They are historical cost in valuation of fixed assets, the straight-line method in depreciation method, and valuations at lower of cost and net realizable value in inventory valuation. In cost of inventory, the companies use both FIFO and the weight average basis. Ten and seven companies do not disclose their treatment of research and development expenses and goodwill, respectively.

6.7.4 Singapore

There are about sixty companies that are classified as technology or electronics. From these companies, twenty companies are selected for our sample. All the companies' financial statements are prepared under the historical cost convention modified to include the revaluation of certain fixed assets and comply with the applicable approved accounting standard in Singapore, US, and Hong Kong. The results are as follows:

- The valuation of fixed assets in sixteen companies is stated at historical cost, three companies are stated at cost for some assets and at valuation for other certain assets, and only one company is stated at lower cost.

- The treatment of depreciation covers the straight-line method, which is used by seventeen companies and the balance method, which only used by one company. Two companies use both the straight line and balance method.
- For cost of inventory, ten companies use FIFO, nine companies use weight average basis, and one company does not disclose its method.
- All the sample companies value the inventory by using valuation at the lower of cost and net realizable value, except one company which does not disclose its method.
- For goodwill, five companies write it off, five companies amortize the goodwill, five companies use other methods, and five companies do not disclose their methods.
- In the case of research and development expenses, nine companies write it off, one company amortizes it, two companies use both write off and amortization, and eight companies do not disclose their methods.

Based on the above, certain methods are used rather uniformly by companies. They are cost valuation in valuation of fixed asset, the straight-line method in depreciation, and valuations at lower of cost and net realizable value in inventory valuation. In cost of inventory, the companies mostly use both FIFO and the weighted average basis. The variety of methods occur in the goodwill treatment, therefore it is difficult to judge what is the favourable method that is used by companies. Eight companies do not disclose their treatment of research and development expenses, yet it seems that many companies prefer to write it off.

6.7.5 Thailand

In Thailand, we investigate thirteen of thirty companies that are included in selected industries. Most of the information about the companies is collected from interim financial statements that are available at the Thailand Stock Exchange. All of selected companies provide the financial statement and the notes to the financial statements in this interim financial report. Seventeen companies from the total selected companies do not disclose the accounting principles used in the notes to the financial statements, mostly from the communication industry, as in this industry such information is not required. From their disclosure, it was found that all the financial statements in the

sample companies are prepared in accordance with GAAP in Thailand, or Standards set by ICAAT. The results are as follows:

- In the valuation of fixed assets, twelve companies disclose their fixed assets at historical cost and one company values its assets based on historical and valuation cost.
- The treatment of depreciation that is disclosed by thirteen companies is all calculated using the straight-line method.
- All the companies value their inventory by using valuation at the lower of cost and net realizable value.
- The basis of cost of inventory used varies between the ten companies that disclosed their method. Three companies use FIFO, weight average basis is used by five companies, one company uses both FIFO and weighted average basis, and one company adds a specific identification basis beside FIFO and weighted average basis. Three companies do not disclose their methods.
- Disclosure about goodwill is only available for five companies. One company charges the goodwill directly into expenses, and four companies amortize goodwill in different years. The other eight companies do not disclose their methods.
- Only two companies mention research and development expenses in their notes to the financial statements. One company charges directly the expense in the period on which they are incurred and one company amortizes the expense within 5 years. The rest of the companies do not disclose their methods.

In Thailand, certain methods are used uniformly. They are historical cost in valuation of fixed assets, the straight-line method in depreciation method, and valuations at lower of cost and net realizable value in inventory valuation. In cost of inventory, the companies use both FIFO and a weighted average basis. Four companies use amortization instead of writing off the goodwill, but there are eight companies who do not disclose the method. The treatment of research and development expenses is difficult to analyze since most of the companies do not disclose their methods.

6.8 Comparison Between IAS and the Companies' Accounting Principles

In Indonesia, most of companies' accounting principles comply with IAS, as can be seen in the methods used for valuation of fixed assets, depreciation, valuation of inventory, and cost of inventory. In goodwill and research and development expenses, several companies use amortization and write off method respectively and, in this case, all the methods are compliance with IAS. However, it is very difficult to infer that the all companies comply with IAS, since most of the sample companies do not disclose their methods. In certain cases, it seems that national harmonization has taken place in Indonesia since we can see that many companies are using the same methods.

In Malaysia, most of companies' accounting principles comply with IAS. Some differences occur in the valuation of fixed assets and inventory. In valuation of fixed assets, some companies use the revaluation method beside the historical cost method. In valuation of inventory, some companies use the lower of cost and market value. In goodwill and research and development expenses, the companies use both the amortization and write off methods, which are in compliance with IAS. In the valuation of inventory, depreciation method, and cost of inventory, all companies comply with IAS. Although there is lack of information for several items, in certain part there is uniformity in the methods used by the companies.

In the Philippines, some companies' accounting principles comply with IAS, especially for valuation of fixed assets, depreciation, valuation of inventory and cost of inventory method. For goodwill and research and development expenses, the Philippines companies use only the amortization method instead of writes off and, in this case, all of them comply with IAS. Even though several companies do not disclosed their methods, however, in general it seems the national harmonization has taken place as many companies use the same method.

For goodwill, Singapore companies use five methods and within these methods there are two methods that comply with IAS, these are write off and amortization methods. Therefore, it can be inferred that, in general, companies' accounting principles are in compliance with IAS. From a practical point of

view, it seems that national harmonization is occurred in Singapore, although there are three GAAPs used by companies, such as Singapore GAAP, US GAAP, and Hong Kong GAAP. Although several companies do not disclose certain methods, but as a matter of fact in general many companies are using the same methods. Therefore, national harmonization is taken place in Singapore.

In Thailand, most of the companies' accounting principles comply with IAS although there is one additional method beyond IAS. However, this is not significant since only one company uses this method in the cost of inventory. For goodwill and research and development expenses, the companies use both amortization and the write off method, which is in compliance with IAS. All companies' methods mostly comply with IAS for the valuation of inventory, depreciation method, and cost of inventory. Therefore, since all companies use the same methods, it seems that national harmonization has occurred in Thailand despite many companies not disclosing certain item, such as research and development expenses.

6.9 Summary

The progress of accounting harmonization in ASEAN region depends on the effort of each of the ASEAN countries. From five countries that we investigated, we can see how far the effort toward harmonization improved in this region. In Indonesia, the starting point of the focus on accounting harmonization came from the question from the international investor about the Indonesian Accounting Standards. They questioned whether Indonesian accounting standards were in compliance with IAS. With loan from World Bank at the beginning of 1990's, the IAI decided to adopt the IAS with adjustments if necessary.

In Malaysia, accounting standards and reporting practices originated in the UK. IAS has taken over as major force since 1970's. Most of the IAS have been adopted or were under consideration in Malaysia with only few exceptions. In the Philippines, the GAAP was influence by GAAP in USA. Recent development shows that the guidelines of the IAS have been taken into consideration.

In Singapore, all IASs are examined for propriety of adoption in the Singapore context, and most of IAS was adopted by the end 1995. Some IAS have been amended to be more relevant for the national regulations, but the amendments generally are not significant. In Thailand, the accounting standards were heavily influence by the US GAAP. The government plays significant role in the accounting regulation in Thailand. Nevertheless nowadays Thailand accounting standards reflects significant IAS influence.

To find the financial statement of companies in ASEAN countries on their website is quite difficult. Not all companies willingly make their financial statements public. Most of the companies still think that the financial statements are one of the company's secrets. Some of them only put up the balance sheet and income statement report. They do not publish any other information, including the notes to the financial statement. We could only access eight companies in Indonesia, seven companies in Malaysia, thirteen companies in Philippines, twenty companies in Singapore, and thirteen companies in Thailand.

From the empirical study, it was found that all the financial reports are prepared according to the accounting standard and principles approved in each country. Certain methods are used uniformly. The valuation of fixed assets is usually based on historical cost and in some cases the valuation method is added to some certain assets. Depreciation costs are calculated on a straight-line basis, and valuation on inventories is at the lower of cost or net realisable value. For cost of inventory, most of the companies use FIFO and the weighted average method. Methods used in valuation of goodwill and treatment of Research and Development cost are hard to analyze, since not all companies have these accounts or disclose the method they use.

Chapter 7 Analysis

This chapter performs the thesis' analysis which covers three main analysis namely advantages and disadvantages of accounting harmonization analysis, the process and the degree of accounting harmonization analysis at three level namely international level, regional level, and national level, and the option analysis.

7.1 Advantages and Disadvantages of Accounting Harmonization Analysis

From the study on advantages of accounting harmonization, it is found that the advantages are saving cost in term of time and money, enhancing comprehensiveness and comparability of cross national financial reports, wide spread dissemination of high quality accounting standards and practices, and giving provision to low cost financial accounting standards to countries with limited resources. These advantages are also related to the ASEAN countries at the regional level.

Although a financial crisis hit the ASEAN region lately, but this region still became one of the potential markets in the world. It can be seen that many MNEs invest in this region either through a regional capital market or establish subsidiaries. Accounting harmonization will be very beneficial for the ASEAN region due to giving an advantage as cost saving in terms time and money. For the MNEs that have several subsidiaries within this region, they prefer to lower the costs and time of consolidating the financial reports. On the other hand, for the MNEs which submit their financial reports and list their companies in the ASEAN capital markets, they do not have to adjust their financial reports to the local standards.

Accounting harmonization also increases comprehensiveness and comparability of cross-national financial reports within this region. As a result, it will support financial analysts, either from inside or outside the ASEAN region doing the analysis and making recommendations to global investors. Comparability would eliminate the current misunderstanding about the reliability of national financial reports to the flow of regional and international investments. Accounting harmonization removes barriers to regional and international

capital flow by reducing differences in financial reporting requirements for participants in the capital markets.

Another advantage of accounting harmonization, in this case regional harmonization in ASEAN region, is to promote high quality ASEAN accounting standards and practices within this region and improve common financial reporting language within ASEAN region. Finally, high quality, comprehensiveness, and comparability of accounting standards will increase the confidence of capital providers and other interested parties contributing to the economic development of ASEAN region.

On the other side, there are some disadvantages of regional harmonization. Different cultures in each ASEAN country makes it difficult to accept and adopt foreign accounting standards. The diverse legal situations among ASEAN countries also becomes a disadvantage to accomplishing regional harmonization. A particular standard may not be in the best interest of all countries.

The main users of accounting information differ among countries. In some countries, the main user could be the investor, for other countries the main user could be the tax authorities or the government. These different users require different information. Investors need information which is relevant to investment decisions. The tax authorities need information that in line with tax regulations. The governments need information produced with national standardized planning in mind. Employees need information regarding the internal of the company such as the management control system. It is difficult to make a standard that can satisfy and accomplish all these requirements. In this case, a standard could be very flexible and give some alternatives for the financial report preparers.

The process of setting a standard, in this case the international standard, is very time consuming. From the first step, until it is approved and, finally, applied, a standard can take place in years. It could be that the standard that was so important when it was proposed is not important or suitable anymore by the time it is approved, since the globalization is speeding up and changes can happen in minutes.

For the ASEAN region, the obstacle in pursuing accounting harmonization is based on the backgrounds of the member countries. From a historical perspective, most of the ASEAN countries have a different colonial background and this background usually influences the accounting standards used. Malaysia and Singapore follow the accounting standards of the United Kingdom, while Indonesia, the Philippines and Thailand follow the standards of the United States.

From the institutional background, significant differences in institutional mechanisms and regulations between ASEAN countries serve as barriers to regional harmonization. These differences were associated with differences in financial reporting practices. The differences at the governmental level lead to difficulties since government agencies have different objectives from professional bodies.

The other obstacle is that although ASEAN countries are situated in the same region, Southeast Asia, there are several differences regarding the culture and environment, such as the language, legislative practices, and government's priorities. These differences automatically lead to different accounting practices within this region.

These obstacles affect the process of standard setting in each country and accounting developments from country to country will differ. These obstacles affect each ASEAN country when adopting the IAS. However, the advantages of regional accounting harmonization are greater than the disadvantages. Therefore, it is beneficial for the ASEAN region to pursue regional harmonization.

7.2 The Process and the Degree of Accounting Harmonization Analysis

7.2.1 The International Level Analysis

Several organizations are involved in the process of international harmonization, such as IASB, OECD, ISAR and IFAC. However, the main actor in pursuing international harmonization is IASB, formerly known as IASC. Several efforts have been made by IASB to promote IAS, such as persuading the stock exchange institutions, particularly IOSCO and its member

the SEC, to accept financial statements prepared in accordance with IASs for multinational registration. As a result, such statements are already accepted on several exchanges; for example, most exchanges in Europe, New York, Tokyo, and Toronto. One subsequent development is that in May 2000, IOSCO recommended its members to use IAS. In June 2000, finally, European Commission proposed that all listed companies in the EU should be required to prepare their consolidated financial statements using IAS. This is excellent progress regarding IAS.

7.2.2 The Regional Level Analysis

The reason behind accounting harmonization in ASEAN region is to provide the member countries with more qualified accounting standards and to attempt to gather the trust of international investors to invest their capital in the countries. Another important reason is the commitment of ASEAN to push ahead with their economic integration agenda to position the region in the increasingly competitive global economy. ASEAN needs to increase economic co-operation, such as increasing the free movement of goods, labour, and capital, and eliminating or reducing trade barriers. The harmonization of accounting standards in this region will simplify the accounting reporting that can be approved and applied in the region.

AFA is an organization of accounting bodies of its member countries of the ASEAN. The Federation originally intended to provide technical services to its member bodies in the formulation and adoption of accounting and auditing standards and practices. However, with the ongoing globalization of services, instead of creating new standards, AFA encourages its members to go for harmonization of standards and practices based on issuance of the IASB. According to prior research, AFA failed to achieve regional harmonization. Beyond the obstacles presented before, we have identified several difficulties faced by AFA.

In the process of accounting harmonization at the international level, several bodies are involved, such as OECD, IFAC, ISAR, and IASB as the main body. This is an advantage since many bodies are concerned and take part in the process of achieving harmonization. The same situation could be found in Europe where there are several bodies involved and concerned about regional

harmonization, namely the EU, EFRAG, and FEE. In contrast, there is only one body, AFA, in the ASEAN region that makes an effort to achieve accounting harmonization.

AFA is less developed in comparison with the regional accounting bodies in Europe. The ASEAN countries backgrounds, which is that of developing countries, also effects the development of AFA. As we know, most of the ASEAN countries are still struggling to overwhelm the political and economic crisis, beside the fact that most of the ASEAN countries are either developing or under developed countries. In contrast, all the bodies in Europe that are involved in the harmonization process are well developed since they have been established for many years. Also the countries within this region are well developed in the political and economic sectors.

An interesting development of accounting harmonization in Europe occurred when Europe's stakeholders recently formed EFRAG. The aim of this body is to give a pro-active contribution to the work of IASB, to advise the Commission on the technical assessment of IASB standards and interpretations for application in Europe, and to advise on changes to the accounting directives and provide a forum for interpretation and implementation problems. Although the EU is well-developed body, they still need another organization to push harmonization. Conversely, this is not found in ASEAN region. There are no 'innovations' from AFA to push regional harmonization.

Finally, it seems very difficult for AFA to achieve regional harmonization since it depends on the economic and political development in each country. Although CAPS was formed as an initial effort to achieve regional harmonization, the effort is still far from success. To challenge the enormous growth of international business, AFA encourages the member to go for harmonization of standards and practices based on issuances of the IASB and the IFAC. Therefore, it is very important to study accounting development in each ASEAN country.

7.2.3 The National Level Analysis

Originally, the development of accounting standards in each ASEAN country was different. In Indonesia, the first codified, generally accepted accounting principles relied heavily on the US's GAAP. In Malaysia, as well as Singapore,

the accounting standard and reporting practices originated in the UK. In the Philippines and Thailand, most of accounting standards are adopted from the US. In line with their economic development, these countries developed and revised their standards into comprehensive and qualified standards that would be more accepted by the investment world.

All the countries in ASEAN adopt IAS as domestic regulations or draft domestic regulation that incorporate the accounting methods suggested in IAS or adopt IAS with more or less modifications so that the standards could fit their own countries. Indonesia decided to harmonize its accounting standard in 1994, when the IAI issued the book of Financial Accounting Standard 1994. Since the first release of the book, IAI continues to develop and revise or add new statements or interpretations of the standards. Malaysia began to comply with IAS standards in 1970s. Singapore started to adopt IAS in 1977, and the Philippines and Thailand have also adopted IAS. It seems that the ASEAN countries are aware that it is beneficial to have accounting standards that comply with IAS.

The ASEAN countries chose to adopt IAS as a basis for their national accounting regulations. They believe by using IAS, foreign investors will have the confidence to invest in this region. This effort is in line with the enormous development of the economic sector in this region. However, inspite of financial problems in this area, ASEAN represents one region that has huge potential market.

ASEAN countries lack a well-developed and resource-laden agency capable of undertaking research into accounting regulatory issues. For example in Indonesia, although the IAI was founded in 1957, this institution only produced the first codified standards on 1973. Most of the members of the institute work voluntarily. It means that they do not give full attention to developing the accounting standards. In Malaysia, the main body for establishing accounting standards, MASB, was just established in 1997. Even though the MIA and MACPA were established in 1950's, their existence was only as a registration body for almost 20 years. In this situation, it is better adopt an available standard such as IAS, since this standard is flexible and neutral compared with the national standards of some other country. The standard is flexible means that IASs are preferable to more standardized accounting requirements of any

one country. They provoke less resistance from financial statement preparers in adoptive countries. The standard is neutral means that IAS ought to represent accounting methods that are acceptable internationally rather than in just one country. It would, therefore, be less difficult to justify the adoption of IAS from a political standpoint.

The perception holds that adopting IAS will enhance greatly the credibility of financial statements produced by domestic companies for largely international users. There are strong reasons why these countries use IAS, especially Malaysia, Singapore and Thailand. These three countries are competing to become the foremost financial center in the region. It is, therefore, no coincidence that the capital markets in these countries are the largest and most well developed in ASEAN. Singapore is already a well-known country that presently has a well developed financial sector. The Malaysian government has announced its intention to make the country an important regional financial player. Thailand is an important regional banking center and the Thai government is aiming to transform the capital city, Bangkok, into an international banking center serving the entire Indochina region. In the case of Indonesia, regulatory interest in accounting standards has been stimulated by enormous developments in the Indonesian capital market since the government implemented deregulation measures in 1988. The market capitalization and volume turnover of the Jakarta Stock Exchange has grown by over 1000 percent.

For the countries that adopt IAS within ASEAN region (i.e. Indonesia, Malaysia, Singapore, and Thailand) the professional accounting bodies have the leadership role in determining detailed accounting standards. Consequently, the national professional bodies in these countries focus their efforts on gaining acceptance for IAS as a basis for national standards. In contrast, accounting standards setting in the Philippines is no longer exclusively in the hands of the accounting profession since the standards setting agency includes representative from various government and private-sector groups.

7.3 The Analysis of Institutional Bodies of Accounting in ASEAN

The actors in the standard-setting process within the ASEAN region can be divided into two categories, namely governmental bodies and private bodies.

These bodies work closely to regulate the accounting standards that can be accepted by all interested parties. The process of accounting standard setting is generally quite similar, yet differences still exist especially with respect to the institutional bodies that differ among ASEAN countries. The tables below show the institutional bodies involved in the process of standard-setting.

Government Bodies

Organization	Indonesia	Malaysia	Philippines	Singapore	Thailand
Company law administrator	Investment Coordinating Board (BKPM)	Registrar of Companies	Securities and Exchange Commission	Registrar of Companies and Businesses	Ministry of Commerce-Commercial Registration
Securities market regulators	Capital Market Supervisory Agency (Bapepam)	Securities Commission	Securities and Exchange Commission	Monetary Authority of Singapore	Securities and Exchange Commission
Accounting Law administrator	-	-	-	-	Ministry of Commerce-Commercial Registration
Accountants registering body	Ministry of Finance	Malaysian Institute of Accountants	Professional Regulation Commission – Board of Accountancy	Public Accountants Board	Ministry of Commerce – Board of Supervision of Auditing Practice
Government sector bodies involved in standard-setting	Bank Indonesia Directorate of Taxation	Accountant General's Department of Malaysia	The Bangko Sentral ng Phil, The Insurance Commission, The Public Svc Commission, The Bureau of Internal Revenue	Ministry of Finance	Bank of Thailand

Table 7.1: Government bodies involve in standard setting

Source: based on Saudagaran and Diga, 2000, table 1, p. 4, modified and developed by authors

Private Bodies

Organization	Indonesia	Malaysia	Philippines	Singapore	Thailand
Accounting Standard Setting Agency	Indonesia Institute of Accountants	Malaysia Accounting Standard Board	Accounting Standards Council	Institute of Certified Public Accountants of Singapore	Institute of Certified Accountants and Auditors of Thailand
Stock Exchange Authority	Jakarta Stock Exchange and Surabaya Stock Exchange	Kuala Lumpur Stock Exchange	Philippine Stock Exchange (Manila and Makati)	Stock Exchange of Singapore	Securities Exchange of Thailand
Professional Accounting Body	Indonesia Institute of Accountants	Malaysian Association of Certified Public Accountants	Philippine Institute of Certified Public Accountants	Institute of Certified Public Accountants of Singapore	Institute of Certified Accountants and Auditors of Thailand
Private Sector Body involved in Standard-setting	Indonesia Chamber of Commerce and Industry	Malaysian Chamber of Commerce and Industry	Financial Executives Institute of the Philippines	Singapore Federation of Chambers of Commerce and Industry	Thai Chamber of Commerce
Audit Standard-setting	Indonesia Institute of Accountants	Joint MIA and MACPA	Auditing Standards and Practices Council	Institute of Certified Public Accountants of Singapore	Institute of Certified Accountants and Auditors of Thailand

Table 7.2: Private bodies involve in standard setting

Source: based on Saudagaran and Diga, 2000, table 2, p. 5, modified and developed by authors

The Main Actors in the Standard-Setting Process

Organization	Indonesia	Malaysia	Philippines	Singapore	Thailand
Private	Indonesia Institute of Accountants and Stock Exchanges	Malaysia Accounting Standard Board	Philippine Institute of Certified Public Accountants	Institute of Certified Public Accountants of Singapore	Institute of Certified Accountants and Auditors of Thailand
Government	Bapepam	Accountant General's Department of Malaysia	Securities and Exchange commissions	Ministry of Finance	The Ministry of Commerce Securities and Exchange Commission

Table 7.3: The main actors in the standard setting process

The governmental bodies influence countries differently in the standard setting process since their own legislation system affects each country. In Indonesia, although IAI has the authority to set the standards, the Ministry of Finance has the authority over accounting law. In the standard setting process, BAPEPAM supports IAI to establish accounting standards and establish capital market accounting standards. In Malaysia, the Accountant General's Department of Malaysia has the power to regulate and enforce the accounting standards in order to improve public sector accountability. In Singapore, the Monetary Authority of Singapore has the authority to regulate all monetary, banking and financial aspects. Through Ministry of Finance the Singapore government influences accounting standard setting by placing their members in the due process committee.

In Thailand, the Ministry of Commerce has authority over legal administration and the Thai Internal Revenue Department has strong influence over accounting practices in order to use the same accounting policies for financial and tax purposes. In the Philippines, the governmental body also has the power to enforce and approve changes in accounting policies. In Thailand and the Philippines, SEC, as a major actor, has the authority to extend financial reporting regulation. Nevertheless, the governments seem to have the same

opinion on the importance of national harmonization. They support the process towards national harmonization. For example, they give comments and opinions during the standard-setting process and control whether the companies' accounting standards comply with national accounting standards.

In Indonesia, Singapore, and Thailand, professional accounting bodies are responsible for setting up and establishing both accounting and audit standards. In Malaysia and the Philippines, the independent bodies, which were formed by the professional accounting bodies, promulgate both accounting and auditing standards. The stock exchange authority is responsible determining which companies will be allowed to list on the stock exchange. The stock exchange has their own regulations for the company to increase companies' disclosure and accountability. This body supports accounting standard setting process by making comments and giving opinions during due process. The Chamber of Commerce, as a representative of the business community, gives comments and opinions during due process in order to protect their businesses from unfavourable accounting standards. Exemption occurs in the Philippines where there is a body called the Financial Executives Institute of the Philippines, instead of the chamber of commerce. This body, which not only consists of the business community but also academics and public servants, has the same functions as the Chamber of Commerce in other countries.

The professional accounting bodies in each country, except Malaysia, are one of the main actors in the standard setting process. However, the role of MASB in the standard setting process is the same as the role of professional accounting bodies in other countries. MASB prepares and takes charge of accounting standards drafts until the draft is approved. It extends national accounting standards so that the standards are applicable to all interested parties. This body also plays significant role in determining whether IAS is relevant to their countries. If IAS doesn't fit their countries, then they consider some modifications, so that the standards could be applied appropriately.

The cooperation between both private and governmental bodies is the key to success in accounting standard-setting. The private sector bodies need support from the government in order to establish accounting standards and ensure that the standards applicable to the national condition. On the other hand, governments are concerned about the accounting standard in order to increase

public sector accountability. Although it is difficult to infer that ASEAN countries will successfully achieve harmonization via IAS, the enormous development towards harmonization is inevitable. Recently, almost all the accounting standards in this region more or less comply with IAS.

7.4 Accounting Harmonization from Empirical Study

From the six valuation methods that we used to examine the sample companies, two valuation methods have a lack of information, namely goodwill and research and development expenses. For goodwill case only half of the sample companies disclosed their methods and for research and development expenses only about one-third of the sample companies disclose their methods. Conversely, many sample companies disclosed the other four valuation methods clearly.

Most of the sample companies use three certain valuation methods a lot. They are historical cost in the valuation of fixed assets, the straight-line method in the depreciation, and lower of cost and net realizable value in the valuation of inventory. Although there are several companies that do not disclose the methods, this is not significant since the amounts are relatively small. However, although most of companies only use historical cost to value the fixed asset, several companies use both historical cost and revaluation method together. In the cost of inventory, FIFO and the weight average basis are used frequently. In this case, the number of companies that use FIFO is the same as the number of company that use the weight average basis. Regarding goodwill and research and development, we have less information since many companies do not disclose these items. However, for the companies that do disclose these methods, goodwill and research and development expenses comply with IAS because they amortize and/or write off the items.

Regardless of the differences between companies in using accounting standards, most of the methods used by companies comply with IAS except for a few methods such as revaluation in fixed asset valuation, lower of cost and market value in inventory valuation, special identification in cost of inventory, and other methods beyond amortization and write off in goodwill treatment. However, the numbers of companies that used these methods is not significant. After all, based on our analysis, we found that in many respects most

companies use the same methods and these methods comply with IAS. On the other hand, a few companies use the methods beyond IAS. Hence, it is too early to infer that harmonization has taken place within ASEAN countries.

7.5 The Option Analysis

7.5.1 The Free Market Approach to Harmonization

The first option, the free market approach, assumes that harmonization occurs within ASEAN by allowing market forces to order which financial reporting will prevail. No official body is formed as the main actor to achieve regional harmonization; consequently, there is no need for AFA to be in charge of the standard setting anymore. Since there is no official body that promulgates official standards, companies may select the most appropriate financial reporting practices. As a result, they will select the standards that will benefit them. Nonetheless, this option will benefit investors or owners (capital providers), since the regulation in capital market usually focuses on capital providers. On the other hand, this option supports the ASEAN policy makers' intentions since this option is consistent with policies of economic deregulation, privatization and market reform currently being pursued in ASEAN. It is also necessary to supervise prudentially and provide appropriate regulation so that the market will always be maintained and strengthened. The disadvantage of this option is since companies could freely choose the standard, this option not likely support regional harmonization. The development of each capital market is different and the regional capital market is less developed than the European and US capital markets. Furthermore, not all ASEAN countries have a capital market, so it is difficult to use this option. Therefore, maintaining and strengthening the ASEAN regional capital market is very difficult. According to Saudagaran and Diga (1997), ASEAN's companies have less disclosure than Europe's and the US', so it is difficult to use this option.

7.5.2 Adoption of an EU Harmonization Model

The second option is to adopt the harmonization model of EU. The ASEAN secretariat will play important role as the main actor for achieving regional harmonization. They need to establish and propose the directives applicable to the member countries. The directives would be enacted into law by each

ASEAN member country and regulation would become law without need for supporting legislation. This option could be supported with the current trend in ASEAN of formulating a common economic policy through multilateral arrangements, such as establishment of the ASEAN Free Trade Area (AFTA). This could encourage harmonization of companies and securities market legislation in ASEAN. Actually, this is not an easy task since several requirements have to be met. ASEAN must have a well-developed regional political infrastructure that provides regional stability. Unfortunately, these requirements could not be found in ASEAN region. Consequently, regional harmonization will move slowly.

Recently, there is a new European independent private organization, known as EFRAG, which represents the main private sector groups closely involved in financial reporting. The main objectives of EFRAG are to give a pro-active contribution to the work of IASB, to advise the Commission on the technical assessment of IASB standards and interpretations for application in Europe, and to advise on changes to the accounting directives and provide a forum for interpretation and implementation problems. This body is very important in order to push the regional harmonization within the European region. Moreover, it seems this body could 'influence' the work of IASB.

When it comes to the ASEAN case, perhaps, AFA could play the same role as EFRAG, which has a special duty to push regional harmonization. However, it is still difficult for AFA since this body is not comprised of different interested parties (such as stock exchanges, financial analysts and financial report maker or internal accountants) so AFA will have less support from regional level especially from these parties. However, this option can be considered for the long term instead of the short term since many problems should be solved and ASEAN organizations have to be developed further. ASEAN could learn from the EU's experiences on how to achieve accounting harmonization and overcome the obstacles. The main advantage of this option is that it could bring together different legal requirements and possibly enjoy adequate statutory authority. Furthermore, this option helps integrate markets among countries. This is in line with the ASEAN objective, where they want to push integrated co-operation among ASEAN countries to improve their position in global competition.

7.5.3 Merger of National Standard-setting Bodies

The third option is to form an accounting supranational body within ASEAN countries. Actually, a supranational body already exists, the AFA. However, the AFA should be developed not only as organization of ASEAN accountants but also become the regional standard setting body. To form a regional standard setting body, the national standard setting bodies should be unified. Therefore, the professional bodies play an important role as facilitators bringing together the standard-setting bodies of ASEAN countries. This supranational body will extend accounting standards so that they are applicable to member countries.

However, there are several possible obstacles. For example, the culture differences between countries affect the professional body in each country. On the other hand, there are several advantages if ASEAN uses this option. The biggest advantage is that the supranational body would produce accounting standards that would probably have a strong ASEAN focus and be more responsive to regional changes. The body would respond quickly to changing commercial demands for information and could be more focused on the urgent needs of ASEAN countries collectively, rather than simply reproducing standards developed by other bodies.

7.5.4 IASB-based Harmonization

The last option is IASB-based harmonization or harmonization via IAS. This option allows individual ASEAN members to adopt IAS. In this option, IASB become the main actor in the accounting harmonization process. Therefore, AFA will either be less important or not involved in the process of regional harmonization since either the government or a national professional accounting body in each country will take over AFA's position in the effort to achieve regional accounting harmonization. Using this option, there will be a low cost institutional option for each country.

The disadvantage of this option is that a conflict between IAS and domestic legislation could take place and it will focus less on ASEAN importance since ASEAN member countries adopt standards directly from IAS.

The regional harmonization process will depend on each country. Therefore, the degree of adoption of IAS will be different among countries. Some of IAS

might not be appropriate for every ASEAN countries. In this case adjustments are very important so that IAS could be applied properly. For example, several countries such as Indonesia, Malaysia, Singapore, and Thailand have adopted IAS selectively and some of their domestic standards have been promulgated where an appropriate IAS did not exist or where current IAS conflicts with domestic legislation. Finally, ASEAN countries should participate more strongly in IASB discussions to ensure IAS is relevant and applicable to these countries.

7.6 Recommendations

Based on the analysis of the options given by Saudagaran and Diga above, we propose the following recommendation to AFA as follows:

- AFA as regional ASEAN body should still responsible of regional harmonization. AFA has to be developed into an ASEAN supranational body so that AFA will have more authority to facilitate regional harmonization. There are several ways to increase AFA's authority can be, such as:
 - Develop AFA's structure so that all the member countries have a representative in the board. These representatives will give effort to pursue the regional accounting harmonization, and most of the requirements of each country could be communicated directly.
 - To develop good relations with the regional capital market and governments from each member country so they could support that AFA's policy. For example, AFA could invite these organizations to give more intensive input and suggestions in the process of standards setting.
- AFA should create a special committee within the organization, which has the primary responsibility regarding regional accounting standards. This committee can operate similarity to EFRAG in the EU. Since AFA has CAPS, this alternative can be also done by developing CAPS's objectives in order to push regional harmonization. CAPS, or the new committee, can adopt IAS with several adjustments for regional requirements.

Chapter 8 Conclusions

8.1 Conclusions

In this chapter, we draw our conclusions based on the analysis from the previous chapters. The conclusion answers all three research issues of our study. In this chapter, we also present suggestions for future research based on this study.

From the analysis of the advantages of accounting harmonization we can conclude that accounting harmonization in ASEAN region is advantageous, though there are some obstacles achieving harmonization. Besides the advantages of accounting harmonization in general, such as cost saving, comprehensiveness and comparability, there are also other advantages to regional harmonization for the ASEAN countries. If the ASEAN region has its own regional accounting standards, it will promote a high quality of financial reporting within the region, and will give confidence to the capital providers and other interested parties to contribute to economic development in the ASEAN region.

We have looked at the process of accounting harmonization at three different levels, the international, regional and national levels. At the international level, the IASB promotes accounting harmonization. The effort has been successful as several international organizations (such as IOSCO, and EU), recognize the standards and recommend to their members to use the standards in preparing the financial reports. Furthermore, other countries or regional bodies, such as ASEAN and its member countries use the standards.

Regional accounting harmonization in ASEAN was initiated by AFA. This is in line with the commitment of ASEAN to push ahead with the economic integration agenda within the region. With the main goal being regional accounting harmonization, AFA has created CAPS to carry out the main duty of developing accounting principles that are applicable to conditions in ASEAN. However, the effort was not successful. With the expansion of business and the economy, instead of creating new standards for the ASEAN region, AFA encourages the member countries to comply their accounting standards with International Accounting Standards that are issued by IASB.

This decision was made taking into considering the fact that to create new standards will require a large effort and funds and take a long time. Encouraging the member countries to comply their accounting standards with the IAS helps the member countries increase the quality of their national accounting standards in a shorter time. Also, if all the member countries comply with the accounting standards of IAS, regional harmonization is achieved and possibly even international harmonization. Therefore, the countries within the ASEAN region play an important role in the regional harmonization process.

The process of accounting harmonization at the national level has been given a great deal of attention in each country in the ASEAN region. All countries in our research consider IAS to be the source of setting the national accounting standards. In Indonesia, the authorized body in standard setting, IAI, is continuing to improve Indonesian accounting standards by looking to the developments of IAS. However, the process is not very successful. From the data we collected, there are only 10 principles that have already complied with IAS from the 59 principles applicable in Indonesia. Indonesian accounting may be different from IAS because of the different rules applicable between the Indonesian standard and IAS. However, the effort towards accounting harmonization is progressing. Currently IAI has issued an exposure draft on Indonesian accounting principles (no. 57) on Provision, Contingent Liabilities and Contingent Assets with considering IAS no.37.

In Malaysia, the process toward compliance with IAS is more convincing than in Indonesia. Even though MASB, as the authorize body in setting the accounting standards, was only established in 1997, the body aims to pursue a policy of internationalisation and harmonization of MASB standards. In the transition arrangement toward a new financial reporting system, in 1998 MASB adopted 24 accounting standards issued by Malaysian accounting professional (MAS), some of which were comply with IAS. MASB has currently adopted nineteen IASs into the Malaysian accounting standard.

In the Philippines, the process of accounting harmonization is also taking place. The ASC has an on-going project to replace existing statements of financial accounting standards with the standards that comply with IAS. ASC has issued six new accounting standards that were effective as of January 2001 and six

outstanding exposure drafts that are expected to be effective between January 1, 2002 and January 1, 2003.

The accounting harmonization process in Singapore has taken place quite a long time. By the end of 1995, most of the IAS standards had been adopted. Some IASs have been amended to be more relevant to the national regulations, but the amendments are generally not significant.

Finally, in Thailand, US GAAP and IAS are the most influential sources on the Thailand accounting standard. Thailand is the only country in the ASEAN region where the government significantly influences accounting development. Nowadays, Thailand's accounting standards are moving toward IAS and, in this case, the government supports the process of adopting IAS. Recently, Thailand has issued ten new accounting standards and nine exposure drafts that are primarily based on IAS.

When we examined the ASEAN countries, we found that their national accounting standards either comply with or are moving towards complying with IAS. It proves that AFA has been successful in encouraging its members to comply their national accounting standard with IAS.

Finally, to answer our research issue regarding the option for ASEAN region to achieve regional harmonization, we suggest that AFA tries to improve its function to become a supranational body by developing AFA's organization structure and establishing good relations with the regional capital market and the governments from each member country. Conducting the standards setting, AFA can establish a new committee, or enlarge the responsibility of CAPS to include the setting of ASEAN accounting standards. In the process of standard setting, the new committee or CAPS can use IAS as the starting point, and make some adjustments if necessary to meet regional situations and conditions. When AFA has become a supranational body, and well known by international accounting organizations, AFA can propose place a representative in IASB. This attempt can increase ASEAN credibility at the international level and issues that arise in ASEAN can be discussed at the international level.

8.2 Suggestions for Future Research

The opportunity to explore and study accounting harmonization in ASEAN is wide open. However, it is not an easy task since a lot of information regarding accounting standards is limited within this region. We realized that this study has limitations. Therefore, we make several suggestions for further research.

First, it is very beneficial to study regional accounting harmonization with an explorative study so as to avoid high level degree of non-available data. It means that surveys, interviews, and other primary data should be used primarily.

Second, the country samples should be increased from only five countries to all ASEAN member countries, including non-members of AFA. This will ensure a comprehensive and holistic outcome of the study.

Third, to measure the degree of accounting harmonization, all industries within this region should be covered to investigate more deeply how far regional harmonization has taken place and to what degree all companies within different industries comply with IAS. Perhaps, statistical methods could also be used to measure the degree of harmonization.

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Indonesia

PT Philips Ralin Electronics Tbk.

PT Metrodata Electronics Tbk.

PT Indosat Tbk.

PT. Indosteel Tbk

PT. Jeewon Jaya Indonesia Tbk.

PT Asahimas Flat Glass Tbk

PT. Multipolar Corporation Tbk.

PT IKI Indah Kabel Indonesia Tbk

Malaysia

AIC Corporation Bhd

Eng Technology Holding Bhd

Lityan Holding Bhd

LKT Industrial Bhd

Sapura Telecommunication Bhd

Hei Tech padu

Unisem

The Philippines

SPI Technology, Inc

Benpres Holding Corporation

Difersified Financial Network Inc

Megaworld Corporation

Metro Pacific Corporation

Globe Telecom, Inc

Philippine Long Distance Telephone Company
Matsushita Electric Philippines Corporation
First Philippines Holding Corporation
Manila Electric Company
Metro Pacific Corporation
Philweb.com Incorporation

Singapore

Data Pulse Technology Ltd
ECS Computer Pte Ltd.
IPC Corporation Ltd
Mediarng.Com Ltd
Singapore Computer System Ltd
Clipsal Industries Ltd
GP Batteries Int. Ltd
Keppel Tele and Tran Ltd
Asti Holding Ltd
Aztech Systems Ltd
SM Summit holdings Ltd
Chartered Semiconductor manufacturing Ltd
PCI Ltd
Creative Ltd
CSA Holdings Ltd
Flextronics Ltd
Elec and Eltek Ltd
Datacraft-Asia Ltd
IDT Holdings Ltd
Fastech Synergy Ltd

Thailand

Hana Microelectronics Public Company Ltd
Delta Electronics (Thailand) Public Company Ltd
Capetronic International (Thailand) Public Company Limited

Berli Jucker Public Company Limited
Telecomasia Corporation Public Company Limited
Loxley Public Company Limited
Shin Satellite Public Company Limited
Shin Corporation Public Company Limited
Thai Telephone & Telecommunication Public Company Limited
Compass East Industry (Thailand) Public Company Limited
Charoong Thai Wire & Cable Public Company Limited
Kang Yong Electric Public Company Limited
Muramoto Electron (Thailand) Public Company Limited