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What could be more fundamental than having a single financial language for global business? After all, foreign trade is soaring, as are global capital flows. Companies such as BP Amoco and DaimlerChrysler are trading shares on stock exchanges around the world. At the same time, however, it has become a nightmare for creditors and investors to get reliable and timely financial information in markets such as China or Indonesia. The same goes for reconciling national differences in accounting treatment for key items such as corporate acquisitions or pension liabilities. Remarkably, it is even hard to accurately compare the accounts of companies in the same industry, such as Ford, Toyota, and Volkswagen.

The problem of establishing common international accounting standards illustrates the hurdles Washington will face in strengthening even the most obvious and technical foundations for globalization. In 1993, an intensive effort was mounted by the London-based International Accounting Standards Committee to develop rules that all countries could use. The IASC has just presented its work to the global organization of national securities regulators for their endorsement. Nearly all governments and their agencies appear to be in favor of adopting these standards--except, that is, for the U.S. Securities & Exchange Commission.

MIND-BOGGLING. Unless the SEC approves the proposed standards for use in America, the rules will lack full international legitimacy. In addition, if the SEC does not permit foreign companies that use international standards to list their shares on U.S. exchanges, these corporations will incur high costs to comply with current U.S. requirements--or stay out altogether.

No one argues that the U.S. should lower its standards or weaken its protection of American investors. But some experts, such as Columbia Business School's Trevor S. Harris, say the time has come to give international standards a chance in the U.S. because they are as useful as those in use in America. In fact, U.S. standards can be mind-bogglingly complex, as in the case of the 265 pages devoted to accounting for derivatives. Other U.S. accounting specialists say that some of the international standards--like those relating to mergers and acquisitions--are even better than America's in their economic logic. There's a competitive imperative as well. If the SEC allows foreign companies to list on the New York Stock Exchange using international accounting standards, Richard A. Grasso, chairman of the NYSE, predicts as much as a 20% increase in the Big Board's capitalization--more than $2 trillion worth of shares in such companies as Hoffman-La Roche Inc. and Deutsche Bank.

SEC Chairman Arthur Levitt Jr. and his staff have just started to review the proposed rules and will solicit public comment in a few weeks. While they support the adoption of higher standards abroad, there are signs that they may conclude that it's much too early for the U.S. to sign on. One problem: Many of the new standards lack detail and are therefore subject to wide interpretation, making them inferior to their U.S. counterparts. The regulators also fear that if the SEC allows a foreign company such as Nestle to use what they consider to be less rigorous standards to join the NYSE or NASDAQ, General Motors Corp. and other American companies will demand to use them, too. And there are also important questions about how the new system would function: Who will develop, interpret, and enforce international rules as they evolve? And who will ensure the American-style public involvement in new rule-making?

The SEC is right to be supercautious. After all, the U.S. accounting system has been a bedrock of the world's broadest, deepest, and most liquid capital market. For sure, when international standards are better than ours, we should consider merging them into our own. But the U.S. is better off encouraging international accounting rules to rise to American levels, rather than prematurely endorsing a convergence downward. No one wants to lose new foreign listings, but given the attractiveness of our markets, many foreign companies will still be willing to meet the tougher U.S. standards.

Tim Lucas, director of research for the U.S. Financial Accounting Standards Board, thinks it could take a decade or more for international standards and the rule-setting and enforcement mechanisms to be ripe for U.S. adoption. Given the pressures of globalization, he may be too pessimistic. But it's clear that for the U.S. market, at least, global standards are an important idea whose time has not yet come.

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