Global reporting standards: the Esperanto of accounting

Like the failed language Esperanto, standard-setters are wrong to try to impose uniform standards on the world. Stella Fearnley and Shyam Sunder


Stella Fearnley


Shyam Sunder

Stella Fearnley is professor of accounting at Portsmouth Business School. Shyam Sunder is James L Frank professor of accounting, economics and finance at Yale School of Management, and president-elect of the American Accounting Association. These views are the authors' own

'Common global standards, if read to mean identical, is an illusory and unobtainable goal,' said Richard Breeden, who served as the chairman of the US Securities and Exchange Commission during 1989-93. Yet, framing clear, uniform accounting standards that yield comparable financial reports across businesses, industries and economies is a long-time dream among accountants, regulators and investors. Like other well-intentioned but misguided proposals this, too, will founder on the rocks of reality; a uniform classification of transactions that occur in diverse environments is logically impossible.

Accounting being the language of business, consider the failed utopian vision of Esperanto. It was proposed in 1887 as an artificially constructed global language to eliminate the difficulties of communicating across the world. Languages are alive with words with their meanings continually entering, evolving and becoming obsolete. Development is bottom-up, driven by users of language, not top-down, controlled by lexicographers. Esperanto failed because its promoters ignored the fundamental nature of language in their search for uniformity.

Repeating the same mistake

Efforts to create International Financial Reporting Standards (IFRS) and converge them with the US accounting standards are repeating the same mistake. Usefulness for making investment decisions – whether to buy, hold or sell shares – is being promoted as the fundamental purpose of financial reporting under the banner of 'fair value' accounting.

The US federal security laws enacted in 1933 have emphasised the investor perspective in the US where corporate law is under the jurisdictions of 50 states. In the UK and many other countries, which have more unified corporate and securities laws, stewardship and accountability of directors are key objectives of financial reporting.

Different financial reporting regimes generate diverse liability regimes. Under the US decision-usefulness model, investors bring class actions against companies and auditors if share price drops, whereas in the UK investors sue for losses to the company. With such fundamental differences between two English-speaking countries presumed to have similar systems, how can one accounting model serve the world?

Furthermore, no two transactions or events are identical. Does uniform accounting mean that any two transactions with any similarity must be treated alike; or that any two transactions with any dissimilarity must be treated differently? Taken to extremes, some transactions and assets will be inappropriately bundled together while others will not fit at all, making accounting classification meaningless. Varying interpretations of transactions in different countries create additional problems.

Uniformity ignores size. Benefits of global standards to very large companies owned and traded in more than one country may be obvious. Imposing the same regime on the majority of listed companies without global aspirations is over-zealous.

Languages, accounting included, develop as social conventions. This is the original meaning of 'generally accepted accounting principles'. Country-specific standard-setters remain accountable to their users and respective governments. Standard-setters with global reach are distant from their constituencies and less accountable to them. Changes in their rules must negotiate a multi-layered, often tortuous path. Is IFRS 'generally accepted' or is it just widely imposed? Imposition and rigidity point to the possibility of IFRS sharing the fate of Esperanto.

A blessing

The impossibility of a universal set of accounting standards to produce a uniform set of financial reports is a blessing. Active exchange and competition among countries to address emerging problems and to devise more attractive financial reporting systems and norms is a more efficient way forward.

The rejection of standardisation will preserve self-respect, judgment and the status of a learned profession for accountants, and allow the dynamic developments of business in various countries to be reflected in their financial reporting.

It is no more possible to create a global rule book for accounting than to replace Monet by Microsoft Paint. In time we will see that there are no simple right answers in accounting: what is true is not simple; what is simple is not true.