Why Not Allow FASB and IASB Standards to Compete in the U.S.?

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Abstract

This paper discusses arguments for and against introducing competition into the accounting standard-setting process in the U.S. by allowing individual corporations to issue financial reports prepared in accordance with either FASB or IASB rules. The paper examines several arguments supporting the status quo, including (1) the FASB's experience and world leadership in making accounting rules, (2) the increased risk of a "race to the bottom" under regulatory competition, (3) the inability of most users of financial reports to understand the complex technical issues underlying accounting standards, (4) the possibility that IASB’s standards will be diluted to gain international acceptance, allowing additional opportunities for earnings management, (5) the risks of the IASB being deadlocked or captured by interests hostile to business, (6) the costs of experimentation in standard-setting, and (7) economies from network externalities. Arguments examined on the other side include how competition will (1) help meet the needs of globalized businesses, (2) increase the likelihood that the accounting standards will be efficient, (3) help protect standard-setters from undue pressure from interest groups, (4) allow different standards to develop for different corporate clienteles, (5) allow corporations to send more informative signals by their choice of accounting standards, (6) protect corporations against capture of regulatory body by narrow interests, and (7) not affect network externalities at national or global scales.

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