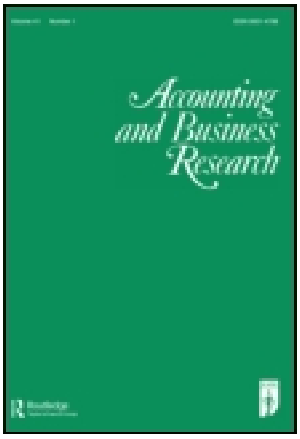

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Book Reviews

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Book Reviews

Editor's note:
George J. Benston

The following review was written prior to the sad news of the death of Professor George J. Benston in February 2008. He was the John H. Harland Professor of Finance at Goizueta Business School, Emory University and an Honorary Visiting Professor at City University, London. He had previously been a faculty member at the universities of Rochester and Chicago. He has also held visiting professorships at the University of Oxford, the London School of Economics and the London Graduate School of Business Studies. Professor Benston's research spanned finance, banking and accounting. In a note of remembrance the Dean of the Goizueta Business School remarked on Benston's advocacy of fairness and quality in the worlds of finance and banking and on the outspoken views on accounting standards and the role and responsibilities of government, which he shared with colleagues in discussion. The book reviewed here shares those views with a wider audience.

Worldwide Financial Reporting – The Development and Future of Accounting Standards. *George J. Benston*, *Michael Bromwich*, *Robert E. Litan* and *Alfred Wagenhofer*. Oxford University Press (USA), 2006, vi and 326 pp. ISBN13: 978-0-19-530583-8. £26.99.

At the time when most countries have adopted, or intend to adopt, the same set of accounting standards, the book by Benston et al. is somewhat provocative. It seems to be organised with the goal of demonstrating that, contrary to what is generally and perhaps too quickly assumed, the current trend in the standardisation of financial reporting practices is not systematically desirable. The authors' demonstration is structured into three steps. Chapters 1 to 3 focus on the roles of audited financial statements in an economy where firms obtain financing from capital markets. They provide a basis for examining the financial reporting environment in five major countries, or set of countries: the United States (chapter 4), the United Kingdom (chapter 5), Germany (chapter 6), the European Union (chapter 7), and Japan (chapter 8). Based on the diversity of financial reporting regimes put forward in these five chapters, chapters 9 to 11 question the necessity of imposing all firms to comply with a unique set of financial reporting standards, established by a single standard-setting body.

Designed as an introductory chapter, chapter 1 describes the recent trends in equity markets. It provides various data on changes in market capitalisations, in cross-border capital flows, and in the proportion of shares owned by individuals over the last decades. It asserts that the rapid growth and integration of equity markets results in increased demand for relevant, reliable and timely information useful for investment decisions. Chapter 2 analyses the usefulness of financial statements, notably for non-controlling investors who have no other mean to evaluate managers and to gauge the financial position of the firm. It briefly discusses several problems inherent to financial accounting, including the appraisal of asset value, the measurement of net income and the potential manipulation of reported figures. Chapter 3 examines the role of auditing and accounting standards in ensuring the trustworthiness of financial statements. It highlights the advantages of principles-based standards, considering that rules-based ones are ineffective and potentially dangerous. They are ineffective because it is not possible to establish rules covering all possible situations. They may be dangerous if they encourage transactions designed to produce misleading accounting figures, while complying with reporting rules. The same chapter outlines the benefits and limitations of private versus government standard setting.

The next five chapters review the regulations governing financial reporting in four major industrialised countries, and in the European Union. They provide rich and concise descriptions of the reporting regimes under study, illustrating the diversity of the environmental factors that determine financial reporting practices. They are undoubtedly useful to understand the origins and characteristics of the current institutional environments in each country. These five central chapters, each devoted to a specific country, follow almost the same pattern. They start with an overview of the characteristics of each country's financial system. Using an historical perspective, they analyse the current regimes regulating accounting disclosures, auditing, and enforcement mechanisms. Considering the stewardship role of accounting information, they investigate corporate governance and investor protection systems. Interestingly, each chapter concludes with a presentation of current financial reporting issues in each surveyed country, such as the convergence with IFRS in the US, the weak enforcement of corporate governance mechanisms in the UK, the cost of simultaneous compliance with two distinct sets of accounting standards in Germany, the creation of an integrated financial market in the EU and the necessary changes of the regulatory environment it implies.

Providing a synthesis of the five preceding chapters, chapter 9 contrasts the financial reporting regimes in the countries under review. They share common characteristics but, at the same time, they exhibit substantial differences. To sustain growth and competitiveness of their capital markets and to respond to both domestic and international investors' growing needs in information, these countries have all adapted their disclosure regimes continuously. The necessity to reduce costs related to financial statement analysis has led to a strong convergence of accounting rules, but the process has been limited to listed companies. Accounting standards of small and medium-sized firms remain significantly different between countries. The chapter shows that diversity in state governance systems, legal systems, and corporate governance systems, insofar as they determine how information about companies is produced, controlled and disseminated, explains the differences between reporting regimes. They are shaped by a complex nexus of multiple interrelated factors, so that changing one of them 'may destroy an extant subtle balance and result in a reduction of the efficiency of capital markets' (p. 211). Concentrating on the recent convergence of accounting standards, chapter 10 develops this idea. It analyses the costs and benefits of global financial reporting standards, and the advantages of competition among standards. It explains that uniform reporting standards cannot evolve and be sustained in countries that differ strongly with respect to their economies, governance structures, and enforcement systems. Furthermore, instead of improving financial reporting, such uniform standards would even worsen the quality of accounting information. This leads the authors to recommend competition among reporting standards. Companies should be allowed to choose 'among a given set of competing financial accounting standards … (the one that) best fits the individual and environmental setting in which they operate.' (p. 241). It is therefore with no surprise that the authors disapprove the convergence of IFRS and US GAAP. The final chapter summarises the book and provides additional analyses on current accounting issues, notably the measurement of net income, the increasing use of fair value, the recognition of intangibles, the respective roles of voluntary and mandatory disclosures.

Readers who are not familiar with the corporate reporting environments and regulations prevailing in the countries surveyed in the book will find useful and detailed information in the central chapters. They provide a comprehensive view of the development, status and current issues of financial reporting in these countries. Readers who expect an in-depth analysis of the merits and limits of reporting standards convergence, based on results taken from the academic literature, might be somewhat disappointed. Several researchers share the authors' scepticism about the possibility to develop and sustain uniform standards because of major differences in legal, governance and regulatory regimes. Many others recognise the danger of forcing a unique set of reporting rules that might often prove to be unsuitable, with a risk of promoting form over substance. However, extensive research, notably the empirical research on the impact of IFRS adoption, shows that reporting convergence is likely to improve investors' welfare because of its effects on information asymmetry, on stock market liquidity, and on the correlation between accounting figures and stock market data. In the same line, using the usual arguments related to the potential lack of reliability of fair value estimates, chapter 11 criticises the introduction of fair value in financial statements. Unfortunately, this criticism never mentions any of the numerous studies showing that the use of fair value may provide more value-relevant accounting figures. Introducing the main results of the research on the financial reporting issues discussed in the book might have shed a useful and interesting light on the discussion.

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Financial Reporting and Global Capital Markets. A History of the International Accounting Standards Committee, 1973–2000. *Kees Camfferman* and *Stephen A. Zeff*. Oxford: Oxford University Press, 2007. xxiii + 676pp. ISBN-13: 978-0-19-929629-3. £75.

Reading a history of the International Accounting Standards Committee (IASC) from 1973 to 2000 is rather like studying the career of the UK prime minister Clement Atlee. As Atlee himself put it:

'Few thought he was even a starter.
There were many who thought themselves smarter.
But he ended PM, CH and OM
An earl and a Knight of the Garter.'

There was little demand for international accounting standards in the 1970s and most of the 1980s and the IASC was at first treated with condescension by national standard-setters. However, when the globalisation of capital markets created the demand, the IASC had been in existence long enough and had been active enough to be the first choice to supply the demand and eventually transform itself into the International Accounting Standards Board (IASB), today's acknowledged setter of international financial reporting standards.

This apotheosis was not inevitable. Sir David Tweedie, chairman of the IASB, in his foreword to this book rightly praises authors Camfferman and Zeff for their 'scholarship, insight and sheer hard work'. Substituting 'technical skills' for 'scholarship', these are also the qualities of the many people who contributed to the success of the IASC from its modest beginnings to its replacement by the IASB a quarter of a century later. All receive their due in this book, which is written very much on the model that it is people who make history. A glance through the excellent index suggests that among the most influential of them were three English chartered accountants: Henry Benson (chairman 1973–1976), David Cairns (secretary-general 1985–1994) and Bryan Carsberg (secretary-general 1995–2001). All possessed, albeit in very different ways, the additional quality of being able (most of the time) to persuade other people to do what in their opinion was best for the IASC.

Part 1 of the book concerns the origins of the IASC. It confirms that Benson (who unlike Atlee did not become an earl but did become a lord) was the driving force behind its formation in 1973, also the year of the UK's entry into the EEC and the year in which the FASB was established in the US. The UK origin of the IASC is not surprising. There was no incentive for US accountants to form such a body. Continental Europeans had already established the Union des Experts Comptables Européens (UEC) in 1951 but this and other regional bodies lacked auditors and companies with world-wide outlook and ambition. From a UK point of view the IASC can be seen as a defence against both the domination of US GAAP and the encroachment of Continental European ideas on accounting. Its headquarters were always in London, its working language always English. Despite the lack of interest of most US accountants, US influence was important from the start. There was no future for international standards that differed too greatly from US GAAP. Canadian and Australian accountants, sharing a common language and accounting culture with those in the US and the UK, played a role well beyond the economic importance of their countries. Collaboration between the accountants of these four countries (the so-called 'G4') was vital although at times resented by those outside the group.

Part II of the book deals with the period 1973–1987. The early standards of the IASC tended to be compromises and full of options. These years, during which the IASC, operating on a small budget and with little power, 'compromised to harmonize' were an essential preparation for later achievements. Crucially, also, its work on consolidation influenced the Seventh Directive of the EU. The turning point was 1987, the year in which internally the IASC took the strategic decision to produce more conceptually based standards, and externally was challenged to produce high quality standards by the International Organization of Securities Commissions (IOSCO), of which the US Securities and Exchange Commission (SEC) was the dominant member.

Part III of the book covers 1987–2000. During this period, the IASC sought to satisfy the demands of IOSCO. The result was the 'Comparability Project', the success of which made international accounting standards (IASs) more acceptable not only to the SEC but also to the European Commission. Continental European companies had become much more reliant than they had been in 1973 on world, especially US, capital markets. In the absence of suitable European standards, some were adopting US GAAP or IASs. Faced with a choice between them the Commission opted for IASs, since an official adoption of US GAAP was unthinkable. These successes of the IASC came at the cost of much hard work and of transforming itself into the IASB.

The book has the approval and support of the IASB but is written from an independent standpoint by authors representative of North America and the EU, whose linguistic skills cover Dutch, French, German and Spanish as well as English. They have not only read through the IASC's voluminous archives but have interviewed all the surviving major (and most of the minor) players. The interviewees are listed in one of the many useful appendices, which also cover the text of the 1973 agreement and constitution; chairmen and senior staff; members of the national delegations to the IASC; technical projects, exposure drafts and standards; venues and dates of board meetings; and unpublished sources. A chronology would also have been useful. There are 126 pages of notes but not, alas, a separate bibliography. The detail is at times overwhelming but is likely to be welcomed by future researchers who, even if they may not always agree with the judgments and conclusions, will find this work indispensable.

On a lighter note, those of us who have sometimes thought that working for the IASC was about jetting all over the world and staying in luxury hotels, should ponder this wonderful quotation from Chris Nobes (a member of the UK delegation) about a seven-day meeting in Kuala Lumpur in April 1998:

> 'The Malaysians were well-organised and hospitable, but seven hours of jet lag were compounded by an element of surreality by our being in an enormous freezing hotel surrounded alternately by tropical sun and tropical storms, and by having to work long hours in sight of one of the world's largest artificial beaches. Added to the strain of this, the official evening receptions were non-alcoholic, given Malaysia's state religion.'

This is a very good book about a remarkable institution. As one would expect, the Oxford University Press has given it the production values it deserves, including many photographs (mainly but not entirely of sober-suited middle-aged males). It is a pity, however, that the authors did not veto the fuzzy map on the dust jacket, which is a very misleading representation of what the book is about.

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