

## **International accounting standards – what’s all the fuss?**

Accounting has been in the news a lot recently, including Australia announcing its intention to fall into line with international accounting standards. This puts pressure on New Zealand to follow suit, and our Accounting Standards Review Board is now considering whether we should move the same way.

From an investment perspective, capital is now much more ‘mobile’ than it was a decade ago, with foreign investment tending to be attracted to those countries where there is little corruption, where contracts and the rule of law are respected, and where there is transparency and disclosure. As *The Economist* recently put it: “Behind every great economy, there is good regulation”.

In other words, if you want to attract foreign capital, you need to foster confidence in would-be investors that this is a good place to invest. In addition, any obstacles – such as unnecessary local accounting peculiarities – need to be removed.

Harmonising our accounting standards with those of the rest of the developed world is part of that process. Harmonising accounting standards helps facilitate comparability, which is a key investment issue globally.

For example, if a fund manager wants to invest in, say, Singapore Airlines, it’s easy to see how it stacks up against other Singaporean companies. But, more important is how it measures up against other airlines around the world. Finding that out might not be as straightforward as you’d expect, since their Balance Sheets and Profit & Loss Statements may need to be adjusted before they are directly comparable.

In the past, some companies have been too easily able to overstate their earnings, exploit ‘goodwill’, and underfund their company pension (superannuation) liabilities.

Today, companies find they can’t get away with that. Nissan is a key example. Its liability understatements total some \$US7 billion, meaning for the next 15 years, its profits will be pegged back by \$US300 million a year to rectify the situation.

DIY investors certainly need to proceed with caution, or are probably better off using a fund manager, who has the resources and expertise to work through the issues.

Harmonising accounting standards will remove some of the pitfalls for the unwary or non-professional investor, but not all of them. While most of these issues have been largely absent from New Zealand, any move to bridge the gap between us and the rest of the world has to be good news.

ENDS

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