

The future of financial reporting 2010: getting to grips with the credit crunch

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT FARSIG

The Financial Accounting and Reporting Special Interest Group (FARSIG) is a group set up under the aegis of the British Accounting Association (BAA). The main purpose of FARSIG is to further the objectives of the BAA and for that purpose to:

- encourage research and scholarship in financial accounting and reporting
- establish a network of researchers and teachers in financial accounting and reporting
- enhance the teaching of financial accounting and reporting
- provide support for PhD students in financial accounting and reporting
- develop closer links with the accounting profession in order to inform policy
- publish a newsletter and organise targeted workshops
- develop and maintain relationships with the BAA and the professional accountancy institutes
- provide a forum for the exchange of ideas among accounting academics.

The symposium, which is one of an annual series that started in 2007, provides a forum for academic, practitioner and policy-orientated debate. Such forums are useful for expressing and developing rounded opinion on the current meta-issues facing financial reporting. Furthermore, they serve to illustrate the policy relevance and impact of current academic thinking and outputs in accordance with the Economic and Social Research Council (ESRC)/Advanced Institute of Management (AIM) calls for relevant and rigorous research through a combination of practitioner and academic perspectives.

We would like to express our thanks to the five main contributors, both for their presentations at the symposium and for their subsequent time and comments during the development of this discussion paper. We have tried faithfully to capture the flavour of the original presentations. Nonetheless, although we ran our commentary of the presentations past the original authors, any errors or omissions remain our own. We would also thank ACCA for hosting the symposium and for its support in the publication of the discussion paper. Finally, for any readers who wish to learn more about FARSIG or to become a FARSIG member, please contact either of the authors.

Mike Jones is chairman and Richard Slack, secretary, to the FARSIG Committee.

The paper is available in pdf from
http://www.accaglobal.com/general/activities/library/financial_reporting/other.

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Foreword

ACCA was very pleased to host again in 2010 the FARSIG annual discussion of the future of financial reporting. The meetings have been useful points of intersection between the professional accountants and the accounting academics who are dealing with financial reporting.

Speaking from the professional accountancy side I think this interaction is very useful, which I hope is mirrored on the academic side. For us it is good to get a different and independent perspective on the current professional issues. Importantly it offers a way to encourage research and investigation which will help us. IFRS which were so much the focus of these FARSIG discussions, are reaching a stage of maturity. The standards are largely established (setting the USA apart) as the global system – a large number of countries have adopted them and therefore a vast number of entities are using them. This represents enormous inertia to be overcome. Most of the obvious gaps in the standards are filled or being filled by current projects. The inertia resisting change and the completeness of the system means that future changes and improvements to the existing standards are going to become harder to justify. Research to provide the evidence for decisions about whether and what changes to the standards are needed will therefore be vital. Academics might also be able to help with refining the methodologies for cost/benefit analysis and the measurement of problems and complexity in existing practice to improve the decision-making process itself.

As to the content of the 2010 discussion I will not attempt to summarise that, as that has been done very fully by the authors in this document. The format this year saw the profession outnumber the academics by 4 to 1 as speakers, but that has not always been the pattern and the discussion involving the predominantly academic audience helped to even up the balance. However revisiting the discussion by reading this summary I was struck by the prescient remarks of David Phillips on the need in future for integrated reporting and a body to promote it. This process indeed did then get started in July 2010.

The backdrop to the 2010 discussions was the financial crisis and implementing the changes needed as a result. We will need not just to be able to fight the last crisis, but also try to moderate the impact of the next one. This backdrop is likely to be the case for some time to come, with for example a major debate on the responsibilities of financial reporting – are they just to assist the capital markets or to have some further role in securing the stability of the whole economy? And we can already see the evidence of the inertia effect on slowing the global solutions that should be coming through the G20 and others.

I would like to extend our thanks to Mike Jones and Richard Slack for this summary of 2010. I am looking forward to the 2011 discussion.



Richard Martin
Head of Financial Reporting, ACCA

Introduction

The world continues to experience economic turmoil and uncertainty. Although the initial repercussions of the credit crunch are now past, there is need to improve financial systems, standards and regulations. It was against this background that the annual FARSIG symposium on the Future of Financial Reporting was held at ACCA, London on 8 January 2010. The symposium focused on key issues arising from the credit crunch both at the conceptual and the technical level. There was a wide breadth of coverage and also lively discussion from the audience of 50 academics and practitioners. A variety of views on current financial reporting and the credit crunch were presented from the perspectives of: an international accounting standard setter; the accounting profession; an investment analyst; and academia. The symposium was timely as it was well placed to discuss the aftermath of the credit crunch. Five key presentations were given. The five papers, in order of appearance, were as follows.

1. Wayne Upton, IASB
'Perspectives on International Adoption/Convergence with IFRS'.
2. Ken Wild, Deloitte Touche Tohmatsu
'Global Accounting Standards: An Impossible Dream or a Political Nightmare?'
3. David Phillips, PricewaterhouseCoopers
'The Future of Corporate Reporting after the Credit Crunch'.
4. Dennis Jullens, UBS
'The Future of Financial Reporting: An Analyst's View'.
5. Martin Walker, Manchester Business School
'Accounting for (Varieties of) Capitalism'.

Each paper was followed by a lively discussion. This enabled a wide range of views to be expressed on a variety of topics relevant to the aftermath of the credit crunch. In particular, there was a multi-perspective view of the financial turmoil of 2009 and 2010.

BACKGROUND TO THE SYMPOSIUM

The symposium was held after the most acute effects of the credit crunch and market volatility had passed. The world's financial systems were thrown into crisis as a result of the credit crunch, which began in the US as a result of an overheated housing market combined with an easy credit policy, excessive risk-taking, and lax banking regulations and practices. The US crisis soon became global in nature. The US, which had benefited from historically low interest rates at the start of the twenty first century was forced to raise these interest rates by 2005/6 to control for inflationary pressures and economic overheating.

The rising cost of servicing corporate and personal debt in the US, and then elsewhere in the world, caused a hesitation and then a retrenchment in housing and real estate values. By 2006, the housing bubble had begun to burst. Individual homeowners began to default and real estate prices began to fall. As a result, banks faced a combination of problems. Many of their loans moved from being low to high risk, security on those loans eroded in value and interest rates began to rise on the wholesale money markets. In summary, there was a steep rise in bad debts, bank assets became devalued and banks were unable to borrow to escape their financial problems because of a lack of credit, down-graded credit ratings and penal interest rates.

The consequences of this were that as liquidity in the US and worldwide dried up, commercial and retail banking collapses followed.¹ Notable examples of such collapses were: Northern Rock in the UK (September 2007), Bear Stearns (March 2008), Lehman Brothers (September 2008), Landsbanki, Glitnir and Kaupthing in Iceland (October 2008). As time passes, we learn more about the part that accounting practices, such as fair value, off-balance sheet financing and repos, played in these collapses.

A subsequent development in the economic turmoil was the spread of the banking crisis to the rest of the economy. Shares, stocks and bonds in global stock markets lost huge amounts of value. National economies have been severely impacted: investment has slumped, housing and

1. A chronology of the key events in the financial crisis from August 2007 to December 2008 is provided in *The Future of Financial Reporting 2009: A Time of Global Financial Crisis* (Jones and Slack 2010).

real estate markets have collapsed, consumer spending has nosedived and unemployment has soared. As a result, public spending has come under severe pressure with national governments struggling in many cases to balance the books and avoid unwanted international intervention. Within Europe the so called PIGS countries of Portugal, Ireland, Greece and Spain are suffering severe economic retrenchment. Greece, for example, has been bailed out by fellow European countries and Ireland has severe problems in its banking sector.

In the UK, the full effects of the impact of the financial and economic crisis on economic policy and public spending were delayed by the May 2010 general election, with tough economic decisions being effectively postponed pending the election outcome. Nonetheless, interest rates have been slashed by the Bank of England in an effort to stimulate financial markets while house prices and consumer spending have fallen sharply. The UK has been particularly hard hit as a consequence of its heavy dependence upon the banking and financial sectors. In the UK, apart from the nationalisation of Northern Rock, there were bail-outs for other UK banks, such as Lloyds TSB. In order to balance the level of public-sector debt in the wake of bank bail-outs, severe cuts in public-sector spending across all areas of the economy, including universities, are planned by the UK's coalition government.

As a result of this global economic and financial turmoil, there has been a re-questioning of basic economic and financial principles, inter alia, of the accounting standards and principles, and the regulation and governance of businesses and institutions. There have also been debates on the risk and reward structures of top executives and traders. There has been growing concern about accounting and auditing standards. The role of the International Accounting Standards Board (IASB) has also been scrutinised. The main and continuing institutional accounting issue, which stood in the background of the symposium, was the debate over the role of the IASB, in particular, the convergence with the US Financial Reporting Standards. International Financial Reporting Standards (IFRS) are increasingly being adopted, for example, by Brazil and Chile and with optional adoption in Japan (Sonola and Maher 2010). However, the most significant and central adoption, that by the US, still seems as elusive as ever. Following the symposium, a detailed work plan was released in February 2010 (incorporating both issues and milestones) so that in 2011, the SEC can

determine whether or not the US will adopt IFRS no earlier than 2015 (Sonola and Maher 2010). The slow pace of convergence has frustrated many countries and has also strengthened the influence of European regulators. In particular, there is still considerable concern over the divergent US Financial Accounting Standards Board (FASB) and IASB proposals for financial instruments. Already important, before the credit crunch, this issue has grown in significance since. There still appear to be significant differences between the IASB and FASB in terms of both measurement and presentation. Both FASB and IASB are issuing pronouncements. In particular, in the US, FASB under congressional pressure has made 'hurried changes to impairment rules that effectively relaxed the impact of fair value on the validity of the income statement' (Sonola and Maher 2010: 7). Meanwhile, the IASB has issued *IFRS 9* (November 2009) as part of its IAS 39 replacement project. *IFRS 9* deals with the classification and measurement of financial assets. A series of other pronouncements are planned (Chan 2010).

Turning to accounting procedures themselves, the role of creative accounting has been highlighted as investigations into the collapsed companies continues. A recent, post-symposium, example of this is the revelation, in Anton Valukas' bankruptcy report on Lehman Brothers. Anton Valukas, chairman of Chicago law firm Jenner & Block, was appointed by a bankruptcy court in New York, in early 2009, to report on the causes of the Lehman bankruptcy. The report highlighted the use of a hidden account: Rep 105. The Rep 105 account was used as a short-term measure to structure transactions so as to remove risky assets and liabilities from the balance sheet. In the second quarter of 2008, \$50.4bn Rep 105 account transactions occurred (Christodoulou 2010).

The credit crunch and its aftermath have led to a serious questioning of some fundamental issues of regulation, measurement and disclosure. Some of the most important of these are, inter alia, the political nature of standard setting, the need for a global set of standards, the progress of convergence, a reconsideration of the basics of corporate reporting, and key problems of financial reporting such as fair value and stewardship. These issues are discussed briefly below and then addressed in more depth by the speakers and the associated commentaries. We then provide an overview of the five presentations, drawing out some key themes.

ISSUES RAISED BY THE SYMPOSIUM

There was a fundamental examination of some of the basics of accounting during the symposium and the subsequent audience discussion. There was concern that the present standard-setting regime was heading in the wrong direction in terms of stewardship, fair value and financial statement presentation. The current FASB/IASB conceptual framework, for example, supports the decision-making objective of accounting: stewardship is downplayed. Nonetheless, the focus on decision-making appears at odds with a large section of the academic and professional world, which advocates the importance of stewardship for monitoring and tracking directors.

Similarly, there was much doubt about the focus by standard setters on fair value as a measurement tool. Analysts, practitioners and academics are all critical of its use. Its proponents argue that it merely records the present value of assets in line with their market value and is, therefore, a mirror of the present financial situation. By contrast, its detractors see it not merely as a recording instrument, but as a measurement tool that reinforces trends and, in effect, drives asset prices. Thus, in times of falling asset prices, balance sheet values are driven down. Fair value, in some contexts, and the credit crunch is argued to be one, exacerbates asset trends, causing a pro-cyclical (or self-reinforcing trend). For an in-depth discussion of the conceptual framework debate and the centrality of decision-making, and stewardship and the use of fair value in accounting see the symposium commentaries in Jones and Slack (2009, 2010). Finally, there was widespread scepticism about the wish to replace the present balance sheet format and income statement by a more complex structure. Most users, it was argued, understood and had no real problem with the way that the current financial statements were presented. There was a strong feeling that the current proposals on financial statement presentation were change for the change's sake.

Concern was also raised about the sheer scope and complexity of the financial statements and annual report. Some reports were noted as being 500 pages long, but at that length it was impossible to see the wood for the trees. There was a call for simple, straightforward financial statements. This raised the considerable challenge of how best to reconcile simplicity and brevity with increasingly complex financial instruments reported in financial statements and how to cope with new challenges such as sustainability accounting and reporting.

A final area of discussion was the regulation of accounting. The trend in accounting regulation worldwide for the last few decades has been towards convergence. In particular, there is the road map stemming from the IASB/FASB memorandum of understanding (September 2008) and the Norwalk Agreement (2002), which established a commitment to compatible accounting standards. This involves collaboration on multiple projects with projected completion dates being June 2011 (Sonala and Maher 2010). Our presenters pointed out, however, that even if the US and the IASB could reach agreement then cultural differences between countries in interpretation and implementation would still lead to problems in international convergence.

The politics of international accounting standards were debated. Not only were the tensions between the US and the IASB highlighted, but the Anglo-Saxon approach and the continental, European approach were contrasted. There was also a reconsideration of an often unquestioned tenet of modern accounting that there is a need for a single set of global standards. It was argued that given the systematic difference in the approach to accounting between, for example, Anglo-Saxon and continental, European countries then perhaps two sets of accounting standards rather than one would be better.

Overall, therefore, the symposium questioned and re-questioned some of the basic accounting regulatory and technical issues. The five speakers provided a range of informed, interesting, and above all, provocative opinions. These are now presented, and then discussed, in more depth below.

Symposium papers

Perspectives on international adoption/convergence with IFRS

WAYNE UPTON, DIRECTOR, INTERNATIONAL ACTIVITIES, IASB

Wayne's presentation reflected his own opinions and perspectives on the international adoption of IFRS. As IASB director, international activities, Wayne is a senior member of the IASB staff whose job it is to work with countries, to help them to identify problem areas and to advise countries on adoption and convergence to IFRS.

Wayne initially outlined the key benefits of global IFRS adoption, the challenges and issues associated with convergence or adoption of IFRS, transitional issues and, in particular, the problems associated with emerging economies. Finally, Wayne examined some of the current key technical issues facing standard setters and the IFRS along with relevant policy responses to those challenges.

Global accounting standards are fundamental to achieving a high-quality global reporting system that supports regional and global integration. A key advantage of IFRS is the facilitation of economic investment through increased transparency. Information risk is lowered through uniform global accounting standards resulting in a reduction of the risk premium and a lower cost of capital alongside an increased allocative efficiency of capital within markets. Thus, there is a reduction or elimination of a false risk premium that arises due to current information inefficiencies. The self-evident benefits of global accounting standards are:

- reduction of cost of capital
- increased worldwide investment
- consistent education and training
- increased auditing and accounting efficiencies.

After setting out these fundamental benefits of global IFRS adoption, Wayne turned to the issue of convergence versus adoption. Although Hong Kong was an example of convergence, adoption was, Wayne believed, a superior approach. Ideally, jurisdictions would adopt IFRS (or IFRS for small- and medium-sized enterprises [SMEs] for qualifying entities) as the reporting framework and in doing so convey to capital markets their full compliance and adoption of IFRS. By full adoption of IFRS the audit report and basis of preparation note refers to conformity with IFRS. Further, with full adoption there is no ambiguity compared to the situation in which IFRS has been subject to local variation, endorsement or convergence of local accounting standards. Where a jurisdiction elects to

converge towards IFRS or seeks to adopt IFRS, but with local amendments, a number of further inefficiencies may arise, for example, the costs incurred in implementation and subsequent preparation and auditing of financial statements affecting standard setters, preparers themselves, auditors, analysts, regulators and also academics; the uncertainty for capital markets and for analysts as to what convergence or adaptation has been made towards IFRS; and the local companies in the jurisdiction risking being unable to claim full compliance under IAS 1. Where there has been 'local endorsement' of IFRS, there exists the continued urge to tinker with current and future IFRS adaptation, the resulting time delay and associated costs in implementation and uncertainty as to what the auditors' report should refer to and the basis on which the financial statements have been drawn up.

The full adoption of IFRS, while an aspiration, is sometimes hard to achieve. How a jurisdiction moves towards global standards is a sovereign decision and the basis of that decision is influenced more by other considerations (such as political) than by financial reporting itself. The IASB recognises this by working with the many jurisdictions who are following many different paths as opposed to full adoption. Wayne outlined the generic problems faced by emerging economies moving towards IFRS adoption and the help and advice the IASB provides on adoption and convergence through the provision of local education materials, IFRIC interpretations and amendments to IFRS 1 and other standards. The problem of emerging economies starts with the simple, but complex issue as to what is the definition of an emerging economy and which jurisdictions meet this definition. It is generally recognised that emerging economies do need help and support towards IFRS adoption (and some of the world's largest companies are based in emerging or transitional economies). Three specific reasons for help were outlined. First, there may be a lack of current reporting infrastructure, such as a lack of actuarial valuation, analysts or other regulation. For instance, in Sri Lanka, there is a lack of actuaries to perform actuarial valuations and thus difficulties in adopting pension accounting arise. Second, there may be a lack of market infrastructure with inefficient and thin capital markets, a lack of a regulatory regime and the existence of insider trading reducing confidence in market pricing. Third, the levels of regulation of currency and capital flows in countries such as India may be high resulting in problems of foreign currency conversion and foreign currency translation.

Finally, the presentation moved on to outline some current technical issues and associated regulatory responses. Wayne singled out five key areas (and the main jurisdictions affected) that he predicts to be the big issues over the next 10 years.

1. *Common control business combinations.* A common problem throughout Asia, for instance, is 'brother' and 'sister' relationships and family corporations and their use of pooling of interest accounting. At present, there is no guidance in the IFRS. The current response is that such business combinations are on the IASB agenda as an identified project.
2. *Intangible assets (Australia).* Amendments to IAS 38 are being considered to account for cases in which there is a recognised huge investment in intellectual property that is not reflected in accounting or balance sheet values. For instance Microsoft Office® has a nil value. The IASB has declined to add a specific project to consider this for immediate consideration.
3. *Foreign currency translation (Korea, India and others) and the effects of translation.* The economic crisis has drawn attention to IAS 21 (developed from FAS 52) and accentuated the need for a response to the gravity of the translation issue. As at 31 December 2008 (year end), huge currency losses have been recorded by many countries especially against the US dollar. The IASB has research in process on currency translation and losses.
4. *Islamic financial transactions (Malaysia and others).* There is an urgent need for the IFRS to accommodate Sharia compliant transactions affecting 1.5–1.7bn people worldwide. IASB research has begun into this issue.
5. *Agriculture (Malaysia, New Zealand and others).* It is not obvious that fair value is the answer to account for plantation value and the value of bearer crops. Again IASB research is underway.

Other technical areas noted for consideration included:

- puttable shares and the distinction between debt/equity
- related party transactions and the level of disclosure
- emission rights and trading
- the recognition and valuation of assets and liabilities
- extractive industries and accounting for oil and gas
- conversion from state owned to joint stock company status and the re-measurement of assets and liabilities.

QUESTIONS

Dennis Jullens (UBS) asked about intangible asset accounting and the problems caused by the differing types of intangibles, for instance, drug and software development against trademarks. Wayne stated there was no obvious answer to the problem as the two examples highlighted different sorts of intangibles. In one, a defined project exists (such as drug development) although there is no certainty of outcome compared to the other where no defined project exists, but there is actual existence of a product trademark and the related issue of what can then be measured and defined.

Richard Martin (ACCA) asked Wayne for his views on US adoption/adaption of IFRS. Wayne stated we were at present waiting on the SEC's decision. This was expected by 21 December 2009 but not yet announced. Therefore, Wayne expected a statement in 2010, but still needed resolution on various issues such as lease accounting, financial instruments, pensions and fair value, and revenue recognition as IAS 18 was weak.

David Phillips (PwC) stated that given the changes in the global economy, for instance the growth of the BRIC (Brazil, Russia, India and China) economies did Wayne think that the IASB had to think differently in the future, for instance, about fair value accounting and whether other bases, such as historical cost, still have a place. Wayne believed there is a need to reflect new thinking and the key issues highlighted in the presentation showed current new research and responses to those areas. Nonetheless, some things need fair value such as accounting for business combinations and financial derivatives.

Global accounting standards: an impossible dream or a political nightmare?

KEN WILD, GLOBAL LEADER, IFRS, DELOITTE TOUCHE TOHMATSU

Ken's presentation highlighted some of the issues relevant to the adoption of global accounting standards, such as the problems associated with convergence, cultural norms and rules versus principles based standards, before moving on to discuss political interference. The presentation concluded by focusing on two of the more prominent standards that have been subject to change as a result of the financial crisis and through political interference: IAS 39 and more recently IFRS 9.

Global accounting standards bring a common world language to the communication and reporting of financial information and in order to achieve uniformity there needs to be a harmonious structure for adoption. At present there are two dominant world standard-setters, IASB and FASB, as well as individual reporting standards at a country level. Ken spoke about the convergence of accounting standards to IFRS. He recognised that, while convergence is often an obvious path, and certainly preferable to ignoring global standards or even divergence, it does not result in a common language and thus is not uniformity of adoption. Convergence may be seen as a step on the way to achieve uniformity but he stressed there needs to be adoption of IFRS not convergence or selective adoption of parts of standards. Without adoption of a single set of standards, annual reports in individual countries will remain nationally-based with local 'dialects' in their preparation. As well as country specific convergence issues, Ken also considered the impediments to IFRS adoption arising from the differing cultural background of countries. For instance, Anglo-Saxon, principles-based, independent regulation versus continental law-based accounting systems which are often subject to the influence of the state. Similarly, in the US, accountants are trained to follow rules, and there would probably need to be a significant cultural shift in approach, possibly necessitating some retraining of the whole accountancy profession, if accounting standards were to be set out just as principles be adopted and followed.

For global adoption clearly the standards need to reflect a good product, but for some jurisdictions adoption would also necessitate legal adoption and recognition. This introduces the possible necessity of local endorsements, which in turn allows politics to creep in, giving politicians the opportunity to intervene or interfere. Given recent events in Europe, and examples of compromise politics in the accounting arena, for instance, over carbon emission trading and quotas, political interference is a real issue.

To highlight the problems of politics in accounting standards, Ken examined the events from 2008 to the present relating to IAS 39 amendments and IFRS 9 endorsement.

1. IAS 39 AMENDMENTS

There was controversy over the use of fair value and reporting on financial derivatives under IAS 39 and amendments to it in October 2008 in response to the global financial crisis. The IASB was criticised for its lack of consultation and due process arising from the speed of the change, but this was against a background of specifically European demands for a quick response and action. By Spring 2009, there were further European calls for a 'quick fix' that must be implemented for 2009 year ends, causing more uncertainty of financial reporting and problems due to tight timescales for any implementation.²

Ken ended his overview of IAS 39 amendments with the G20 statement issued on 25 September 2009 recognising global accounting standards, but in the context of national standard setting:

We call on our international accounting bodies to redouble their efforts to achieve a single set of high-quality global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011.
(G20 Leaders' statement – 25 September 2009)

Nonetheless, counter to the G20 message regarding global accounting standards, subsequent commentators have raised doubts and also once more highlighted interference at a country and/or regional level. For instance, the AXA chairman was quoted in the *Financial Times* as stating that accounting standard setting is 'an instrument of political sovereignty' and 'far too important to leave to accountants'.

2. For a full review of the events surrounding the IAS 39 amendments readers should also refer to Ian Mackintosh's commentary and subsequent discussion in Jones and Slack (2010).

2. IFRS 9 ENDORSEMENT

This followed on from IAS 39 amendments as the new battleground for global accounting standards. A fast-track endorsement process was set out by the EU as follows.

- 10 November 2009
Economic and Financial Affairs Council (ECOFIN) meeting
- 11 November 2009 (am)
European Commission stakeholders' meeting
- 11 November 2009 (pm)
Accounting Regulatory Committee (ARC) meeting – IFRS 9 agenda item for discussion
- 19 November 2009
ARC meeting – IFRS 9 vote
- 20 November 2009
Latest date that IFRS 9 could be referred to European Parliament for endorsement in time for 2009 year end reporting.

On 12 November, mid-way through the fast-track process the European Financial Reporting Advisory Group (EFRAG) commented: 'it has been decided that more time should be taken to consider the output from the IASB project to improve accounting for financial instruments'.

In the light of these two examples, there is divergence of views resulting in a move away from, rather than towards, adoption of global accounting standards and potential uncertainty created by political interference. Moreover, there is now a French internal markets commissioner, and we have yet to see what political effect this may constitute in the light of global accounting standards adoption.

QUESTIONS

Dennis Jullens (UBS) asked how far Ken thought we have progressed in losing 'accents' in Europe and accepting IFRS. Ken acknowledged that financial reporting and accounts were now within a narrow bandwidth and that this has narrowed over time although there was not uniformity. There also remained the problem of, in Donald Rumsfeld's terms, 'unknown unknowns'.

Richard Martin (ACCA) commented on the intervention of politicians in times of economic need and the importance of the issues at stake and the consequent need for political accountability. He then asked about the future governance of the IASB and the need for an independent standard-setting model. Ken believed that governance needs to be right and transparent, but not achieved through interference. If there is a need for change then there should be regulatory change but not political interference.

Martin Walker (Manchester Business School) reflected on bank dividends paid between 2001–05 on the back of, inter alia, fair value gains. This led to a discussion of market pricing efficiency and fair value and whether the stock market was able to price shares correctly when those shares were traded at inflated prices in the period immediately prior to the financial crisis. Whereas Martin felt the market can get things wrong, Ken believed that markets priced securities at their trading value which was neither right nor wrong.

The future of corporate reporting after the credit crunch

DAVID PHILLIPS – SENIOR CORPORATE REPORTING PARTNER, PRICEWATERHOUSECOOPERS

David outlined the need for more extensive corporate reporting rather than the recent and current focus on financial reporting and the detailed considerations of measurement issues that had dominated reporting agendas. What is important is the context of reporting, which ought to facilitate a wider understanding of a company through the reporting of, for instance, sector issues, governance, sustainability, strategy and risk. In the wake of the financial crisis, and lessons learnt from previous corporate failures such as Enron and Worldcom, there is an opportunity to rethink current reporting beyond the measurement debate of fair value versus historical cost. There is a greater need to address the relevance of reporting to reflect the disclosure of joined up thinking as well as to provide greater reporting of, and accountability for, the corporate footprint on issues such as wealth creation, employment, consumption, waste and carbon. Companies should report on what they are doing about such issues and how they can provide an information set with multiple stakeholder views, rather than reporting just to satisfy a rules-based compliance mindset.

Within the economic system, financial information, reporting and standards are akin to the oil in the engine enabling information exchange to, and decision-making by, multiple stakeholders ranging across shareholders, fund managers and independent regulators. In fact, current reporting is sub-optimal, dominated by financial reporting rather than providing more balanced, wider corporate reporting. There is now a need for a common reporting framework for public companies. There has been a disproportionate amount of time spent by the IASB on measurement and a consequent lack of focus on corporate reporting. The credit crisis has emphasised the importance of reporting context and the inter-relationships, for instance, of market context, governance, business models, risk, remuneration, culture and values, and performance. The need for the appropriate linkage and alignment of issues within reporting such as the inter-relationship of strategy and risk factors has also been highlighted. These issues should not be addressed within silos as they are interdependent, although, as reporting increases there is a trade-off between volume versus effective communication and the need to 'see the wood from the trees'. Despite its volume of over 500 pages, David drew attention to the 2008 HSBC annual report for its chairman's statement and the insights given into performance.

At present, while there has been an increase in the 'front-end' voluntary narrative of the annual report there is a disparity between the actual reporting quality of the information provided and concerns over its decision usefulness. For instance, while 80% of global top 500 companies reported on strategy and risk, 20% did not, and worse, only 30% of companies explained their key performance indicators (KPIs). Such weakness in reporting highlights the enormous shortcomings of non-financial reporting and the need to understand the overall framework within which a company operates.

One area that has seen a dramatic increase in reporting is sustainability, although there are risks that this is viewed as a sideshow activity, rather than as a main reporting area, and that it is siloed along, with corporate responsibility reporting, with little strategic linking. The level of integrated reporting is, however, increasing in this area as the dynamics of climate change are being recognised by companies and stakeholders and the consequent need for greater mainstream reporting and reporting responsibility. There remains, however, demand from money managers (fund managers and analysts) for measurement, cash flow and valuation compared to the demands of governance managers for more balanced environmental, social and governance (ESG) reporting and the link of strategy to KPIs and remuneration.

A further issue that David raised was whether boards of directors (and for that matter other informed stakeholders) fully understand financial reporting and annual reports or whether this is now only true of the technical elite? At a broader level, there are concerns that management adopts a compliance-based, rather than a pro-active, mindset toward reporting and that investor relations has suffered a parallel process. Boards of directors have become increasingly remote and excluded from reporting. Moreover, the current reporting model does not support effective oversight by non-executive directors or shareholders. Auditors themselves now, increasingly as a result of regulatory reporting complexities, spend a disproportionate amount of time on technical reporting issues rather than on value-maximising recommendations and advice on a company-wide perspective. This leaves investors spending more time trying to understand financial reporting complexities, which may lead to them ignoring other significant elements to the detriment of their decision making.

David's presentation ended with his views on the way forward and a re-thinking of the reporting landscape and a framework for the development of corporate, rather than financial, reporting. Multiple stakeholders, including inter alia, shareholders, investors, the accounting profession, intergovernmental organisations, regulators and standard setters, would need to rethink the scope of the reporting model for both financial and non-financial information. The reporting framework should provide political accountability, effective governance and a full strategic oversight of companies. Such a rethink is consistent with the outcomes of a sustainability reporting meeting held in February 2009 hosted by HRH Prince Charles and attended by all the main accounting firms. Two propositions came from the meeting: the need for an integrated reporting model and for a new internationally connected reporting committee to foster and facilitate the development of the model, with sponsorship of the G20, so as to move reporting beyond financial reporting.

QUESTIONS

Hugh Welsh (ACCA) asked how the role of auditors would change if the reporting model changed. David said the role would need to be recalibrated so as to consider whether auditors are doing the right job at present, even though they are doing their current job well. This raised a normative question of what should they be doing in the future.

Zhan Gao (Lancaster University) asked about the balance between greater disclosure and competitive advantage through the release of greater and perhaps more commercially sensitive information. In response, David felt that companies could still go far further in current disclosure before they are in a position where they release commercially time-sensitive information to competitors.

Richard Slack (Northumbria University) raised the issue that given the ramifications of the current credit crisis and market turmoil would not analysts and other capital market participants become even more focused on financial reporting and not be interested in any additional non-financial reporting. The discussion that followed highlighted the need for a change in the overall reporting model so that non-financial disclosure would be decision useful and also be useful in providing an appropriate context for understanding reporting companies and their actual reported financial position.

The future of financial reporting: an analyst's view

DENNIS JULLENS, ANALYST, EUROPEAN HEAD, VALUATION AND ACCOUNTING RESEARCH, UBS

Dennis began his presentation by looking at views of financial reporting from two publications: *Breakingviews* and *The Accounting Onion*.

Take a look at the report and accounts of that large company you have shares in. Ignore the happy smiling people. Can you understand the figures? Can you, with reasonable non-accounting knowledge, tell whether last year was good, bad or indifferent? Can you say whether the enterprise is more valuable at the end than it was at the start? Increasingly, the answer to these questions is: dunno. (Breakingviews, 22 December 2009)

My objective in pointing out that analysts may be somewhat indifferent to submitting comments of their own on SEC/FASB rulemaking proposals is to make the point that it is a grave mistake for policy makers to believe that analysts are interested in accounting rules that make the world a better place. (The Accounting Onion, 28 December 2009)

A central theme of the presentation was: 'Do analysts really need financial reporting?' An analyst's key role is to derive target equity values. Dennis produced a model to demonstrate this. In short, financial information should assist analysts in estimating fundamental value that reflects risk and return. In overview, there are two ways to distinguish between valuation methods: equity versus enterprise value and discounted cash flow versus valuation multiples. There are various approaches to establishing equity value, such as the dividend discount model, price earnings (PE) and price to book value. Similarly, for enterprise value there is enterprise free cash flow, economic value (EV), earnings before interest, taxation, depreciation and amortisation (EBITDA). These approaches are shown in Figure 1.

Figure 1. Approaches to target equity values

	Discounted cash flow	Valuation multiples
Equity value	Dividend discount model	PE, price-to-book value
Enterprise value	Enterprise free cash flow	EV/EBITDA

Financial information should assist analysts in estimating fundamental value that reflects risk and return.

Dennis then proceeded to look at financial reporting from an analyst's perspective. Analysts wanted three main things from financial reporting. First, consistent treatment of similar transactions across companies. Second, substance over form, with accounting to reflect the underlying economics. Third, simple, understandable and straightforward financial statements.

Analysts views on measurement (fair value versus amortised cost) are that both measurement bases have merits in financial reporting. First, there is support for the historical cost view in that operating assets and liabilities at amortised cost can be used to gauge returns. Second, there is also some support for the view that financial assets should be valued at fair value, but Dennis was not sure about financial liabilities. There is no support, however, for a full fair value model for all assets and liabilities.

Dennis also presented some analysts' views on earnings measures. The investment community loves summary measures of earnings, such as EPS and net income. Generally, analysts will, however, ignore information recorded under other comprehensive income. Analysts find that IFRS provides limited guidance on the presentation of earnings so analysts adjust reported earnings to reach underlying profit.

Ideally, IFRS should provide an earnings number that is widely accepted as best reflecting the performance of the business. In general, analysts consider that the financial reporting model is not broken and therefore the format of current financial statements does not need to be radically changed. There is a risk that the management approach as applied to segmental reporting and financial statement presentation reduces comparability. In addition, analysts expressed a clear preference for the indirect cash-flow method. They agree with the objectives of 'cohesiveness' and 'disaggregation' but are not convinced of the proposals to achieve them. Dennis then turned to non-GAAP earnings: in his view analysts feared them.

With regard to the banking sector the disclosures in the annual reports of 15 European banks was varied, although increasing volumetric disclosure is not necessarily the answer. One bank's annual report was 700 pages in length. Analysts do not see the replacement of IAS 14 on segmental reporting, which requires primary and secondary disclosure, with IFRS 8 as an improvement. IFRS 8 brings IFRS in line with US GAAP. The management

approach now drives segmental reporting, which Dennis believed was a mistake.

Dennis also commented on IFRS. He saw IFRS as a great improvement. However, differences in local application of IFRS caused problems. There have been improvements in key accounting areas such as the measurement and disclosure of financial instruments. Analysts sometimes struggle with the principles-based nature of IFRS.

If IFRS is to increase comparability it needs an enforcement mechanism. Analyst views on convergence are that everyone likes the concept of global accounting convergence. Even so, the most important thing is high-quality accounting standards. The sell side investment community is, however, still to a large degree organised regionally.

Analysts believe that four main developments are needed for future financial statements. First, comparable key performance metrics, such as margins, returns and income. Second, consistent treatment of similar transactions across companies. Third, substance over form, with accounting to reflect the underlying economics, and finally, simple, understandable and straightforward financial statements.

Dennis completed his presentation by posing a question: Is a piecemeal process or a big bang needed to meet the needs of the investment community?

QUESTIONS

Richard Martin (ACCA) asked whether UBS used XBRL. Dennis replied that it did not. UBS has an extensive database, which makes life easier for them. Accounts are useful not in themselves but as building blocks so that they can create the final product.

Pauline Weetman (Edinburgh University) queried how we could have simple straightforward financial statements when transactions were inherently complicated. Dennis replied that several components of the financial statements could be simplified.

Accounting for (varieties of) capitalism

MARTIN WALKER, PROFESSOR OF FINANCE AND ACCOUNTING, MANCHESTER BUSINESS SCHOOL

We present here only a summarised version of Martin's paper. Interested readers will find the full paper in the *British Accounting Review* (Walker, 2010).

The presentation began with a well known topical quote from Donald Rumsfeld, former President George Bush's secretary of state.

As we know, there are known knowns. There are things we know we know.

We also know there are known unknowns.

That is to say we know there are some things we do not know.

But there are also unknown unknowns, the ones we don't know.

The G20 plan calls for the 'key global accounting standards bodies' to work intensively towards the creation of a single, high-quality global standard. Thus, implicitly the current international accounting standards are not high quality. The collapse in the global financial system seems to confirm this. So is the call for a single standard entirely wise? After financial scandals politicians often respond in haste. The proposed cures often have undesirable and unanticipated consequences, eg the Sarbanes–Oxley Act 2002.

Martin wanted to challenge the G20's call for a single accounting standard. He argued that the optimal design of accounting standards depends on the institutional characteristics of the political and economic system. Several varieties of capitalism exist and it is not obvious which is 'best'. Moreover, the existence of different varieties of capitalism arguably promotes economic progress. A cautious approach to the imposition of a single set of global accounting standards for all companies is therefore necessary.

The right to set the accounting standards for the entire world is a very significant monopoly power, which ironically is supported by believers in unrestrained and competitive markets. In Martin's opinion, however, there are fundamental problems in granting such a global monopoly: widespread disagreement about the conceptual framework; the need for accounting standards to reflect modern thinking on the economics of risk and uncertainty; and the need for accounting to be tailored to different ways of doing business.

The responses to FASB's 2006 draft conceptual framework revealed fundamental disagreements about the scope and objectives of financial reporting. The American Accounting Association's (AAA) written response by Joel Demski was highly critical on four grounds. First, the AAA believes the preliminary conceptual framework is too focused on an investment role of accounting and neglects the more important role of stewardship. Second, a reliance on fair values not grounded on actual relevant market transactions (such as 'mark to model' numbers) is not trustworthy and is harmful to accounting's relevance and usefulness. Third, the AAA feels that given a managerial bias towards optimism, conservative standards are required to produce neutral accounting numbers. Fourth, the AAA believe the FASB's standards should not be based solely on a conceptual framework. The AAA advocates allowing companies more flexibility in their reporting choices to allow market forces a greater role in standard setting.

The neglect of stewardship in the conceptual framework has also been heavily criticised elsewhere, eg the UK Shareholders Association (IASB website) commented that the accounting proposals attack shareholder rights and damage their interests. There is no emphasis on the fact that accounts are the mechanism through which directors of companies 'account to the shareholders'. They saw decision usefulness as a vague concept. Surprisingly to Martin, FASB and IASB interpreted these responses as being supportive of their world view! In the second draft, some stewardship arguments were reluctantly accepted by FASB.

The conceptual frameworks of the IASB and the FASB have not changed much since FASB's conceptual framework of the early 1970s. This is surprising given the very considerable advances in the economics of uncertainty over time, especially the recognition of the central importance of market incompleteness. Beaver and Demski (1979) were among the first accounting academics to recognise the importance of the perfect and complete markets assumption. Their article demonstrates that a fundamental income measure will not exist when markets are imperfect and incomplete. They seek to compare a given structure of incomplete markets with the theoretical ideal of perfect and complete markets, but they do not explore the possibility that the set of markets is itself endogenous. They conclude a motivation for income

reporting must rest on the improved resource allocations and not on such criteria as 'more income is better than less' and that 'choice of an income rule cannot be resolved by applying fundamental measurement arguments'. Martin contended the same arguments can be applied to asset valuations.

Another important response to imperfect or incomplete markets is to replace the market by a firm. Coase (1937) establishes that 'firms exist because of the costs of using the price mechanism'. Ball's 'The Firm as a Specialist Contracting Intermediary' (1989) was the seminal accounting paper to discuss the functional completion of contracts (i.e. set out ex ante a set of implicit and explicit rules, practices and procedures for determining payoffs ex post) in contrast to contracts complete by enumeration (i.e. enumerate the set of all possible states ex ante and specify a one to one mapping from states to agreed payoffs). Such arrangements often require some form of adjudication function. Ball (1989) introduces the notion of quasi-prices to capture a largely unobservable price system, often implicit rather than explicit, and internal to the firm. He points out that if quasi-prices were the same as the prices that would have been agreed by trading in markets then the firm would be irrelevant and not need to exist. Firms exist because their internal implicit quasi-price systems are superior to market prices.

Understanding that firms exist in order to replace poorly functioning or non-existent markets points to the need for accounting measures that will plan and control economic activity in the absence of the market. Martin saw this as a problem in using market determined 'fair values' to measure the performance of entities that exist because they are able to plan and control economic activity more efficiently than markets. If firms exist because markets do not work then what is the logic of using fair values to measure their performance?

The FASB/IASB conceptual framework of the financial system is based on five assumptions. First, the financial system is a set of markets for the securities of, mostly industrial, companies. Second, the main sources of finance for companies are the security markets. Third, the investors in security markets are private individuals. Fourth, security market prices communicate all the information that investors and corporate managers need to know in order to make economically efficient investment choices and optimal risk sharing. Fifth, the trading choices

of investors can be relied upon to govern the investment and operating choices of company managers.

In fact, the last 30 years or so of research into corporate finance, corporate governance and financial economics suggest that real world financial systems are not like this at all. Allen and Gale (2000), for example, show considerable worldwide variation in the organisational and institutional forms of financial systems. Most of this variation reflects the outcome of successful adaptations to the needs of a particular economy (ie the variations embody valuable institutional capital). Financial systems are complex and highly interdependent, and individual components of the system tend to become adapted to each other over time. The demands for forward-looking value relevant information and information for stewardship and control purposes differ considerably between alternative financial systems. Thus, it is not safe to assume that an information system optimised for a stock market-based economy will also be an optimal system for different financial circumstances, for instance, continental European, Chinese and Islamic systems.

Since the 1980's research has produced a substantial body of literature on the identification, analysis and comparison of alternative forms of capitalism. This vast literature has recognised the importance of coordinating institutions other than markets and individual firm hierarchies (non-market coordinating institutions [NMCI]). There is general agreement that the main contingent factors distinguishing one type of capitalism from another is the way that NMCI are structured and operate within a particular economy.

There are two main varieties of capitalism: liberal market economies (LMEs) and coordinated market economies (CMEs). LMEs are those that are close to the Coasian economy in which NMCI have a limited role. CMEs are those in which NMCI play a major coordinating role. The efficiency of a coordinated market economy depends on the extent to which its NMCI are complementary.

Recognising the importance of NMCI requires the enforcement of cooperative agreements between diverse parties. Often these agreements and enforcement arrangements will be implicitly maintained on the basis of trust and reputation. The survival of NMCI in the long run will reflect how they accommodate the costs and benefits arising from unknown unknowns.

At times of great uncertainty and change, the advantages of variety can be appreciated. Variety creates a greater range of options with which to respond to unexpected events. Ashby's Law of Requisite Variety (1956) states: 'only variety can destroy variety'. In biology, the organisms or genes that become extinct are those unable to generate mutations sufficiently rapidly to respond to an evolving environment.

Douglas North stresses the importance of Knightian uncertainty, in understanding the role of institutions in society.

Conformity can be costly in a world of uncertainty. In the long run it produces stagnation and decay as humans confront ever new challenges in a non-ergodic world that requires innovative institutional creation because no one can know the right path to survival. Therefore, institutional diversity that allows for a range of choices is a superior survival trait, as Hayek has reminded us. (North 2005: 42)

Europe is blessed with a significant variety in the ways of doing business. Germany is often cited as the leading example of a successful CME and the UK as a leading LME. These countries have, for example, different approaches to contract law. France is often cited as a classic case that highlights the role of the state in encouraging the economy. It is crucially important that EU policymakers understand the strategic importance of this variety. There is a strong tendency among European politicians, bureaucrats and lawyers to frown on this variety. Martin believes that the single European market project should be much more about encouraging competition and cooperation between varieties of capitalism and much less about racing to standardise the EU economy into a single economic model.

To date, the issue on which international accounting policymakers have focused is the choice between a single global standard and separate standards for all national economies. In fact, there is no reason for such a restricted choice. There could easily be a separate standard for every major trading bloc. Sufficient flexibility in accounting standards is necessary to allow them to accommodate different types of economic systems, different ways of doing business (ie varieties of capitalism).

In their authoritative and highly-instructive analysis of worldwide financial reporting, Benston et al. (2006) conclude: 'on balance, therefore, we believe that "constrained competition" within a small set of high-quality standards offers the most feasible and flexible setting to cope with increasingly global capital markets'. Martin agrees but focuses not on the need for competition between standards but on what he terms the bigger question of the need to encourage and foster competition between different varieties of capitalism.

Martin concludes that the world should consider establishing at least two new global accounting standards: for 'liberal market economies' and for 'coordinated market economies'. The role of the IASB should be limited to providing a set of accounting standards that when tailored would be suitable for use in the two sets of capital markets. Listed firms should be allowed to choose between their own domestic standards or one of the two global general accounting standards.

The forced adoption of single form of accounting runs the risk of severely restricting the development of different forms of capitalism. It also privileges one particular way of doing business over alternative forms that currently exist or, more importantly, may exist in the future.

QUESTIONS

David Tyrrall (ACCA) asked whether Martin should give his views to standard setters as he thought Martin believed they had the wrong answer. And he also wondered whether he wanted more than one non-market coordinating institution. Martin responded with a number of points. He had presented an argument that reflected current concerns about the robustness of one particular form of capitalism (ie stock market based capitalism). Thus far the design of international accounting standards has been dominated by the need to encourage trading in stock markets, capital market (CAP) GAAP. Martin views the economy from the perspective of complex 'biological' systems, and he believes that there are different ways of doing business, different forms of capitalism. Limiting all firms to adopt a form of accounting designed to maximise trading in shares, CAP GAAP, may stunt the development of different ways of doing business. For example, the kind of accounting that is best for family firm-based capitalism is not necessarily CAP GAAP. If one believes that stock market-based capitalism is the best way of doing business, and that it will always be the best way of doing business, then having a single form of CAP GAAP makes sense. Conversely, if you believe that other forms of capitalism should be encouraged to survive and develop then forcing all firms in all jurisdictions to use CAP GAAP is potentially dangerous. In biological terms it is somewhat like transplanting the genes of a tree into the genes of a human being. For alternative forms of capitalism, CAP GAAP is a rogue gene!

Summary of speakers' presentations

The five speakers presented a variety of diverse arguments and ideas, with some common themes apparent. A summary of their respective views is given below, followed by a synthesis of these themes.

WAYNE UPTON, DIRECTOR, INTERNATIONAL ACTIVITIES, IASB

Wayne spoke from the perspective of a senior member of the IASB concerned with standard setting. He initially outlined the benefits of global IFRS adoption. He saw these as reduction in cost of capital, increased worldwide investment, consistent education and training, and increased efficiency in auditing and accounting. Wayne believed the ideal situation was one in which jurisdictions fully complied with and adopted IFRS. He saw local 'endorsement' of IFRS as a problem, causing, for example uncertainty. However, he admitted that local adoption was a sovereign decision. Emerging economies, his particular area of expertise, he saw as in particular need of help. They often had a lack of current reporting infrastructure and their methods of regulating currency and capital flows, sometimes, as in the case of India, caused problems of foreign currency conversion and accounting. Wayne then looked at five key areas that he expected to be big issues over the coming decade: common control of business consolidations (for instance, in Asian 'brother' and 'sister' relationships and family corporations); intangible assets (for instance Microsoft Office® having a value of zero), a further example of this discussed in the question and answer session was the difference in intangibles (eg drug and software development vis-à-vis trademarks); foreign currency transactions (Korea and India and the problems of huge currency losses against the US dollar); Islamic financial transactions (Malaysia, ie the need for IFRS to accommodate Sharia compliant transactions, which cover 1.5–1.7bn people); and, finally, agriculture (Malaysia, New Zealand) and particularly how to apply fair value to plantations and bearer crops. Other technical issues were briefly discussed such as puttable shares and related party transactions.

KEN WILD, GLOBAL LEADER, IFRS, DELOITTE TOUCHE TOHMATSU

Ken talked from the perspective of an accounting professional. He saw global accounting standards as bringing a common world language to financial reporting communication. Convergence between IASB, FASB and at the individual country level is an obvious route however, individual countries will still have local dialects. Ken acknowledged in the question and answer session there has been a reduction of accents in recent years. The cultural background of certain countries was crucial (eg Anglo-Saxon principles based on independent regulation versus continental law-based accounting systems influenced by the state). Similarly, US accountants are very much trained to obey rules. For some jurisdictions, legal adoption was necessary. This would lead to local endorsement and thus introduce an element of politics. A good example of this discussed by Ken was the controversy over IAS 39 where under pressure from European regulations, the IASB was accused of a lack of consultation and due process in its response. In the discussion which followed, Ken believed, in connection with fair value, that markets put things at their trading value which is neither right nor wrong. By contrast, Martin Walker thought markets could get things wrong. Ken mentioned that the G20 had recognised global accounting standards, but in the context of country standard setting. There are countervailing voices; for example, the AXA chairman stated that accounting standard setting is an instrument of political sovereignty and 'far too important to leave to accountants'. Finally, Ken ended on a final controversial note, pointing out that there was now a French internal markets commissioner who might play an important political role in relation to the IASB.

DAVID PHILLIPS, SENIOR CORPORATE REPORTING PARTNER, PRICEWATERHOUSECOOPERS

Like Ken Wild, David Phillips spoke from a professional accountant's standpoint. David felt there needed to be greater reporting on the context of reporting, for instance, on sector issues, governance, sustainability, strategy and risk. Corporate failures, such as Enron and WorldCom, have given us the opportunity to rethink accounting on issues, such as wealth creation, employment, consumption, waste and carbon. Financial information was characterised as being the oil in the engine enabling information exchange and decision making within the system. There was a disproportionate time spent by the IASB on measurement, but a lack of focus on corporate reporting. The reporting context was crucially important. There was a trade-off between volume and communication and a need to see the wood from the trees. Although there has been an increase in annual report, 'front-end', voluntary narratives, there were still concerns over its decision usefulness. There were, for example, 20% of the top 500 world companies that did not report on strategy and risk and 70% that failed to explain their KPIs. In the question and answer session, David thought that companies could disclose more without compromising their competitive advantage by disclosing commercially sensitive information. Sustainability reporting has increased dramatically. Nonetheless, the integration of this with conventional accounting had not been great. David outlined some broad current problems: whether boards of directors fully understood financial reports; whether management adopts a compliance approach rather than a pro-active process; whether there is effective oversight from non-executive directors and shareholders; whether auditors spend a disproportionate time on technical reporting rather than on value-maximising recommendations; and whether investors are spending more time trying to understand financial reporting. There was now a need to develop a corporate rather than a financial reporting framework, which would provide political accountability, effective governance and a full strategic oversight. This would need a recalibration of the auditors' role (raised in the questions and answers session). This is consistent with the sustainability reporting meeting (in February 2009) that highlighted the need for an integrated reporting model and a new internationally connected reporting committee.

DENNIS JULLENS, ANALYST, EUROPEAN HEAD, VALUATION AND ACCOUNTING RESEARCH, UBS

Dennis gave his presentation from the perspective of a financial analyst. A key role of analysts is to determine target equity values. In short, financial information should help analysts to estimate fundamental value that reflects risk and reward. He saw the valuation choice as lying between equity value (eg dividend discount and PE) and enterprise value (eg enterprise free cash and EV/EBITA) as well as discounted cash flow versus valuation multiples. Dennis believed analysts wanted four things: consistent treatment of similar transactions; substance over form; simple and understandable financial statements; and comparable key performance indicators. In the questions and answers session, he felt that complicated financial statements could be simplified. Analysts supported historical cost for operating assets and liabilities, had some support for valuing financial assets (but not necessarily financial liabilities) at fair value, but did not support a full fair value model. Analysts love summary measures of income, but find IFRS provides limited guidance on presentation. Analysts, therefore, adjust reported measures. Analysts did not see the need for the current IASB financial statement presentation model. There was a risk that the management approach, as applied to segmental reporting and financial statement presentation, would reduce comparability. Analysts preferred the indirect cash flow method. Dennis disliked IFRS 8 on segmental accounting. Although IFRS was a great improvement, there were still local application problems. IFRS needs an enforcement mechanism to increase comparability.

MARTIN WALKER, PROFESSOR OF FINANCE AND ACCOUNTING, MANCHESTER BUSINESS SCHOOL

Martin's paper was presented from an academic standpoint. He focused very broadly on two different ways of accounting for capitalism. The G20 had called for the creation of a single set of high-quality global standards. This presupposes that the present set is not high quality. Martin stressed the danger of knee-jerk reactions to major accounting scandals. There were different versions of capitalism and a single global accounting standard-setting body would have a monopoly. Martin presented American Accounting Association's criticisms of the present draft conceptual framework. He cited Joel Demski of the American Accounting Association: the neglect of stewardship, the reliance on fair values, the neglect of conservatism and that the notion relevance was too broad to be useful for specific standards. The neglect of stewardship has been widely criticised elsewhere. The conceptual framework has not changed much since the 1970s. Martin found this surprising given that Beaver and Demski (1979) had recognised that a fundamental income model will not exist when markets are imperfect and incomplete. There is also the point that the level of completion of a market is dependent upon the function of the quality of information. Martin also mentioned that another response to imperfect markets was to replace the market with the firm. The FASB/IASB conceptual framework is based on five assumptions: the financial system is a set of markets for the securities of companies; the main sources of finance are security markets; investors are private individuals; security markets communicate all information investors and managers need to make efficient investment choices and optimal risk strategy; and investors' trading choices can be relied upon to govern investment and operating choices. Yet research has demonstrated that real-world systems are not like that. Recent research demonstrates the role of NMCI's. Martin saw two main varieties of capitalism: LMEs in which NMCI's have a limited role; and CMEs in which NMCI's play a major coordinating role. Martin stated that at times of great uncertainty and change, variety can be appreciated. This is nowhere clearer than in Europe with Germany a CME and the UK a LME. Martin felt that there was no need to restrict choice to one single global standard. Consideration should thus be given to two sets: one for LMEs and one for CMEs.

OVERVIEW OF THEMES AND PRESENTATIONS

As Table 1, on the next page, shows, there was a great variety in the issues covered from five very different perspectives. Wayne Upton's presentation looked at the benefits and problems of setting global standards from a standard-setter's perspective. By contrast, Ken Wild and David Phillips gave a professional accountant's viewpoint. While Ken, like Wayne, focused on standards and the political nature of the standard-setting process, David focused on the need to provide a broader context to accounting that involved risk, narrative accounting and sustainability. Martin Walker also focused on standard setting. His perspective was, however, very different – in particular, he argued for multiple global standards derived from his analysis of the current problems facing financial reporting. Finally, Dennis Jullens provided, from an analyst's perspective, an overview of what analysts need from financial reporting and some current problems.

Table 1. Thematic overview of the five presentations

Speaker	Perspective	Main issues
Wayne Upton (director, international activities, IASB)	Standard setters	<p>Benefits of global standards.</p> <p>Problems of adoption and endorsement.</p> <p>Special problems of emerging economies.</p> <p>A series of technical issues that were work in progress: European banks; puttable shares; income taxes; related party transactions; common control; intangibles; emissions; regulated industries; foreign currency; extractive industries; IFRS; Islamic transactions; agriculture; conversions from state owned to joint stock company status.</p>
Ken Wild (global leader, IFRS, Deloitte Touche Tohmatsu)	Professional accountant	<p>Role of global standards.</p> <p>Historic perspective of standard-setting.</p> <p>Convergence (IASB and FASB) and uniformity.</p> <p>Importance of culture.</p> <p>Endorsement of standards.</p> <p>Fair value and the political nature of standards and standard setting.</p>
David Phillips (senior corporate reporting partner – PricewaterhouseCoopers)	Professional accountant	<p>Importance of corporate reporting.</p> <p>The crucial nature of the context of accounting (eg risk, business model).</p> <p>Sustainability accounting.</p> <p>Importance of accounting narratives.</p> <p>XBRL.</p> <p>The flaws of present model.</p> <p>Technical complexity.</p>
Dennis Jullens (head, valuation and accounting research, UBS)	Analyst	<p>Technical complexity of accounting.</p> <p>Nature of value and profits.</p> <p>Non-GAAP disclosure.</p> <p>Fair value.</p> <p>Earnings.</p> <p>Financial statement presentation.</p> <p>State of convergence.</p>
Martin Walker (professor of finance and accounting, Manchester Business School)	Academic	<p>Problems with convergence.</p> <p>Difficulties with conceptual framework (in terms of stewardship, prudence and fair value).</p> <p>The possibility of two sets of global standards.</p>

As can be seen as well as converging on several themes (such as global standards, adoption and endorsement, and fair value), there was a widespread and eclectic set of topics covered (such as the special problems of emerging economies, various technical issues, the need to take into account the context of accounting, sustainability accounting, narrative information, non-GAAP disclosure, financial statement presentations and the problems with the conceptual framework, such as stewardship, prudence and fair value). We discuss below some of the common themes.

All the speakers looked at global convergence, but from different aspects. Upton, as might be expected, was an advocate of global standards pointing to their self-evident benefits (eg reduction in cost of capital). He did, however, point to the problems of making sure that there was full adoption not adaptation. This viewpoint was echoed by Wild who was also, in general, supportive of convergence, although he also mentioned the problems of achieving a common language without dialects. Phillips and Jullens were, however, somewhat more critical while Walker was very much against convergence. Phillips felt that a disproportionate amount of time had been spent on measurement and that there should be a much wider focus on corporate reporting rather than just on financial reporting. Jullens, felt that IFRS had brought improvements, however, there were still problems in the local application of IFRS and in certain areas, such as financial statement presentation and segmental reporting. Walker was very critical of the current global standard-setting regime. He pointed out the widespread criticism of the conceptual theory in terms of the neglect of stewardship, the lack of attention to prudence and the reliance on fair value. He also felt that the reliance on only one global standard setting body was not necessarily correct. He pointed out that in the natural world variety is seen as good. He thus advocated at least two possible sets of global standards.

Walker's work draws on a lot of current unease within the accounting community, particularly the academic community. For example, when the delegates to the symposium were asked their view on whether the IASB had the correct approach to stewardship, 20 out of the 21 delegates who voted did not feel that the IASB had the right approach. On financial statement presentation all 15 delegates who voted felt the IASB's approach was not correct.

Fair value was another topic on which there was a diverse set of views. In general, however, these views were in one way or another all critical. Ken Wild pointed to the problems that the controversy over the use of fair value and reporting, and financial derivatives had caused. This was echoed to some extent by Wayne Upton, who questioned whether fair value was appropriate for some agricultural activities such as plantations. Jullens stated that although there was some support for the use of fair value for financial assets, there was not full support for a fair market value model for all assets and liabilities. Phillips contended that too much time has already been spent on measurement issues, particularly concerning fair value, and there was now a need to rethink current reporting beyond that. Walker also presented some very critical views on fair value. He put forward the AAA's view that a reliance on market values was not grounded on actual relevant transactions. In his view, markets are not complete – this makes them a tenuous foundation for measuring assets based on them. These general concerns about fair value are echoed more widely within the business and accounting community. From the audience of delegates at the symposium, there was also concern expressed about fair value. Only 3 out of 11 delegates who voted thought that the IASB had the correct approach to fair value.

Conclusion

The symposium was held at an interesting time both economically and politically. We were in the aftermath of the global financial crisis beginning in 2007/8 and were still facing enormous structural economic and banking issues. Central bank interest rates remained close to 0% as central banks in the UK, EU and North America sought to stimulate some form of economic recovery through additional borrowing and investment. Against this, bank credit ratings had been downgraded increasing the relative cost of finance to financial institutions themselves and there remained concerns over the availability of credit. Several other notable macro-economic issues to report included the impact of the Greek debt crisis on the EU and the volatility of the euro, fear of contagion to other EU economies, notably Spain, Italy, Portugal and Ireland and the resulting austerity measures that were introduced to rein in levels of government debt. This austerity was in part caused by excessive public spending prior to the financial crisis and also, and more significantly, the cost of bank bail-outs and nationalisations. Within the UK there was additional uncertainty caused by the pending general election and the economic policies that would be then introduced to help manage the UK public debt and longer-term economic recovery.

Given the widespread economic effects and political fall-out of the financial crisis it is not surprising that all the speakers contextualised their presentations against these events and their impact on the prevailing debates within accounting. Accounting and accountants are by their nature both affected by, and implicated in, financial crises. From this perspective our speakers discussed many issues such as the convergence of accounting standards, accounting measurement issues and fair value, the conceptual framework and stewardship, emerging accounting issues, and the role and usefulness of current financial reporting.

The central issue discussed throughout the presentations and associated commentaries and discussion revolved around convergence towards a single set of global accounting standards and full IFRS adoption. There were many facets covered within that discussion which we discuss below.

THE PERCEIVED ADVANTAGES OF SINGLE GLOBAL ACCOUNTING STANDARDS

These primarily relate to increased allocative and market efficiency and the consequent increase in investment, reduction in risk premium and lower cost of capital, auditing and accounting efficiencies, comparability of financial statements, and uniform education and training.

THE PROBLEMS THAT FACE THE IMPLEMENTATION OF A SINGLE GLOBAL STANDARD

Adaption of accounting standards by individual countries rather than adoption of standards and full IFRS convergence. Adaption may result from political interference and local economic or business interests opposed to full IFRS adoption. Such a half-way house, a mixture of adaption and adoption, towards convergence may result in more problems than advantages, with associated ambiguity over the extent of IFRS convergence, the true extent of financial statement comparability and the basis of the audit report all contributing to uncertainty in capital markets.

REASONS WHY A SINGLE ACCOUNTING STANDARD MAY BE PRECIPITATE

Although there was general consensus, with Martin being the notable exception, on the need for global convergence, there were still some concerns. Political and economic norms, customs and regulatory environments vary across countries and convergence to one single standard may not reflect this variety and by attempting to do so standard setters may actually be imposing a sub-optimal global system of accounting standards. Not all countries have efficient capital markets and there is huge disparity between G20 countries and emerging markets. Even within the G20 there are key differences between liberal market and coordinated market economies. Accounting standards need to be able to reflect such differences and also the extent of underpinning market efficiency, for instance, over asset pricing. Many areas of accounting are still under-researched in terms of implementation of national as opposed to global standards, for instance, Islamic accounting and intangibles. Given the controversy that pervaded over the IAS 39 amendments and the time that has been spent on known accounting measurement issues (let alone considering more known unknown accounting issues), without global uniformity of opinion, convergence in the short term may seem both unlikely and unwise.

UNDERSTANDABILITY AND USEFULNESS CONCERNS

As financial instruments and the related trading of instruments has become increasingly complex so financial reporting, in reflecting such complexity, has likewise become highly complex raising the question of financial statement understandability and the trade-off between full reporting complexity and their usefulness to stakeholders. Such concerns over usefulness extend to directors, who fall outside a small financial and technical elite, raising potential issues of governance and the directors' full understanding of the financial and risk position of a company. In the wake of the current crisis, the time may be right to re-open the debate on the central purpose of financial reporting and its relationship to a broader corporate reporting format that more fully encapsulates and integrates risk, governance and sustainability issues. Disclosure volume versus usefulness again would need to be assessed. Is there information overload? Can we simplify current financial reporting? The proposed conceptual framework may not help with its focus on decision usefulness rather than on stewardship. It is currently the case that shareholders and other stakeholders seek assurances over stewardship and governance at the expense of, or at least on a level with, decision usefulness.

POLITICAL INTERFERENCE

The final key aspect of the presentations was the concern over the extent of political interference versus standard-setter independence and credibility. In part, political interference can be attributed to the economic fall-out from the financial crisis and the desire of governments, and other regulatory bodies, to safeguard national interests and their acute awareness of the vulnerability of the banking system. There was also the realisation of the problems facing national regulation of the banking sector when this sector was effectively following accounting rules set by a non-governmental body: the IASB. The conflict between national governments and the IASB over the measurement and valuation of assets was notably witnessed through the processes of the IAS 39 amendments. As long as there remains political intervention with accounting standards at a national and regional level then it is difficult to foresee a situation of global convergence, where a global standard setter would not need the credibility of independence from political interference.

These issues were neatly summarised by Huber (2010):

So far about 117 countries have adopted IFRS, but in recent months progress across the Atlantic has slowed, raising doubts about the overall project's goals. Europe has also seen its fair share of political wrangling, particularly over fair value.... A single high quality accounting language was always going to be tricky to agree. Over the past few years progress towards this goal has been slowed by the global financial crisis, national rivalries and arguments over accounting principles.

The symposium also raised serious questions about due process within the IASB. It became apparent from the speakers and the audience that the IASB appeared out of step with the broad body of academic, practitioner and analyst opinion. On the IASB's neglect of stewardship, proposals for financial statement presentation and also on fair value there is a clear divergence in the IASB's current thinking and that of important constituencies (eg BAA, AAA). This is extremely worrying and casts doubt on the legitimacy of the IASB. The IASB needs to reflect the wider constituencies within accounting if it is to retain its worldwide credibility.

All the key issues discussed at the symposium are unlikely to be addressed in the short term, they are all long-term issues that may shape the future of accounting over the next decade. Many of these issues are not new, but rather have been reconsidered in the aftermath of the global financial crisis. However, if they are to be successfully resolved, then the IASB needs to collaborate with its grassroots rather than confront them.

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