Standards for Corporate Financial Reporting: Regulatory Competition

Within and Across International Boundaries

Shyam Sunder, Yale University

Abstract

Most financial reporting jurisdictions across the world allow a local monopoly in financial reporting standards for publicly held corporations. In the U.S., for example, the statutory authority over these standards is vested in the Securities and Exchange Commission (SEC), who delegates the task of writing standards to the Financial Accounting Standards Board, retaining an oversight function for itself. In some countries these standards are specified through statutes in varying levels of detail. Few countries permit their corporations to choose among two or more sets of competing standards; monopoly is the reigning norm.

This paper examines regulatory competition as a model for writing and implementing corporate financial standards. Under this model, two or more approved standard setting bodies are allowed to compete for the allegiance of the reporting entities. Each corporation can choose which of the two or more sets of competing standards it wishes to use in preparing its financial reports. Corporations must choose an entire set of standards in toto, and clearly mark the reports with the set of standards used to prepare them. We examine the consequences of such regulatory competition for the quality and efficiency of standards, quality of information provided to shareholders and other interested parties, and the efficiency of corporate governance and managerial actions. A debate on the merits of monopoly versus competitive standards may help direct the formation of national and international regimes for setting accounting standards.

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