DOES INTERNATIONAL FINANCIAL REPORTING HARMONIZATION EQUAL DOMESTIC FINANCIAL REPORTING DIVERSITY FOR DEVELOPING STATES: THE CASE OF TRINIDAD & TOBAGO.

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ABSTRACT

The paper has two purposes. First, it describes the financial reporting environment of Trinidad and Tobago (T&T) before and after the adoption of International Accounting Standards (IAS)[1] as the national standards of T&T. Second, it examines the association between the adoption of IAS as the national standards of T&T and the degree of harmony of financial reporting among public companies. This study is useful because of the dearth of research on financial reporting in the English-speaking Caribbean and the effect of IAS on the degree of financial reporting harmony within a country. Using an ex post facto research design the financial statements of 18 publicly traded firms for the year immediately prior to the adoption of IAS (1987) and two years after the adoption of IAS (1995, 1999) were subjected to content analysis. Overall, the harmony of financial reporting practices among publicly traded firms in T&T increased following the adoption of IAS. This finding was not uniform across all the financial statement items examined and was directly attributable to the adoption of IAS for only one financial statement element.

Key words: Harmonization, Standardization, Trinidad & Tobago, International Accounting Standards

INTRODUCTION AND MOTIVATION

Several developing countries have adopted the standards issued by the International Accounting Standards Board (IASB)[2] for the preparation of general-purpose financial statements in their respective jurisdictions.[3] Supporters of this decision have rationalized it in at least two ways. First, they suggest that developing nations are generally unable to allocate the financial and technical resources needed to develop high quality, indigenous accounting standards (Cairns, 1990; Fenton, 1985; Mendez, 1987; Peasnell, 1993; Saudagaran, 2001). Second, it is argued that even where resources can be allocated to the development of indigenous standards, the process may be long and drawn-out and prone to repeating the mistakes already experienced by developed nations (Larson, 1993; Nobes, 1991).

These arguments are used to support the assertion that by adopting the International Accounting Standards (IAS), developing nation(s) will gain early access to the benefits associated with high-quality financial reporting. The benefits attributed to high quality financial reporting include more efficient capital markets, better relations with development agencies, easier and cheaper access to international capital and ultimately enhanced economic development (Hoyle, Schaefer, and Doupnik, 1998; Staking and Schulz, 1999). These benefits are expected to flow from increased consistency and uniformity among financial reports prepared in accordance with IAS and the resultant improved understandability and perceived credibility of financial disclosures (Staking and Schulz, 1999).

Much less attention has been focused on the potential effects of adopting IAS on the harmonization of financial reporting within a specific jurisdiction (domestic harmonization), and the understandability of financial disclosures made to domestic users (Nobes, 1990). This tendency is apparently based on the assumption that the introduction of IAS into a jurisdiction that previously had no codified standards will inevitably result in more uniform financial accounting and reporting practices (Chen, Sun, and Wang, 2002).[4]

While this assumption may seem sound at first glance, upon further consideration one realizes that it is only likely to hold if the IAS adopted by developing nations sanction fewer alternatives than were being employed when no codified standards were in place or if they make the use of existing alternatives by firms conditional on the satisfaction of clearly specified and stringent criteria, what Wolk, Tearney and Dodd (2001) called "relevant circumstances". [5] It is questionable whether either of these situations will occur in the case of IAS given the widely acknowledged tendency for them to sanction all the alternative treatments allowed by the major developed nations (Nobes, 1991; Ruechhoff, 1987).[6]

That being the case, the effect of adopting IAS on the harmonization of domestic financial reporting practices is an open empirical question. The answer to this question may be contingent on, among other things, whether a developing country chooses to adopt IAS with or without making modifications. Should a country choose to adopt IAS without modification, as was done in Trinidad and Tobago (T&T), the degree of harmony of domestic financial reporting may just as easily be unaffected, positively affected or adversely affected at the same time that the degree of harmony in international financial reporting is improved.

Several studies have examined the effects of the IAS on the harmonization of international financial reporting, (e.g. Evans and Taylor, 1982; Murphy, 2000; Nair and Frank, 1981; van de Tas, 1988). However, to the best of our knowledge, only one study, (Chen et al. 2002),[7] has explored the effects of the adoption of IAS on the degree of domestic harmonization.

This paucity of research on domestic harmonization is surprising for at least two (2) reasons. First, given the IASB's stated position and ability, with the aid of multilateral developmental agencies,[8] to persuade developing nations to adopt its standards, it is very likely that an increasing number of developing nations will adopt IAS as their national standards. Secondly, when the financial reports of domestic firms in an adopting developing country reflect IAS that are characterized by diversity (Hoyle et al., 1998; Ruechhoff, 1987), it is reasonable to fear that problems of understanding and interpretation may develop among the relatively unsophisticated local users of the said reports. These fears are even more likely to be realized because the financial/business press in developing nations may not be able to see through the cosmetic effects of alternative accounting practices.

This situation is compounded by the fact that neither the IASB nor developing countries contemplating the adoption of IAS have given much systematic consideration to the implications of IAS for the degree of harmony of domestic financial reporting.

This paper helps to fill that gap in the international accounting literature by examining the following questions:

Research questions:

(1) Was the adoption of IAS as the national standards of T&T associated with an increase in the degree of harmony of financial reporting practices among companies listed on the T&T Stock Exchange (TTSE)?

(2) If the first research question is answered in the affirmative, was the relationship causal?

A two-phased research strategy was employed to answer these questions. In phase one the international accounting literature and the regulatory framework of T&T were reviewed to identify contextual factors (other than IAS) that influence the financial reporting practices of publicly traded T&T firms and that may influence the degree of harmony exhibited by said financial reporting. Phase one also involved the description of the nature of the financial reporting environment faced by publicly traded firms in T&T.

In the second phase the financial statements of 18 publicly traded corporations were subjected to content analysis. The researchers noted the practices used by each firm to account for the six selected financial statement elements before and after the adoption of IAS as the national standards of T&T.

The degree of harmony of financial reporting practices was operationalized using two measures. The first measure comprised two components. The first component focused on the range of alternative methods/bases used by firms to account for a given financial statement element in a reporting period (Tay and Parker, 1990). The fewer the number of alternative methods/bases used, the greater the degree of harmony in accounting practices, ceteris paribus. The second component captured the distribution of firms across the alternative methods/bases used to account for a particular financial statement element. The greater the number of firms using a particular basis/method, the greater the degree of harmony, ceteris paribus.

The second measure was an adaptation of the Herfindahl Index (H) that is frequently used to operationalize industry concentration (Stigler, 1968). For a financial statement element with N allowed alternative treatments, the Herfindahl Index is computed as the sum of the square of each allowed alternative's share of all firms reporting on the specific financial statement element. Allowed alternative "i" share of all firms reporting on the specific financial statement element is equal to the number of firms using allowed alternative treatment "i" for the specific financial statement element divided by the total number of firms reporting on the said financial statement element.

The maximum value possible for the Herfindahl Index (H) is 1. If all firms reporting on a specific financial statement item use the same allowed alternative treatment, H will equal 1 (perfect harmony). The minimum possible value of the index is 1/M when all allowed alternatives have a share of 1/M of all reporting firms, where "M" is equal to all firms reporting on the financial statement element.

The results of these analyses suggest that the adoption of IAS was generally, but not universally, associated with increasing harmonization of domestic financial reporting.

For each of the three financial statement elements where the results of the above analyses indicated an increase in the degree of financial reporting harmony following the adoption of IAS, the financial statements of the firm(s) responsible for the change were examined to determine whether the firm(s) attributed the change in accounting policy / treatment to the adoption of IAS as the national standards of T&T. The results of this analysis suggest that the adoption of IAS was responsible for the observed increase in financial reporting harmony in one of the three financial statement elements examined – expense recognition for pension plans.

The remainder of the paper is organized as follows. Section II describes the two broad factors that shaped the financial reporting environment of T&T and the nature of that environment. Section III contains a critical evaluation of Institute of Chartered Accountants of Trinidad and Tobago (ICATT)'s decision to adopt IAS without modification. Section IV describes the research methodology. Section V presents the analysis and results of the study. Section VI discusses the overall conclusions, limitation and implications of the study.

FINANCIAL REPORTING ENVIRONMENT OF TRINIDAD AND TOBAGO

Factors Shaping The T&T Financial Reporting Environment

In Trinidad and Tobago (T&T), as in most of the English-speaking Caribbean and other culturally dominated societies (Nobes, 1998), the legislative framework and the pronouncements of professional accountancy bodies are the major influences on financial reporting (Cooke and Wallace, 1990). Other factors identified in the international accounting literature, such as the corporate financing system in place when the accounting systems were developed, the level of education, the level of economic development, and the social, political and taxation systems of a country (Nobes, 1998) have had very little direct effect on the nature of financial reporting in T&T. Consistent with T&T's status as a satellite of the western metropolis (Wallace and Briston, 1993), both the legislative framework and the pronouncements of professional accountancy bodies are in turn influenced by the country's colonial legacy and its dominant economic and social ties.

The effects of these factors on the nature of the T&T financial reporting environment are described below. The description focuses on two discrete time periods, the pre-1988 environment and the post-1987 environment. This division is consistent with the primary focus of this study on the degree of harmony of financial reporting before and after the adoption of IAS as the national reporting standards of T&T in 1988.

Pre-1988

Prior to February 24, 1988, neither ICATT nor the government of T&T had officially prescribed (adopted) any accounting standards for T&T.[9] As a result, members of ICATT, the T&T accounting profession as a whole, and corporate issuers of financial reports (were free to) selected GAAP from several jurisdictions based, in part, on the preferences of auditors and their clients and the outcome desired by the management of the reporting entity. Once ICATT adopted IAS as the accounting standards of T&T, this direct external influence at the level of the individual corporation / accounting firm was curtailed.

The pre-1988 period can be further divided into two segments, pre-independence and post-independence. During the pre-independence period (pre-1962), the financial reporting environment faced by publicly traded companies in T&T (standards and legislative framework) was greatly influenced by the country's colonial legacy as an agricultural outpost of the wider British economy (Annisette, 1999). First, the 1939 T&T Companies Ordinance, which was the only legislation governing financial reporting by companies prior to the enactment of the Securities Industry Act (SIA) in 1981, was for all intents and purposes, a replica of the 1929 UK companies legislation (minus Table A of the UK legislation which dealt with matters relating to accounts and audits) imposed on the country while under British rule.

This period was also characterized by two tendencies/practices, which reinforced the British influence on the local financial reporting environment. Firstly, there was the importation of British accountants to perform required financial reporting and auditing functions during the pre-independence (1962) period (Annisette, 1999). This practice reflected the fact that many of the companies operating in T&T at the time, were of British domicile (Carrington, 1968). Secondly, in order to help T&T prepare for independence, the British government established an Accountancy Training Scheme (ATS) that allowed T&T nationals to pursue accounting qualifications in Britain (Annisette, 1999).

Notwithstanding the pursuit of social and economic transformation initiatives by the government of T&T in the post-independence segment of the pre-1988 period, no attempt was made to curtail the external influences on financial reporting in T&T. The heavy British influence on the T&T financial reporting environment continued during this period as there continued to be a large number of British companies operating in T&T and needing to meet British reporting requirements. Also, newer British and North American firms took advantage of incentives offered by the government of T&T to promote industrialization of the economy to establish new operations in the country. The government of T&T also continued and expanded the ATS introduced by the British government in the pre-independence period (Mendes, 1986; Annisette, 1999).

Additionally during the pre-1988 period several multilateral lending institutions, including the World Bank, the International Monetary Fund and the Inter-American

Development Bank, contributed to the heavy external influence on the financial reporting environment of T&T by using almost exclusively the services of international accounting firms to audit most of the projects they financed and by endorsing the accounting practices of a small number of developed western nations (Briston 1978).

As a result, the local accountancy market continued to be dominated by British-trained accountants, who predictably continued to look to the UK for guidance on external financial reporting.

The post-independence period also saw North America exerting increasing influence on the financial reporting environment of T&T due to shifting economic linkages and immigration patterns (Annisette, 1999; Mendez, 1987). As United States and Canadian-based corporations responded to the government of T&T's Industrialization by Invitation strategy, they brought North American accounting systems to T&T. Like their British counterparts these corporations needed to meet their domestic (US and Canadian) financial reporting guidelines for their overall operations and were therefore, followed by North American public accountants (See Nobes, 1998 for a similar argument).

The increasing influence of North American accounting practices on the financial reporting environment of T&T was also stimulated by the growing number of T&T nationals migrating to the US and Canada in the post-independence period.[10] This trend was associated with a greater number of T&T nationals pursuing North American Accounting qualifications. When these individuals returned home, they continued using the North American guidelines with which they were familiar.

The post independence segment of the pre-1988 period also saw the introduction of a new, potentially powerful force into the financial reporting environment of T&T. This force, ICATT, was incorporated by an Act of parliament (#33) in 1970. ICATT, which is currently the only body of professional accountants in T&T, was promoted as a means by which T&T could reduce its dependence on the British for the education of its accountants (Annisette, 1999). However, this objective was effectively abandoned as ICATT became a status institute which accepted as members the holders of accountancy credentials from a number of UK and North American (NA) qualifying institutes (Annisette, 1999).

Additionally, despite being vested with the authority to develop or specify accounting standards for T&T companies, ICATT did not do so prior to 1988. As a result of its decision not to pursue indigenous accounting education and its failure to stipulate accounting standards for publicly traded companies prior to 1988, ICATT's potentially indigenising influence on the financial reporting environment of T&T was not realized. Instead, external forces (UK & NA qualifying institutes) continued to dominate the financial reporting environment as ICATT members continued to look toward the pronouncements of the various countries where they were educated for accounting guidance. This practice perpetrated the laissez-faire nature of financial reporting in T&T during the pre-1988 period.

Post-1987

External economic forces continued to influence the financial reporting environment of T&T in the post-1987 period. During this period T&T experienced a major economic recession and sought assistance from multilateral/international lending agencies such as the World Bank and the IMF. These institutions made the provision of an economic rescue package to T&T conditional on, among other things, the implementation of appropriate financial infrastructure including the standards issued by the IASB (Bowrin, 2001; Nobes, 1998).[11]

This event – the adoption of IAS as the national standards of T&T – marked an end to the era of "cherry picking" accounting guidance to suit the preferences of auditors and reporting entities. Instead, it introduced a codified set of accounting standards to be followed by all companies operating in T&T. In this new environment, "cherry picking" is restricted to accounting issues not covered by the IAS.

Nature of T&T Financial Reporting Environment

Pre-1988 Financial Reporting Environment

Prior to 1988, the external financial reporting of publicly traded T&T companies was primarily influenced by two pieces of legislation: the Companies Ordinance (1939) and the Securities Industries Act (SIA, 1981).

Companies Ordinance (1939): The 1939 Companies Ordinance of T&T (section 121-126) required companies to prepare audited financial statements for presentation to the annual general meeting of shareholders. The 1939 Companies Ordinance also prescribed some of the basic content of the financial statements but was silent on the form of the statements, the level of details and the measurement and disclosure policies to be employed in their preparation and audit. The 1939 Companies Ordinance was also almost totally silent on the criteria to be applied in the appointment of external auditors, stating only that a director or officer of the company cannot be its auditor. Additionally, the Companies Ordinance required the auditors to report on the accounts examined by them and to state whether they received all the information requested and whether the balance sheet was drawn up to present a true and fair picture of the company's affairs.

Many of the shortcomings of the 1939 Companies Ordinance regarding financial reporting can be traced to its failure to include Table A of the 1929 UK Act on which it was based. That table contained most of the provisions for accounting and auditing of UK companies. As a result of this omission, companies and their auditors had total discretion in determining their accounting principles.

Securities Industries Act (1981): On the surface, the laissez-faire state of affairs described above changed when the SIA came into effect in 1981 establishing the TTSE and providing guidance on accounting and auditing practices for member companies. Form 1, Section 8 of the Act specified that publicly traded companies must adopt standards approved by ICATT in the preparation of their financial statement. Further, it provided that the directors of the reporting entity must provide an explanation for any failure to comply with the standards approved by ICATT.

Secondly, section 34 of the Act required member companies (publicly traded companies) to appoint an external auditor who is a member of ICATT. When this requirement is coupled with the fact that ICATT requires its members to adhere to its standards when performing their professional duties, it reinforced the need for the financial statements of public-traded companies to conform to accounting criteria specified by ICATT.

Unfortunately, because at the time of the enactment of the SIA in 1981 ICATT had not officially adopted or established any accounting standards, publicly traded companies and their auditors continued to enjoy a great amount of discretion in the choice of accounting standards/policies. This is vividly illustrated by the findings of Lucie-Smith (1986) that publicly traded firms' used many conflicting accounting bases and methods and almost totally disregarded the provisions of the IAS when preparing their financial statements.

Post-1987 Financial Reporting Environment

The nature of the financial reporting environment faced by publicly traded companies in Trinidad and Tobago changed drastically in February 1988. At that time, ICATT officially adopted the first 26 IAS issued by the IASB as the accounting standards of T&T. ICATT also established a standards committee to review and comment on drafts of new IASB standards. When a standard is issued by the IASB, it is adopted by ICATT after a change of name to TTAS[12] with minimal involvement from the local political, legal, social, and business sectors (Raggay, 2000).

This decision, coupled with the requirements of the SIA 1981 (1) for publicly-traded firms to adopt the standard approved by ICATT for the preparation of their financial reports, and (2) to have their statements audited by ICATT members, and the ICATT requirement for its members to use ICATT-approved standards in the conduct of their professional duties, effectively meant that publicly-traded companies and their auditors were legally required to comply with IAS in their published financial statements. That meant that reporting entities were no longer legally free to choose any accounting practices that they desired.

The post-1987 period also saw the enactment of new Companies and Securities Industry Legislation in T&T. The 1995 Companies Act, which superseded the 1939 Companies Ordinance, was modeled after the Canadian Business Corporation Act and took effect on April 1997. Sections 153-159 of the 1995 Act require companies to prepare comparative financial statements on both an interim and annual basis. However, it is silent on the standards to be applied by management and auditors in the discharge of their respective financial reporting duties. Section 158 (1-3) does, however, adopt the requirement of the 1981 SIA, for Financial Statements to be audited by practicing ICATT members who, as indicated above, are required to use standards approved by ICATT in the performance of their professional duties. Therefore, the introduction of the 1995 Companies Act did not significantly alter the financial reporting environment faced by public-traded companies in Trinidad and Tobago and should not have impacted the degree of harmony of their financial reporting practices.

The new Securities Industries Legislation was also enacted in 1995 and took effect in May 1997. The 1995 SIA maintained most of the financial reporting requirements found in the 1981 Act. However, it specifies in greater details the expected content of the published financial statement, especially the Income Statement. The SIA 1995 also requires publicly traded companies to disclose the accounting policies followed in dealing with items that may have a material effect on the financial statements. Like the 1981 SIA, the 1995 SIA requires publicly traded companies to use standards adopted by ICATT when preparing their financial statements and to disclose and explain any non-compliance. As a result, the 1995 SIA did not significantly change the financial reporting environment faced by publicly traded Trinidad and Tobago companies and should not have affected the degree of harmony of financial reporting practices.

The previously described legislative framework of financial reporting and the pronouncements of the professional accountancy bodies have interacted with political and socio-economic factors such as the rigid, class-based ownership patterns that characterize T&T to produce the country's current accounting culture.

T&T Accounting Culture

Drawing on Gray's (1988) framework linking culture and accounting, Trinidad and Tobago may be characterized as being high on the professionalism, flexibility, and secrecy dimensions of accounting culture and moderately high on the conservatism dimension.

While there are laws governing financial reporting in T&T, the country exhibits a preference for the exercise of individual professional judgment and professional self-regulation as opposed to compliance with prescriptive legal requirements. This is seen in the fact that Companies Act (1995) stipulates only general requirements for financial reporting and has delegated responsibility for the setting of accounting standards to the ICATT. This characteristic is quite likely due to the long standing and continuing close contact between the T&T accounting profession and that in the United Kingdom.

Consistent with its preference for professionalism, the accounting culture of T&T is also characterized by a preference for flexibility rather than uniformity. This preference promotes respect for the unique circumstances of individual firms / clients and the exercise of professional judgment. An example of this preference for flexibility is seen in the decision of the ICATT to adopt the IAS without modification during the period when the standards allowed multiple alternative treatments for many measurement and reporting issues.

The T&T accounting culture is also characterized by a preference for confidentiality and the restriction of business information only to those most closely involved with management and financing of the organization, and even then on a strictly need-to-know basis. This preference may be related to the closely held nature of most T&T companies and the small and rigidly stratified nature of the wider society. It is seen in the fact that business leaders have consistently and strenuously resisted attempts by the government of T&T and regulatory agencies to provide more broad-based business information to the public. This resistance is allegedly due to fears on the part of business leaders that such expanded disclosures may place their companies at a competitive disadvantage. However, this preference for secrecy also has the potential to preserve long-standing power inequalities in the society (Choi, Frost and Meeks, 1999).

Additionally, the accounting culture of T&T is characterized by a moderately high degree of conservatism. This may be due to two factors. Firstly, the influence of the UK accounting culture on that of T&T may have initially instilled a preference for conservatism. Secondly, and more recently, the T&T accounting profession has had to respond to pressures imposed by clients facing very fluid and challenging economic forces. This coupled with the flexibility afforded to individual accountants to determine what accounting practices are appropriate in a given situation, may have reinforced the tendency toward conservatism as accountants try to help their clients cope with the uncertain economic environment (Gray 1988). This conservative tendency is also seen in the decision of the ICATT to adopt IAS as the national standards of T&T without modification, a decision that is evaluated in the next section.

EVALUATION OF ICATT'S WHOLESALE ADOPTION OF IAS

ICATT's decision to adopt IAS without modification (wholesale) was reportedly influenced by two factors. First, they viewed the IASB as having access to considerably more financial, physical and intellectual resources than the local accountancy profession, and second, they perceived the standards issued by the IASB to be of a very high quality (Soo Ping Chow, 1999). As mentioned above, it is also likely that the decision to adopt IAS as the national standards of T&T was influenced by the government of T&T's need to access the facilities of the World Bank in the 1980's since, according to Nobes (1998) the World Bank requires borrowers to use IASs.

This decision to adopt IAS without modification seems misinformed from a number of perspectives. First, the argument concerning the relative lack of local resources to dedicate to the development of national standards suggests that ICATT compared the alternative of adopting IAS wholesale with that of developing national standards "from scratch". If this is so, the alternatives were under-specified. There was (is) a third alternative, that of customizing IAS to suit the local environment. Maybe a proper evaluation that considers both tangible and intangible costs and benefits of all three alternatives should have been performed.

Let us examine the lack of resources argument for adopting IAS without modification. If the decision was primarily due to the lack of resources one would expect poorer countries to choose wholesale adoption, while their richer counterparts would choose to adapt IAS to meet their respective local conditions, other things being equal. This is not the case though. Jamaica, the least well off of the four English-speaking Caribbean states[13] that have implemented IAS, has chosen to customize the standards, while its better-off counterparts, the Bahamas, Barbados and T&T, have all adopted IAS without modification. Therefore, the resources scarcity argument is not compelling.

There are at least three alternative explanations for the wholesale adoption policy. The first explanation is based on the assumption that the objective of ICATT in selecting among alternative policies was to minimize the total out-of-pocket costs without regard for associated benefits. Such an approach is clearly short sighted and will not be discussed further.

The second alternative explanation is that the policy represents the conscious or unconscious continuation of a historical dependency psyche by the local accounting profession. After years of having the accounting standards of the developed states imposed on them during political colonialism and then by multi-national corporations and development agencies, the leaders of ICATT may have lacked the motivation and self-confidence identified by Wallace and Briston (1993) as crucial to a self-reliant (as opposed to a dependent) approach to accounting development. As a result, the local accounting profession (ICATT) may have been unable or unwilling to act independently or proactively even though the more direct/overt political and economic shackles have been removed (Chaderton and Taylor, 1993).

The third explanation for the wholesale adoption strategy is that it may be due to the flexibility the IAS afforded to public accounting firms and their clients under the guise of international comparability. This argument is supported by the indifference shown by the T&T businesses community to IAS. If the standards had imposed additional costs or otherwise required them to change their financial reporting systems, one would have expected firms to object to their adoption. Few such objections were made.

Even if one assumes that there is a sound rationale for ICATT's decision to adopt IAS without modification, its use is still troublesome. Under this strategy, international comparability may be achieved at the expense of local (intra-national) comparability. This follows from the fact that while the IASB does not sanction a myriad of alternative treatments used globally (greater international harmony), it frequently sanctions a number of competing accounting treatments favored by the major western economic powers (Lucie-Smith, 1986; Nobes, 1991). Unfortunately, because of its decision to adopt IAS wholesale, ICATT, has retained even the politically motivated alternative treatments included in published IAS.

This latter practice may impair the ability of domestic investors and other users to assess the stewardship of management and the performance of firms. For instance, local investors wishing to compare the financial position and performance of two domestic firms that comply with IAS may still need to adjust for the use of different accounting techniques before doing so. This is not true to the same extent in the major industrialized countries each of which generally permits only one of the alternatives accounting treatments allowed in most IAS for domestic reporting (Nobes, 1991).

This situation begs the following question. What is/should be the primary purpose of national accounting standards? The following are three possible answers: to cater primarily to the needs of (a) local stakeholders, (b) international investors, or (c) both groups equally or adequately. If we assume that the objective is to serve primarily local stakeholders or both local stakeholders and international investors, adequately, the above situation suggests that the strategy of adopting IAS without modification is not equal to the task. Conversely, if we assume that the object is to serve primarily the interests of international investors, even at the expense of domestic stakeholders, the above situation is understandable, but would raise a question concerning the current scope of the IAS adopted by T&T.

If national accounting standards in T&T are primarily geared to meet the needs of international investors, why are they (the IAS) mandatory for private companies, companies traded only on the local stock exchange with only local investors, as well as, for companies with international investors? Here again the current policy of adopting IAS without modification seems misguided. By imposing the detailed disclosure requirements and complex measurement procedures of IAS on both domestic and international companies, the ICATT may be imposing unnecessary costs on domestic firms and hampering their competitiveness and ability to contribute to national development.

We now turn to the second phase of the research, the examination of the primary research questions.

RESEARCH METHODOLOGY

Procedure Used to Select Public Companies and Years Examined

The entire population of companies listed on the TTSE was eligible for inclusion in the study. A list of these companies was obtained from the TTSE. Using this list, all firms trading on the TTSE in 1987, the year prior to the adoption of IAS were identified. Then, all 1987 firms that were still trading in 1995 and 1999 (the comparison years) (18 firms) were included in the study.[14, 15] A list of the selected firms is presented in Appendix I.

Only three years' financial statements were examined due to difficulties experienced in obtaining the financial statements for the entire period, the budgetary constraints under which the study was conducted and the labor-intensive nature of the data collection process.

Nineteen ninety-five was chosen as the first comparative year because the effect of the IASB's comparability project on IAS requirements would have already been reflected in published statements and, therefore, would not confound the analysis.

Procedure Used to Examine Financial Statements

Six financial statement elements that are governed by the IAS adopted by T&T were selected for analysis (See Figure 1). These financial statement elements were chosen based on their being identified as areas prone to diversity in prior studies, and the perceived likelihood of the permitted alternative accounting treatments having a material effect on asset valuation and income determination (Hoyle et al., 1998; Street and Shaughnessy, 1998).

To establish the number of alternative bases/methods used for the selected financial statement elements, two reviewers examined the contents of the financial statements of each firm, for each year, independently. Each reviewer noted the practices used for the selected elements. Where the findings of the reviewers conflicted, the item in question was re-examined by both reviewers and a mutually agreeable decision reached.

Insert Figure 1 about here

Measures of Financial Reporting Harmonization

Two measures were used to operationalize financial reporting harmony. The first measure was a composite of the number of different alternatives used to account for a specific financial statement element and the distribution of firms across the various alternatives used, during a given reporting period. The fewer the number of alternative methods used to account for a financial statement element and/or the greater the number of firms using a particular method to account for a financial statement element, the greater the degree of financial reporting harmony, ceteris paribus. The second measure was an adaptation of the Herfindahl Index (H) that is frequently used to measure industry concentration. The Herfindahl Index may range in value from i/n (the number of allowed alternative accounting treatments for a specific financial statement element) to 1. The closer the computed value of H is to 1, the greater the degree of financial reporting harmony.

While the range and distribution measure is clearly more judgmental than the adapted Herfindahl measure, it is also more descriptive of the changing pattern of financial reporting harmony following the adoption of IAS as T&T accounting standards. Additional details of these measures are presented in the next section.

Data Collection

The data on the number of alternative methods/bases used by firms to account for and/or report on the selected financial statement elements were summarized to facilitate the investigation of the first research question which explored whether the adoption of IAS as the national standards of T&T was associated with an improvement in the degree of harmony of financial reporting among publicly traded firms.

Harmonization Measure #1 (Range of and Distribution Across Alternatives Used)

The analysis of the range of and distribution across alternatives accounting treatment used was done in three phases. First, the number of alternative methods/bases used to account for each financial statement element was tabulated for the three years under review. Next, the results of the tabulation process for 1995 and 1999 were compared with that for 1987 (the base year) to determine the nature of the trend in the number of alternative methods/bases used to account for the selected financial statement elements.

In the second phase of the analysis, tables were constructed to show the distribution of firms across the range of alternative methods/bases used to account for / report on each financial statement element over the three years examined. These tables were then examined to determine the nature of the trend in each distribution.

Finally, the results of the stage one and two analyses were assigned the weights specified in Table 1 and summed to derive an overall degree of harmony score for each financial statement element under the range and distribution measure.[16]

Insert Table 1 about here

Harmonization Measure #2 (Adapted Herfindahl Index)

A second independent analysis was conducted using an adapted version of the Herfindahl Index (H) that is frequently used to measure industry concentration. The index is expressed symbolically as follows:

$$H = \sum_{i}^{n} (\text{Share}_{\text{alternative treatment } i})^2$$

Where $\text{Share}_{\text{alternative treatment } i}$ is equal to the number of firms using allowed alternative treatment "i" for the specific financial statement element divided by the total number of firms reporting on the specific financial statement element.

If a firm used more than one allowed alternative treatment to account for the same financial statement element, the weight of each allowed alternative in the numerator of the $\text{Share}_{\text{alternative treatment } i}$ formula was determined as a fraction with numerator of 1, the alternative treatment whose share is being computed and denominator n, being the number of alternative treatment actually used by the firm to account for the financial statement element. That is, if a firm used three different depreciation methods, then in computing the share of each depreciation method in the Share $_{\text{alternative treatment } i}$ formula the firm was weighted by 1/3 for each of the three methods it used to account for depreciation.

The maximum value possible for the Herfindahl Index is 1. If all firms reporting on a specific financial statement item use the same allowed alternative treatment, H will equal 1 (perfect harmony). The minimum possible value of the index is 1/n when all allowed alternatives have a share of i/n of all reporting firms. In general, as the number of allowed alternatives treatments for a financial statement item increases, ceteris paribus, H decreases.

The computation of the index began with the tables constructed in stage one of the range and distribution analysis. This information was recast as shown in Table 2 along with the computed H values.

Insert Table 2 about here

ANALYSIS AND RESULTS[17]

Research question 1

Stage one Analysis - Trend in the Number of Methods / Bases Used

The comparison of the number of alternative methods/bases used by firms which were publicly listed in 1987, the base year, to the number of alternative bases used by these same firms in 1995 and 1999 is presented in Table 3. An examination of Table 3 revealed equivocal results.

Insert Table 3 about here

First, for two of the six financial statement items selected, Inventory Cost Flow Assumption, and the valuation of interest in Associated Companies, there was no change in the number of alternative bases/methods used after the adoption of IAS as the national standards of T&T.

Second, for two of the remaining four financial statements elements, valuation of Property, Plant and Equipment and valuation of Short-term Investments, the number of bases/methods used increase following the adoption of IAS. The final two financial statement elements, expense recognition for Retirement Benefits and depreciation of Property, Plant and Equipment, experienced a decline in the number of bases/methods used following the adoption of IAS.

Stage two analysis – Trend in Distribution Among Methods / Bases Used

As noted above, the second phase of the analysis involved an examination of the number and percentage of firms using each alternative methods/bases to account for the selected financial statement elements before and after the adoption of IAS. Only firms that disclosed the bases/methods used to account for each financial statement elements being examined in all three years studied were included in the stage two analyses. This decision reduced the likelihood of the trends identified being confounded by changes in the level of compliance with IAS over the years examined. This information is presented for each financial statement element in Tables 4 through 9 below.

Retirement Benefit Plans - Expense Recognition: Table 4 summarizes the distribution of firms across the bases used to recognize Retirement Benefit Expense during the three years examined. The four firms reporting on this financial statement element disclosed two different bases – cash and accruals.[18] The most notable observation from table 4 was an increase in the percentage of firms that used a single basis (accruals) to recognize Retirement Benefit Expense. The percentage of firms using the accrual basis to recognized Retirement Benefit Expense increased from 75% in 1987 to 100% in 1995 and 1999. As a result, it appears that the adoption of IAS was associated with a favorable trend in the distribution of firms across the alternatives used to recognize Retirement Benefit Expense.

Insert Table 4 about here

Property, Plant and Equipment – Depreciation: Table 5 presents the distribution of the 15 firms across the three depreciation methods used during the three years examined.[19] There are two notable observations from Table 5. First, the percentage of firms using more than one depreciation method increased from 33.3% in 1987 and 1995 to 40% in 1999.

Insert Table 5 about here

Secondly, the percentage of firms that used only the straight-line method of depreciation declined from 60% in 1987 to 53.33% in 1995 and 1999. On the other hand, the percentage of firms that used only the declining balance method fluctuated during the period examined moving from 6.67% in 1987 to 13.34% in 1995 and back to 6.67% in 1999. These findings suggest that the adoption of IAS may have been associated with an unfavorable change in the distribution of firms across the alternatives used to recognize depreciation on Property, Plant and Equipment.

Property, Plant and Equipment – Valuation: The distribution of the 16 firms across the three bases used to value Property, Plant and Equipment is summarized in table 6.[20] An examination of table 6 revealed that the percentage of firms using more than one basis to value Property, Plant and Equipment increased from 93.75% in 1987 and 1995 to 100% in 1999. This finding suggests that the adoption of IAS may have been associated with an unfavorable change in the distribution of firms across the bases used to value Property, Plant and Equipment.

Insert Table 6 about here

Short-term Investments – Valuation: As shown in Table 7, four firms reported on Short-term Investments and disclosed two valuation bases - historical cost and lower-of-cost-or-market (LCM).[21] An examination of table 7 revealed that the percentage of firms using a single basis (cost) to value Short-term Investments increased from 25% in 1987 to 75% in 1995 and 100% in 1999. This finding suggests that the adoption of IAS may have been associated with a favorable trend in the distribution of firms across the alternative bases/methods used to value short-term investments.[22]

Insert Table 7 about here

Inventory - Cost Flow Assumptions: Table 8 summarizes the distribution of firms across the two Inventory Cost Flow Assumptions disclosed by the eight firms reporting on Inventories during the three years examined.[23] There was one major trend in the table. The percentage of firms using only one cost flow assumption increased from 50% in

1987 to 62.5% in 1995 and 1999. This finding suggests that the adoption of IAS may have been associated with a favorable trend in the distribution of firms across the alternative Inventory Cost Flow Assumptions used by publicly listed firms.

Insert Table 8 about here

Associated Companies – Valuation of Interest: Table 9 summarizes the distribution of the 10 firms across the three bases used to value their interests in Associated Companies during the three years examined.[24] An examination of Table 9 revealed two noteworthy findings. First, the percentage of firms using only the equity method to value their investments in Associated Companies increased from 40% in 1987 to 70% in 1995 and 1999. Secondly, the percentage of firms that used only one method (cost or equity) to value investment in Associated Companies fluctuated during the years examined increasing from 80% in 1987 to 90% in 1995 before declining to 80% in 1999. These findings suggest that the adoption of IAS may have been associated with a favorable trend in the distribution of firms across the alternative bases/methods used to value investments in Associated Companies.

Insert Table 9 about here

Stage Three Analysis – Overall Harmony Score

The findings of the first two stages of the analysis are summarized in table 10 to facilitate the determination of overall conclusions about the first research question based on the first harmonization measure. A careful review of table 10 revealed that the adoption of IAS as the national standards of T&T was generally (3 of 6 financial statement elements) associated with an increase in the degree of harmony of financial accounting and reporting practices for the selected financial statement elements.

However, it is noteworthy that the adoption of IAS was associated with a decline in the degree of harmony of financial reporting practices by publicly listed companies for the valuation of Property, Plant and Equipment.

Insert Table 10 about here

Research Question 1

Adapted Herfindahl Index

For each financial statement element examined, the computed value of the Herfindahl Index for 1995 and 1999 were compared with the computed value for 1987 to determine the change in the degree of financial reporting harmony following the adoption of IAS in 1988. This information is summarized in Table 11.

Three of the six selected financial statement elements, expense recognition for Retirement Benefits Plans, Inventory Cost Flow Assumption, and valuation of Associated Companies, exhibited increasing harmony of financial reporting following the adoption of IAS. In the case of the inventory cost flow assumption element of the financial statements the change in the degree of financial reporting harmony from 0.50 to 0.51 was miniscule and probably of no practical significance. The other two financial statement elements experienced more substantial increases in financial reporting harmony. However, all three elements were included in the evaluation of the second research question.

Of the three remaining financial statement elements, one, valuation of Property, Plant and Equipment, experienced no change in financial reporting harmony, while another, valuation of Short Term Investment, experienced a decline in financial reporting harmony and the other financial statement element, depreciation of Property, Plant and Equipment, experienced a decline in financial reporting harmony in 1995 followed by an increase in 1999.

The overall pattern of change in financial reporting harmony following the adoption IAS as the national standards of T&T is consistent with the thesis that unless, by design, coincidence or otherwise, IAS sanction fewer, free choice alternative accounting treatment than are being used in the adopting jurisdiction before IAS is introduced, the effect on financial reporting harmony is indeterminate, a priori. This argument is further supported by the following two facts. First, in the one case where the IAS outlawed an alternative that was previously used by publicly traded firms, the used of the cash basis to recognize retirement benefits expense, the degree of financial reporting harmony increase substantially following the adoption of IAS.[25]

Secondly, the only other financial statement element that experienced a substantial increase in financial reporting harmony, valuation of Associated Companies, is an area where IAS requires firms to meet clearly specified "relevant circumstances" to qualify to use the various alternative treatments permitted by the governing IAS.

Research Question #2

All three financial statement elements that exhibited increases in the degree of financial reporting harmony under at least one of the two harmonization measures employed – expense recognition for Retirement Benefit Plans, valuation of Associated Companies and Inventory Cost Flow Assumptions – were examined to answer the second research question. This examination involved the detailed review of all the available post

1987 financial statements of the firm(s) that had changed its method of accounting/ reporting for the affected financial statement element to ascertain the reason for the change.

In the case of inventory cost flow assumptions, one firm switched from using both the first-in-first-out and weighted average assumptions in 1987 to the exclusive use of the weighted average method in 1995 and 1999. The change actually took place in 1993 and the only rationale specified was the desire to "provide more useful information." Since IAS No. 2 designates both methods initially used by the firm as "preferred alternatives", it is unlikely that the change was prompted by the adoption of IAS as T&T accounting standards.

In the case of expense recognition for Retirement Benefit Plans, one firm switched from using the cash basis in 1987 to using the accruals basis in 1995 and 1999. The change, which took effect in 1993, was a direct result of the adoption of IAS as T&T accounting standards. Since IAS 19 (revised 1993) does not permit the cash basis of expense recognition for retirement benefits plans, publicly traded firms had to switch to the accruals basis of expense recognition to be in compliance with IAS.

For the third financial statement element that experienced an increase in financial reporting harmony following the adoption of IAS, valuation of Associated Companies, two firms switched from the historical cost to the equity method and one firm switched from using only the historical cost method to using both the historical cost and market value methods to value associated companies following the adoption of IAS at T&T accounting standards. These changes reflected changing ownership patterns and influence by the reporting entities over the associated companies rather than the need to comply with IAS.

The two firms that stopped using the historical cost method experienced increases in the extent of influence they were able to exercise over the associated companies due to their owners of a greater proportion of the outstanding voting shares of the associated companies. In similar fashion, the firm that switched from using only the historical cost basis to using both historical cost and market value bases noted changes in its ability to reliably estimate the fair value of one of its investments in the years following the adoption of IAS. Therefore, the adoption of IAS was directly responsible for the observed increase in financial reporting harmony for only one of the three financial statement elements that exhibited such increases.

SUMMARY, CONCLUSIONS, LIMITATIONS AND IMPLICATIONS

Summary and Conclusions

This study examined whether the adoption of IAS as the national standards of T&T, a country which previously had no codified accounting standards, was associated with an increase in the degree of harmony of financial reporting practices for selected financial statement elements among publicly listed companies and whether any observed increases in financial reporting harmony was attributable to the adoption of IAS as the national standards of T&T. The finding can be summarized as follows:

Research question 1:

i. The adoption of IAS was associated with an increase in the degree of harmony of financial reporting practices for the recognition of expenses related to

Retirement Benefit Plans, the valuation of interest in Associated Companies, and Inventory Costing.

ii. The adoption of IAS was associated with no change, indeterminate change or a decrease in the level of harmony of financial reporting practices for the valuation of Short-tern Investments, the recognition of depreciation expense on Property, Plant and Equipment, and the valuation of Property, Plant and Equipment, respectively.

Research question 2:

iii. The adoption of IAS was directly responsible for the observed increase in financial reporting harmony for one of the three financial statement elements that exhibited such an increase – expense recognition for Retirement Benefit Plans.

This causal attribution is supported by the fact that there were no changes in either the intensity with which financial regulations were enforced by the T&T Securities and Exchange Commission or the TTSE, or in the overall institutional environment governing financial reporting by public companies. Additionally, we have no reason to believe that auditors' preferences for particular accounting practices changed in a systematic way following the adoption of IAS as public accountants continued to be trained by the same set of extra-regional professional accountancy bodies.

A closer examination of table 10 revealed that most of the gains in harmony were due to changes in the distribution of firms among the alternative bases/methods used to account for the selected financial statement items (four of the six item examined experienced favorable change on this measure), rather than a reduction in the number of alternative bases/methods used by firms (two of the six elements examined experienced favorable change on this measure). This finding taken together with the fact that the methods / bases used by sample firms were, with only one exception, sanctioned by the IAS, suggest that future improvements in harmony may require that either local standard setters in developing countries or the IASB further reduce the number of free choice alternatives permitted in the IAS.

Limitations

The findings of this study are subject to a number of limitations. First, because only three years were examined from the 13-year period 1987-1999, it is possible that the actual pattern of change in the degree of harmony may be different from that presented. Second, the operational definition of "harmony" was a bit narrow. Key elements of the construct such as accounting terminology, statement formats (Choi, 1998) and the reliability of the information provided (Zarzeski, 1996) were not systematically examined. Notwithstanding these limitations, the findings of this study provide several potentially valuable insights about the relationship between the adoption of IAS as the national standards of T&T and the degree of harmony in the financial reporting practices of publicly traded firms.

Implications

One of the more notable findings is the equivocal nature of the results - some positive, some neutral, and others negative. This pattern of results suggests that individual IAS are not equally effective at enhancing the degree of harmony of domestic financial reporting. An examination of the standards revealed that this was due, in part, to the varying number of alternatives allowed in the IAS and the extent to which reporting entities can freely choose from among the allowed alternative treatments. As was previously noted, the only item that exhibited an unequivocal causal relationship between the degree of financial reporting harmony and the adoption of IAS was expense recognition for Retirement Benefit Plans, an item for which the number of allowed alternative treatments was reduced following the adoption of IAS. To the extent that this is true, developing states that choose to adopt IAS without modification may inadvertently institutionalize financial reporting diversity (unless the IASB reduces the number of allowed alternatives in individual IAS).

The high percentage of firms that provided little or no disclosure about the methods/bases used to account for the recognition of Retirement Benefit expense, and to a lesser extent Inventory Costing and the valuation of Short-term Investments, clearly indicate some combination of faulty monitoring of financial reporting and/or low quality external auditing. This quality gap did not directly impact the degree of financial reporting harmony among the companies included in this study since in all but one case the methods disclosed were in conformity with IAS. However, quality gap definitely contributed to the small number of firms that qualified for inclusion in the second phase of the study and if improved has the potential to further illuminate the relationship between the adoption of IAS and financial reporting harmony described above.

Suggestions for Future Research

The findings of this study suggest a number of avenues for future research. First, the equivocal nature of the results point to the need for further examination of the factors that may determine whether the adoption of a specific IAS will have a positive or negative effect on the degree of financial reporting harmony in the adopting country.

Second, future studies can be broadened to include other developing countries that have securities exchanges and have adopted the standards issued by the IASB. Any such studies should ideally include both states that have favored wholesale adoption (e.g., Barbados) and those that have chosen to customize the IAS to their local environment (e.g., Jamaica and Nigeria).

Third, future studies could examine other dimensions of quality such as the timeliness of financial reporting, compliance with IAS requirements, and the quality of audit work before and after the adoption of IAS. An examination of the quality of financial reporting by publicly listed firms is an especially pressing need given the high level of non-disclosure by firms involved in this study.

Additionally, the reliability of the results may be enhanced by examining the financial statements of a larger number of, possibly more representative, years before and after the adoption of IAS.

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FIGURE 1

Financial Statement Element Examined
1. Retirement Benefit Plans – Expense Recognition
2. Property, Plant and Equipment - Depreciation
3. Property, Plant and Equipment - Valuation
4. Short-Term Investments - Valuation
5. Inventory - Cost Flow Assumptions
6. Associates Companies – Valuation of Interest

Table 1

Weighting of Preliminary Harmonization Findings

Nature of Preliminary Findings	Classification	Assigned Weight
Decrease in the number of bases/methods used to account for or report on a selected financial statement element over the years examined	Favorable Change	+ 1
Increase in the number of bases/methods used to account for or report on a selected financial statement element over the years examined	Unfavorable Change	- 1
No change in the number of bases/methods used to account for or report on a selected financial statement element over the years examined	Neutral	0
Increase in the number of firms using only one basis/method to account for a selected financial statement element over years examined	Favorable Change	+ 1
Decrease in the number of firms using only one basis/method to account for a selected financial statement element over years examined	Unfavorable Change	- 1
No change in the number of firms using only one basis/method to account for a selected financial statement element over years examined	Neutral	0

Table 2
Determination of Adapted Herfindahl Index

Financial Statement Element/ Allowed Alternative	1987 Number of firms Using Allowed Alternative i	1995 Number of firms Using Allowed Alternative i	1999 Number of firms Using Allowed Alternative i
Retirement Benefits Plans - Expense Recognition			
Cash	1.00	0.00	0.00
Accruals	3.00	4.00	4.00
Total Number of firms reporting	4.00	4.00	4.00
Adapted Herfindahl Index Value	**0.625**	**1.00**	**1.00**
Property, Plant & Equipment - Depreciation			
Straight Line	11.50	10.50	11.00
Declining Balance	3.00	4.00	4.00
Units of Production	0.50	0.50	0.00
Total Number of firms reporting	15.00	15.00	15.00
Adapted Herfindahl Index Value	**0.629**	**0.562**	**0.659**
Property, Plant & Equipment - Valuation			
Hictorical Cost	8.50	8.50	7.83
Independent Valuation	7.00	7.00	7.83
Directors' Valuation	0.50	0.50	0.34
Total Number of firms reporting	16.00	16.00	16.00
Adapted Herfindahl Index Value	**0.475**	**0.475**	**0.479**
Short Term Investments - Valuation			
Historical Cost	3.00	2.83	2.83
Lower of Cost or Market	1.00	0.83	0.83
Market Value	0.00	0.34	0.34
Total Number of firms reporting	4.00	4.00	4.00
Adapted Herfindahl Index Value	**0.625**	**0.551**	**0.551**
Inventory Cost Flow Assumption			
First-in-First-Out	4.00	3.50	3.50
Weighted Average	4.00	4.50	4.50
Total Number of firms reporting	8.00	8.00	8.00
Adapted Herfindahl Index Value	**0.500**	**0.508**	**0.508**
Associated Companies - Valuation			
Historical Cost	4.50	2.50	2.00
Equity	5.00	7.00	7.50
Market Value	0.50	0.50	0.50
Total Number of firms reporting	10.00	10.00	10.00
Adapted Herfindahl Index Value	**0.455**	**0.555**	**0.605**

TABLE 3

Number of Bases/Methods Used For Selected Financial Statement Elements

Financial Statement Element	1987	1995	1999	Nature of Trend
Retirement Benefit Plans – Expense Recognition[@]	2	1	1	Favorable
Property, Plant and Equipment - Depreciation	3	2	2	Favorable
Property, Plant and Equipment - Valuation	2	3	3	Unfavorable
Short-Term Investments - Valuation	2	2	3	Unfavorable
Inventory - Cost Flow Assumption	2	2	2	Neutral
Associates Companies – Valuation of Interest	3	3	3	Neutral

[@] More than forty percent of the firms reporting on Retirement Benefits Expense did not disclose the basis used to do so in all three years examined. This indicates a high level of non-compliance with IAS and is the focus of a related study.

TABLE 4

Retirement Benefit Plans - Expense Recognition

Recognition Basis	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
Cash	1	25	0	0	0	0
Accruals	3	75	4	100	4	100
Total	4	100	4	100	4	100

TABLE 5

Property, Plant and Equipment - Depreciation

Depreciation Method	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
Straight-line (SL)	9	60.00	8	53.33	8	53.33
Declining balance (DB)	1	6.67	2	13.34	1	6.67
SL/DB	4	26.66	4	26.66	6	40.00
SL/Units of Production	1	6.67	1	6.67	0	0.00
Total	15	100	15	100	15	100

TABLE 6

Property, Plant and Equipment - Valuation

Valuation Bases	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
Historical cost (HC)	1	6.25	1	6.25	0	0.00
HC/Independent Valuation (IV)	14	87.50	14	87.50	15	93.75
Directors' Valuation (DV) / HC	1	6.25	1	6.25	1	6.25
Total	16	100	16	100	16	100

TABLE 7

Short-term Investments - Valuation

Valuation Basis	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
Cost	1	25	3	75	4	100
Lower of Cost or Market/Cost	3	75	1	25	0	0
Total	4	100.00	4	100.00	4	100.00

TABLE 8

Inventory - Cost Flow Assumptions

Cost Flow Assumption	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
First In First Out (FIFO)	2	25.00	2	25.00	2	25.00
Weighted Average (WA)	2	25.00	3	37.50	3	37.50
FIFO / WA	4	50.00	3	37.50	3	37.50
Total	8	100	8	100	8	100

TABLE 9

Associated Companies - Valuation of Interest

Valuation Bases	1987 Firms #	1987 Firms %	1995 Firms #	1995 Firms %	1999 Firms #	1999 Firms %
Historical Cost (HC)	4	40	2	20	1	10
Equity (EQ)	4	40	7	70	7	70
HC / EQ	1	10	0	0	1	10
EQ / Market Value (MV)	1	10	0	0	0	0
HC / MV	0	0	1	10	1	10
Total	10	100	10	100	10	100

TABLE 10

Overall Harmonization Score – Measure 1

(Number & Distribution of Allowed Alternatives Used)

Details	**Retirement Benefit Plans – Expanse Recognition**	**Property, Plant and Equipment - Depreciation**	**Property, Plant and Equipment - Valuation**	**Short-tern Investments - Valuation**	**Inventory – Cost Flow Assumptions**	**Associated Companies – Valuation of Interest**
(A) Trend in the Number of Alternative Bases / Methods Used	Favorable +1	Favorable +1	Unfavorable -1	Unfavorable -1	Neutral 0	Neutral 0
(B) Distribution of Firms across Alternative bases Used	Favorable +1	Unfavorable -1	Unfavorable -1	Favorable +1	Favorable +1	Favorable +1
Overall [(A) + (B)]	Favorable +2	Neutral 0	Unfavorable -2	Neutral 0	Favorable +1	Favorable +1

Table 11

Summary of Adapted Herfindahl Index Scores

Financial Statement Element/ Allowed Alternative	1987	1995	1999
Retirement Benefits Plans - Expense Recognition	0.625	1.000	1.000
Property, Plant & Equipment - Depreciation	0.629	0.562	0.659
Property, Plant & Equipment - Valuation	0.475	0.475	0.479
Short Term Investments - Valuation	0.625	0.551	0.551
Inventory Cost Flow Assumption	0.500	0.508	0.508
Associated Companies - Valuation	0.455	0.555	0.605

APPENDIX 1

LIST OF PUBLICLY TRADED FIRMS INCLUDED IN THE STUDY

Agostini’s Limited

Angostura Holding Limited

ANSA Mc Al Limited

Barbados Shipping and Trading Company Limited

Berger Paints Limited

Flavorite Foods Limited

Furness Trinidad Limited

Lever Brothers (West Indies) Limited

L.J. Williams Limited

Neal and Massy (Holdings) Limited

Point Lisas Industrial Port Development Corporation (PLIPDECO)

Readymix (West Indies) Limited

Trinidad Publishing Company Limited

West Indian Tobacco Company Limited

Royal Bank (Trinidad and Tobago) Limited

Republic Bank (Trinidad and Tobago) Limited

Scotia Bank (Trinidad and Tobago) Limited

CIBC (West Indies) Holding Limited

FOOTNOTES

[1] These standards are currently called International Financial Reporting Standards (IFRS).

[2] This is the overall governing body for international financial reporting standards and was previously called the International Accounting Standards Committee.

[3] The countries that have adopted IAS include Barbados, Jamaica, Nigeria, Pakistan, Trinidad and Tobago, and Zimbabwe.

[4] Alternatively, it may have been assumed that domestic reporting requirements are subordinate to international ones and may be sacrificed. This rationale is not pursued since it is inconsistent with one of the primary reasons expressed for adopting IAS in the first place, promoting economic development.

[5] Relevant circumstances are economically significant general conditions or factors associated with complex transactions and events that may influence the incidence or timing of cash flows (Wolk et. al., 2001: 291).

[6] The IAS has recently undertaken a number of initiatives to reduce this tendency.

[7] Chen et al. (2002) used a sample of publicly listed Chinese companies to examine whether the introduction of a new regulation by the Chinese government aimed at harmonizing Chinese GAAP with IAS resulted in the harmonization of accounting practices. Their findings indicated that the harmonization of standards which resulted for the new regulation (de jure harmonization) did not lead to the harmonization of accounting practices (de facto (domestic) harmonization).

[8] The IAS are officially endorsed by many development institutions (e.g., The World Bank and The International Monetary Fund), which "persuade" developing nations to adopt and use the IAS in order to gain access to their programmes.

[9] Prior to February 1988, ICATT's policy regarding IAS was to adopt individual IASs as appropriate after conducting a detailed review of each IAS, and making modifications as necessary to suit local peculiarities (Raggay 2000; Lucie-Smith 2002). Interviews with three past presidents of ICATT (Messrs. Colin Soo Ping Chow; William Lucie-Smith and Vishnu Maharaj) failed to indicate when this policy began and which IASs were adopted under this policy. However, the results of these interviews did suggest that Mendez's (1987) assertion that T&T had adopted all IASs that had been issued at that time was inaccurate. This conclusion is supported by Lucie-Smith's (1986) finding that there was as an almost total disregard for IAS among publicly traded firms.

[10] The shift toward North America for guidance on financial reporting (and other aspects of corporate governance) culminated in the government of T&T modeling its 1995 companies legislation on the Canadian Business Corporation Act.

[11] The adoption of IAS as T&T accounting standards may also have been influenced by the following three factors: (1) the perception of ICATT members (decision-makers) that its members lacked the necessary knowledge and skills in standard-setting, (2) the failure of ICATT to fully appreciate the political nature of the IASB's standard-setting process and the situatedness of the current IAS and (3) the imposition of too many, varying responsibilities on the new, resource-strapped institute (Mendez, 1987).

[11] This procedure has since changed. ICATT now adopts IAS without this name change.

[13] The economic classification of these countries is based on their 1995 and 1998 GNP (Atlas method, current US$). For each country the 1995 GNP is the first figure. Jamaica ($1,660; $2,200); the Bahamas ($11,380; $12,500); Barbados ($6,600; $8,000); Trinidad and Tobago ($3,860; $4,230) (World Bank, 2000).

[14] There were 21 firms listed on the TTSE in 1987 that number had risen to 24 in 1995 and 26 in 1999.

[15] When the fact that ICATT may have adopted a few individual IAS prior to February 1988 is taken together with the possibility that some publicly traded companies may have voluntarily adopted individual IAS prior to 1988 they potentially reduce the statistical power of the ex post facto research design employed in this study.

[16] We used this procedure to enhance the transparency and objectivity of what is essentially a subjective analytical procedure. As the 18 firms in the study effectively constitute the population of publicly traded firms in Trinidad and Tobago (21) at the commencement of the study in 1987, it was not considered necessary to perform probabilistic statistical analyses to test the research question.

[17] All the methods/bases used by the firms are currently sanctioned by the IAS except for cash basis expense recognition for retirement benefits.

[18] Overall, 15 firms reported on this financial statement element in all three years examined. However, 11firms failed to disclose the basis used to do so for at least one year.

[19] Overall, 17 firms reported on this financial statement element in all three years examined. However, two firms failed to disclose the basis used to do so for at least one year.

[20] Overall, 17 firms reported on this financial statement element in all three years examined. However, one firm failed to disclose the basis used to do so for at least one year.

[21] Overall, nine firms reported on this financial statement element in all three years examined. However, five firms failed to disclose the basis used to do so for at least one year.

[22] This finding may also reflect a change in the composition of the firms' portfolios of ST investment over the years examined. This issued is addressed later in the paper.

[23] Overall, 12 firms reported on this financial statement element in all three years examined. However, four firms failed to disclose the basis used to do so for at least one year.

[24] Overall, 11 firms reported on this financial statement element in all three years examined. However, one firm failed to disclose the basis used to do so for at least one year.

[25] This is due in part to the small number of firms that disclosed the bases used to account for the element of the financial statements.