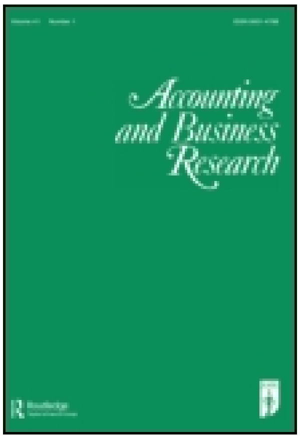

Accounting and Business Research
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rabr20

Discussion of 'How do conceptual frameworks contribute to the quality of corporate reporting regulation?'

Paul Boyle [a b]

[a] Former Chief Executive Officer of the Financial Reporting Council

[b] Honorary Professor in the Department of Accounting and Finance, University of Glasgow, E-mail:

Published online: 04 Jan 2011.

To cite this article: Paul Boyle (2010) Discussion of 'How do conceptual frameworks contribute to the quality of corporate reporting regulation?', Accounting and Business Research, 40:3, 301-302, DOI: 10.1080/00014788.2010.9663404

To link to this article: http://dx.doi.org/10.1080/00014788.2010.9663404

Discussion of 'How do conceptual frameworks contribute to the quality of corporate reporting regulation?'

Paul Boyle*

I am a practitioner who has long had an interest in the academic aspects of accounting, perhaps more so than many practitioners, an interest stimulated by some very inspirational professors at the University of Glasgow 30 years ago. I have a lot of sympathy with Keynes's comment that 'practical men who profess to despise theory are usually slaves to some defunct economist.' There is an accounting version of that too.

I have to say that I struggled to understand the point in this paper. It was a little disappointing to me because the question in the title of the paper is a really interesting one, and I really, really wanted to know the answer. However, having read the paper and even now having listened to Professor Christensen's presentation, I struggle to find the answer to the question. In fact, if I were to put on my former hat as a regulator, I might even say there has been a bit of mis-selling here in the title of the paper, because quite a lot of it was devoted to what I found to be a highly stylised and theoretical analysis, which then I struggled to find the relevance to the points made in the rest of the paper. There was a lot of discussion about the principal and agents problem, a world in which managers negotiate with owners about the terms of the disclosures that they might make – not a world that I as a practitioner recognise.

Then suddenly the paper switched to a completely different world view, the world view of finance theory and perfect capital markets in which highly diversified investors have no interest at all in the specifics of accounting information for individual firms. So I struggled to understand which of the two world views this paper was based on, and, in any event, both of the views postulated were ones which I did not recognise from the world of practice.

One of the points that Professor Christensen emphasised throughout the paper, and indeed the one he finished with, was the question of incentives, and he criticised the current attempts to prepare a central framework for ignoring the incentives on market practitioners.

Of course, it is also worth drawing into this discussion the incentives faced by the regulators. I am including in this case the accounting standard-setters. Having been a regulator for a number of years, I know that one of the problems that you discover as a regulator is that there are literally thousands of people who know how to do your job better than you do. There was quite a bit of discussion during an earlier stage of this conference about the extent to which accounting standard-setting was becoming politicised. Generally speaking, the view was that the politicisation of accounting standard-setting is a bad thing, something to be deplored.

It is in this context that I see the conceptual framework having its greatest potential value because a conceptual framework, properly and carefully developed, providing a sound basis for the drafting of accounting standards, is one of the greatest potential saviours of accounting standard-setting from politicisation. If there is a sound conceptual framework then the basis for the standard-setting decisions can be more widely understood, not only by politicians but also by other market participants, and hopefully will make the actions of the standard-setter more defensible.

It is a question of the relevance of the conceptual framework to the real world that interests me, and in that respect one of the suggestions in the paper which I found most surprising was the proposition that one of the components of the conceptual framework, namely the definitions of the elements

*The author is a former Chief Executive Officer of the Financial Reporting Council and an Honorary Professor in the Department of Accounting and Finance at the University of Glasgow. E-mail: pvboyle@talk21.com

Editors' note: Paul Boyle's commentary relates to the version of Christensen's paper presented at the International Accounting Policy Forum conference in December 2009. Christensen subsequently made amendments to his paper for publication in response to an academic reviewer's comments.

of financial statements, was not a matter which should properly be included in the conceptual framework but rather was a matter which should be left to individual standards. For example, the proposition in the paper is that the definition of an asset should not be included in the conceptual framework but should be included in individual standards and would change from time to time.

I must say, I find this a proposition which is both theoretically unsound and also likely to be catastrophic in practice. Can you imagine a world in which the definition of an asset would change from one standard to another? How are practical people to be expected to operate in such a world?

There are however some good points in the paper which I think should be developed further: the point about the comparative advantage of accounting over other sources of information is a really interesting point which is of great practical relevance to accountants and auditors, and indeed to those people involved in the official sector who care about accounting.

I will finish with one point that is addressed to all of the academics in the audience: I beg you to produce work that is of relevance to practitioners. There are two reasons why you should do this. First, practitioners, especially those who despise theory, desperately need your help. They need the benefits of the intellectual rigour that you can bring to their work, but it needs to be done in a way that is relevant to the real world. The second reason is that you need to do this to help yourselves. In this tough time of financial crisis, when money and resources are scarce, do not be surprised if there is much greater scrutiny of the value for money of work being done, and especially if it is work being done with other people's money, namely taxpayers' money. Do not be surprised if they subject this to more intensive scrutiny than in the past.

I guess on this point it comes down to a question of the incentives facing the academic community, and perhaps that is a point on which Professor Christensen and I agree.