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1. International Accounting Standards and Selected Middle East Stock Exchanges

In an effort to generate comparable and reliable accounting information to help investors, creditors and others, each country has developed its own national financial accounting standards. These standards reflect the culture, history, and the characteristics of accounting problems facing that country. In some countries, the professional bodies formulate the financial accounting standards, while in many others governments and regulators establish these standards. As a result, much of the 20th century had witnessed a high degree of variation in the international accounting practices. International accounting diversity was one of the topics discussed in the tenth International Congress of Accountants in 1972. Accounting bodies of some countries attending the meeting were concerned in reducing the degree of variation in international accounting practices. As a result, in 1973, the International Accounting Standards Committee (IASC) was formed. The founders of this Committee included accounting bodies from Australia, Canada, France, Japan, Mexico, Netherlands, West Germany, the United States, United Kingdom and Ireland. Harmonization of accounting standards around the world was one of the main objectives of this Committee. Harmonization can be defined as the process of reducing the degree of variation in international accounting practices.

Once established, the IASC started the process of developing the International Accounting Standards (IASs). The first exposure draft and the first international accounting standard appeared in 1974. In its early years the IASC concentrated on the development of the international accounting standards. The Committee had issued 13 International Accounting Standards between 1974 and 1979. However there was little success, if any, with respect to the harmonization goal because of lack of enforcement. The IASC was a private organization and its members included accounting bodies from various countries. Adoption of International Accounting Standards by different countries was not enforceable by this Committee. Even though the member bodies pledged to cooperate with the IASC, the accounting standard setting bodies of most countries did not adopt these standards during the early years. The two main reasons for this were:

- (a) International Accounting Standards were not comprehensive enough, and
- (b) International Accounting Standards were very flexible. They provided alternative options to accountants to deal with one accounting issue.

During later years the IASC addressed these issues. In 1987 the Comparability Project was undertaken to reduce the number of options allowed by the International Accounting Standards. In 1993, the project was completed and ten of the revised standards were approved.

The International Organization of Securities Exchange Commissions (IOSCO) had been pressuring the IASC to develop a comprehensive set of Core Standards. In 1995, the IASC and the IOSCO's Technical Committee reached an agreement on a work plan for a set of forty Core Standards. Upon successful completion of these standards, IOSCO agreed to endorse IASs in all global markets. The IASC completed the development of these forty Core Standards by 1999. Recently IASC experienced a structural change similar to the structure of Financial Accounting Standards Board (FASB) of the United States. In March

2000, a new IASC constitution was approved and the name of the international standard setting body was changed to International Accounting Standards Board (IASB). The new board (IASB) reports to IASC Foundation and assumed its duties in April 2001.

This paper provides a brief history of international accounting standards and makes a modest attempt to evaluate the adoption of International Accounting Standards for listing purposes by the selected Middle East securities markets. The remainder of this paper is organized as follows: The first section discusses the need for establishing IASs. The second Section outlines the need for IASs in the global securities exchange markets, while the third section discusses this issue for some selected Middle East securities exchanges. The fourth section contains concluding remarks.

2. The Need for International Accounting Standards

As we start the new millennium, international economic activity along with other international activities has been increasing at a very rapid rate. International trade, capital movements between countries, international investment, number of multinational firms, and international bond and equity offerings exhibited a huge growth over the last decade. Table I shows International Equity Offerings made by companies from five geographic regions for years 1995 and 1999. As observed, the value of equity offerings for the total market increased from \$57,725 million to \$151,887 million. This represents an increase of almost three times. The volumes of activity for North America, Europe, and Asia-Pacific are more notable. The volumes of activity for Latin America and Africa-Middle East regions are low when compared to the other three regions. This is normal because most of the multinational companies which engage in equity offerings are headquartered in more developed countries. These companies are continuously seeking higher returns and growth and less costly financing. In their quest for higher returns and cheaper financing, they have to consider international alternatives. In order to evaluate these alternatives intelligently they need reliable and comparable information. Dealing with accounting diversity and the requirements of different national accounting standards was a major and costly problem for these companies. If all countries of the world employ the same accounting standards, such as international accounting standards, multinational companies stand to gain tremendously.

Another interest group, who could benefit from the global harmonization of accounting principles, is the international investor. With the arrival of high-tech computers and information age massive amounts of international financial information is available on the Internet. More and more institutional and individual investors are interested in making international investments.

Other groups, which may be interested in universal harmonization of accounting principles, include international filer companies, international accounting firms, international intergovernmental organizations, governments and regulating bodies, and financial markets. A short discussion of these groups is as follows:

- A. Some companies listed in the large stock exchanges are not multinationals but they are interested in raising additional funds and trading securities with favorable terms. However, the regulating bodies of stock exchanges, such as the Securities Exchange Commission (SEC) in the USA, place restrictive filing requirements. Usually they require financial statements to be prepared according to the domestic financial reporting standards. Adoption of the IASs would remove such restrictions.
- B. International accounting firms constitute another group. They provide auditing and consulting services in many countries. In order to perform these services, they must possess expertise in the area of domestic financial accounting principles and the related laws. Development of this expertise is very costly to these firms and global harmonization of accounting principles would likely to reduce these costs substantially.
- C. International intergovernmental organizations, such as United Nations (UN), European Union (EU), and the Organization for Economic Cooperation and Development (OECD), are also interested in obtaining comparable financial information. These organizations need to evaluate projects, extend credits and make other decisions about the different nations of the world.

Worldwide accounting principles would produce comparable financial information needed by these organizations.

- D. Many developing countries as well as the Eastern European countries did not experience the problems of developed countries and their domestic accounting standards are not very comprehensive. If the governments and/or accounting regulating bodies of these countries adopt international accounting standards as their national standards they can not only have a comprehensive set of standards but also may have easier access to international financing sources.
- E. International accounting standards can be very important for the development of global financial markets, especially for stock exchanges. This will be discussed in more detail in the next section.

INSERT TABLE 1 HERE

3. International Accounting Standards and Global Securities Exchange Markets

The increase in international financing activity and the availability of massive amounts of global financial information through the Internet have caused some large stock exchanges to become internationalized. Table II shows the number of domestic and foreign listed companies in the Stock Exchanges of the countries where there are at least 100 foreign listed companies. United Kingdom, NYSE and Nasdaq of USA have more than 400 foreign listed companies. Stock Exchanges of Germany and Luxembourg include more than 200 foreign listed companies. The last column shows the number of foreign companies as a percentage of total listed companies. In the Luxembourg Stock Exchange 80% of total companies are foreign listed companies. These markets are on the way to becoming truly global markets. Internationalization of stock exchanges can receive a boost if all stock exchanges require financial statements prepared according to International Accounting Standards. This is why the International Organization of Securities Commissions (IOSCO) is so interested in the international accounting standards and has pressured the IASC to undertake the Core Standards Project. After the completion of Core Standards by the IASC, the IOSCO began the assessment of these standards. Eventually the IOSCO completed the evaluation and recommended that its members should permit the incoming multinational issuers to use 30 of these standards. This endorsement by IOSCO was a turning point in support of the IASC's activities. As a result, more and more stock exchanges are expected to accept the financial statements that are prepared according to IASs for filing purposes. In fact with the exception of United States all the countries listed in Table II have permitted the foreign companies to use IAS financial statements for listing purposes. In the United States the Securities and Exchange Commission (SEC) requires that the foreign companies must provide reconciliation to U.S. financial accounting standards if they submit IAS financial statements for listing purposes.

The countries listed in Table II are highly developed western countries. Obviously this is not a coincidence. The stock exchanges of less developed countries have a lower number of foreign listed companies. Most of these countries need to attract foreign capital in order to increase the rate of their development. The remaining parts of this paper will discuss the use of international accounting standards in the stock exchanges of the Middle Eastern countries. Most of these countries are developing nations and they are faced with many economic problems. Allowing IAS financial statements for filing purposes may provide a boost to the securities exchanges of these countries in attracting foreign companies.

INSERT TABLE II HERE

4. International Accounting Standards and Middle East Countries

The Middle Eastern countries have many similarities as well as some important differences. Countries like Egypt and Turkey have developing economies and are in need of capital accumulation whereas oil rich countries such as Saudi Arabia and Kuwait have enough capital to invest in foreign markets. In either case these countries need to develop their stock markets and the use of the International Accounting Standards can help them in this regard.

To conduct this study we used the data compiled by International Accounting Standards Committee, currently called International Accounting Standards Board (IASB) [1]. We used the IASB data, which have some shortcomings. The data for some countries seemed to be quite up to date while other countries were not. We sought information on whether the accounting bodies of the countries are members of the International Federation of Accountants (IFAC), on how accounting principles (standards) are determined, and about the acceptability of international accounting standards for listing purposes in the stock markets. In addition we tried to obtain data about the number of domestic as well as the number of foreign companies listed in these stock exchanges. For this purpose we also utilized the data collected by International Federation of Stock Exchanges (recently changed its name to World Federation of Stock Exchanges). For some countries we were able to obtain data on all of these items, while for some other countries information was available on certain items only. We were not able to obtain any information for few countries. That is why the title of this paper includes the term “selected stock exchanges.”

Table III shows a summary of the information available for the Middle East countries. The first column indicates whether the country’s accounting body is a member of the IFAC or not. The second column shows the acceptability of international accounting standards in the stock exchanges. The third column presents information about the accounting principles (standards) applicable within the country. The fourth and fifth columns indicate the number of listed domestic companies and foreign companies, respectively. The countries for which we were not able to obtain any information include Algeria, Oman, Qatar and United Arab Emirates. For Iraq, Libya and Sudan only IFAC membership information was available. For Egypt, Israel, Kuwait and Turkey we were able to find information on all five items we inquired. The remaining countries listed in Table III missed at least one item of information. On the critical item of acceptability of international accounting standards (column two) we were able to find data about Egypt, Iran, Israel, Jordan, Kuwait and Turkey. In addition, the information about accounting principles applicable in Syria and Tunisia indicates that they are similar to international accounting standards. The data on the number of listed domestic and foreign companies can be used as an indicator of the size and also the degree of internationalization of these stock exchanges.

INSERT TABLE III HERE

In Table IV we classified the countries according to the acceptability of IAS financial statements for stock exchange listing purposes. The first column shows the countries in which both domestic and foreign companies are allowed to use IAS financial statements. Egypt, Jordan and Kuwait fall into this category. The second column indicates the countries in which only foreign companies can use IAS statements for listing purposes while domestic companies are required to follow their national accounting standards. Turkey is the only country that falls under this category. The third column shows the countries in which IAS financial statements are not allowed. Iran and Israel are the two countries in this group.

INSERT TABLE IV HERE

The following is a short discussion of stock exchanges and accounting principles for Table IV countries:
A. The Countries in Which Both Domestic and Foreign Companies Follow IAS

EGYPT: Egyptian Accounting Standards have been prepared to comply with International Accounting Standards except for certain minor differences to adopt to Egyptian economic environment. Therefore all companies listed on the Cairo Stock Exchange must follow IAS. Table III shows that there were 1075 domestic companies listed in the stock exchange. This number is the highest among the Table III countries. However the stock exchange had only one listed foreign company.

JORDAN: All companies, both domestic and foreign, listed in the Amman Stock Exchange must follow IASs. The Amman Stock exchange included 163 domestic companies and zero foreign companies.

KUWAIT: Kuwait adopted international accounting standards as national standards. Therefore, all companies may follow IAS for listing purposes. Kuwait Stock Exchange

Included 77 domestic and 9 foreign listed companies. The number of foreign listed companies is highest among Table III countries.

B. The Countries in Which Only Foreign Companies May Follow IAS:

TURKEY: Foreign companies may follow IAS or US GAAP or UK GAAP for filing purposes in the Istanbul Stock Exchange. Foreign companies may also follow their national GAAP with reconciliation to IAS. Domestic companies must follow Turkish national GAAP. The Capital Market Board issues Turkish accounting standards and in most cases they are similar to IAS. The Istanbul Stock Exchange included 315 domestic companies and one foreign listed company.

C. The Countries in Which IAS are not allowed:

IRAN: All companies, domestic and foreign, must follow Iranian accounting principles. Iranian Stock Exchange had 285 domestic companies and no foreign listed company.

ISRAEL: All companies, domestic and foreign, listed in the Tel Aviv Stock Exchange are required to follow Israeli accounting standards. The Israel Accounting Standards Board issues Israeli accounting standards and they are in line with U.S. GAAP. There were 664 domestic companies and one foreign listed company in the Tel Aviv Stock Exchange.

5. Conclusion

The Middle-East countries to a large extent have welcomed the International Accounting Standards. Some countries consider these standards as a replacement for their domestic standards, while others accept IAS financial statements from foreign companies for listing purposes in the stock exchanges. A few countries require even the domestic listed companies to follow IASs. The national standards of some countries are either based on or similar to IASs even though they may not have adopted IASs. Only two Middle East countries, Iran and Israel, showed reluctance to the use of IASs. The number of listed companies for the majority of the Middle East Stock Exchanges is small as compared to the stock exchanges of the Western countries. The number of foreign listed companies in most of these stock exchanges is negligible, which means that the degree of internationalization is very low or nonexistent. However, in the opinion of the authors, the experiment is in the early stage to draw a conclusion and it is expected that the adoption of the International Accounting Standards may attract foreign companies in the future.

ENDNOTE

[1] In order to update the data we sent e-mails to the securities exchange markets of the Middle Eastern countries. However in most cases we did not receive any response from these stock exchanges.

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TABLE I

International Equity Offerings made by Companies
(Sales of Securities Outside of the Domestic Market)

Millions of Dollars

Geographic Region	1995	1999
North America	11,307	23,963
Europe	31,526	82,809
Africa- Middle East	1,779	3,174
Asia – Pacific	12,235	41,219
Latin America	878	721
Total Market	57,725	151,887

Source: Choi, Frost and Meek, *International Accounting*, Prentice-Hall, Fourth Edition, 2002, page 2

TABLE II

**Number of Companies with Shares Listed on Stock Exchanges
Of Selected Countries**
(As of December 31, 2000)

Countries	Number of Companies			Foreign Companies As a Percent of Total
	Total	Domestic	Foreign	
United Kingdom	2,929	2,603	501	17.1
NYSE- USA	2,468	2,035	433	17.5
Nasdaq- USA	4,726	4,239	487	10.3
Germany	989	744	245	24.8
Luxembourg	270	54	216	80.0
France	1,185	1,021	164	13.8
Switzerland	416	252	164	39.4
Netherlands	392	234	158	40.3
Belgium	265	161	104	39.2

Source: Choi, Frost and Meek, *International Accounting*, Prentice-Hall, Fourth Edition, 2002, page 10.

TABLE III

**Stock Exchanges and International Accounting Standards
Middle-East Countries**

Country	IFAC Member	International Accounting Standards	Accounting Principles	# Listed Domestics Companies	# Listed Foreign Companies
Algeria	No info	No information	No information	No info	No info
Bahrain	Yes	No Information	Banks are required to conform to IAS	36	5
Egypt	Yes	All companies listed in Cairo stock exchange must follow IAS	Same as IAS except minor differences	1075	1
Iran	Yes	All companies follow Iranian Accounting Standards	No information	285	0
Iraq	Yes	No information	No information	No info	No info
Israel	Yes	Companies follow Israel's	Accounting Standards are in line	664	1

		Accounting Standards	with US GAAP. Long-term objective to harmonize Israel's GAAP with IAS		
Jordan	Yes	All listed companies are required to follow IAS	No information	163	0
Kuwait	Yes	All listed companies are required to follow IAS	IAS are adopted as national standards with explanatory materials added	77	9
Lebanon	Yes	No information	No information	12	0
Libya	Yes	No information	No information	No info	No info
Morocco	No info	No info	No info	53	0
Palestine	No info	No information	No information	25	0
Oman	No info	No information	No information	No info	No info
Qatar	No info	No information	No information	No info	No info
Saudi Arabia	Yes	No information	Accounting standards are established by Ministry of Finance	No info	No info
Country	IFAC Member	International Accounting Standards	Accounting Principles	# Listed Domestic Companies	# Listed Foreign Companies
Sudan	Yes	No information	No information	No info	No info
Syria	Yes	No information	Association of Syrian Certified Accountants establishes accounting Standards. They are based on IAS.	No info	No info
Tunisia	Yes	No information	Accounting Standards are adopted by Ministry of Finance and are similar to IAS. Some foreign companies are allowed to use their national GAAP or IAS.	No info	No info
Turkey	Yes	Companies can follow IAS, or US, or UK GAAP. Foreign companies may follow their national GAAP but with reconciliation to IAS.	All banks and financial institutions are required to follow IAS, beginning January 1999.	315	1
United Arab Emirates	No info	No information	No information	No info	No info

Sources: International Accounting Standards Board Internet Site: www.iasb.org.uk

TABLE IV

**Acceptability of International Accounting Standards in the Stock
Exchanges Of Selected Middle East Countries**

Domestic and Foreign Companies May Follow IAS	Only Foreign Companies May Follow IAS	IAS Statements Not Allowed
Egypt Jordan Kuwait	Turkey	Iran Israel

Source: International Accounting Standards Board Internet Site: www.iasb.org.uk