



**First**  
**Symposium**  
on **accounting**  
**research**

*Proceedings*



# Preface

**Maurice Lévy,**

Chairman of AFEP and Publicis Group.

I appreciate the Autorité des normes comptables' initiative in inviting companies to take part in the first Symposium on accounting research, and am pleased to see that these companies accepted the invitation.

Accounting is an essential part of company management. It is meant to describe a company's performance and reflect its financial health. It is therefore a vital tool in decision-making.

More importantly, accounting is actually the only common language used by all stakeholders and partners of a company. It enables management to communicate with all of its stakeholders: managers and staff, customers, suppliers and of course capital providers who must be in a position to appraise as objectively as possible a company's financial situation.

For this appraisal to be truly objective, accounting standards play a critical role. They are the backbone of the accounts. They are the rules of the game. And such rules cannot be neutral. They may produce effects which will ultimately influence business strategies and decisions.

Thus, accounting standards, their underlying concepts and their logical foundations are decisive. This theoretical material has an influence on our understanding of the activity of a company and how it is managed, and therefore potentially on the functioning of the economy as a whole.

This is why the debate on accounting standards is fundamental and in the public interest. And it is why I am pleased that the Autorité des normes comptables (ANC) has taken the initiative of developing research in this area.

Companies support this initiative and the pursuit of academic work that takes into account business strategies and practice. Such work is essential in order to have a voice in the current and future international debate.

This is the alchemy which underlies the effort undertaken by the ANC and its partners. The benefits are already apparent in these proceedings, which deserve widespread distribution.

# Contents

<b>Foreword</b> .....	5
<b>Acknowledgements</b> .....	6
<b>Introduction to the conference</b> .....	7
<b>Accounting research: Is it necessary? For what purpose?</b> .....	9
Turn accounting into a meaningful art.....	10
Two fundamental issues for accounting.....	12
Reflections on accounting and accounting research today.....	15
What do companies have to say about accounting and standard-setting?.....	16
Five questions about French language accounting research.....	19
<b>A chinese view of accounting issues</b> .....	27
Reflections on fair value: the Chinese experience.....	28
<b>Can accounting research enable theory to benefit practice?</b> .....	33
IFRS, accounting research and midcaps.....	34
For accounting measurement that represents economic activity.....	37
How fair is fair value? 5 years after.....	40
Moral hazard and standard-setting: a little explored area of research.....	45
<b>Accounting research: should we not first ask ourselves what the accounts are used for and by whom?</b> .....	49
The enterprise entity and its stakeholders: a common basis for the accounting model?.....	50
Considerations on the role of the accounts.....	54
What are the accounts used for and by whom?.....	57
<b>Developing a working relationship between the ANC and accounting researchers: what programme and what methods?</b> .....	59
Issues and conditions concerning relations between researchers and standard-setters.....	60
Understanding and cooperating with the world of accounting research in France.....	66
How does the ANC materialize its support for accounting research?.....	69
<b>Close of the first Symposium on accounting research</b> .....	73
<b>Conclusion and future prospects</b> .....	75
<b>Annex: Speakers' biographies</b> .....	76

# Foreword

**Claude Cazes,**

Chairman of the Compagnie nationale des commissaires aux comptes (CNCC).

Auditors are first and foremost accounting practitioners. But they have always been very much aware of fundamental accounting issues and understood that choices made in standard-setting reflect economic choices and in some cases choices for society.

They are therefore aware of the need for constant interaction between accounting practice and fundamental theory.

We have already achieved a lot in this respect. Personally, within the CNCC, I have taken every opportunity to encourage initiatives to stimulate thought and discussion.

But the initiative of the Autorité des normes comptables (ANC) is new and deserves our full attention: it is the first opportunity to assess the state of accounting discussion, to consider current issues and to draw up a work plan for the future.

In this perspective, we have already undertaken different actions, but we are pleased to further rally alongside academic experts. A new impulse was necessary. Thanks to this Symposium, it has happened!

I am happy that this first Symposium took place and that it has paved the way for highly promising cooperation for the future among companies, practitioners, researchers and the standard-setter.

In addition, considering the quality of the discussions held throughout this Symposium, I am delighted that the publication of its proceedings will preserve a lasting trace of them.

# Acknowledgements

The Autorité des normes comptables (ANC) thanks all those who have taken part in this first Symposium and in drawing up the Proceedings:

The speakers, for the quality of their contributions as set out in these Proceedings; and those whose interviews were broadcast by video:

**Philippe Audouin, Maxime Barge, Audrey Baron, Jean-Baptiste Bellon, Jean-François Belorgey, Nicolas Berland, Thomas Jeanjean, Damien Poussier, Jacques Richard, Elisabeth Walliser;**

**The Académie des sciences et techniques comptables**, through its founder and Chairman **William Nahum**, for his considerable involvement in the organisation of this event with the support of **Vanessa Haddar** (I-Media);

**Florence Ségurel**, Project Manager at the ANC for coordinating the event and **Lambert Jerman**, student at ENS Cachan and at Paris-Dauphine University, for drawing up the Proceedings;

**Marie Cannayen, Josette Damba, Nathalie Jacquet, Catherine Luton** and **Danièle Marcelin**, of the ANC, for enabling the smooth running of the event;

**French companies**, represented by **AFEP, Medef**, and **MiddleNext**, and the **accounting professions**, represented by the **Ordre des experts-comptables (OEC)** and the **Compagnie nationale des commissaires aux comptes (CNCC)**, for their respective contributions;

The **Association francophone de comptabilité (AFC)** for its logistical support;

and

**The French Ministry of Economy, Finance and Industry.**

# Introduction to the conference

By **Jérôme Haas**,  
Chairman of the ANC.

The first Symposium on accounting research organised by the Autorité des normes comptables (ANC) in December 2010 is an event in and of itself because it puts an innovation into practice.

Indeed, this is the first meeting of the main players in French accounting research on the one hand; companies, auditors, investors and all accounting practitioners on the other, as well as the standard-setter, around the same centres of interest and work, all of which bodes well for many common future projects.

It is also the first concrete demonstration of the ANC's institutional means to act as a catalyst for accounting research, in its endeavour to do justice to the many requests put to academic accounting research. The Strategic Plan of the ANC, published in the summer of 2010, builds upon this insight, which also brought this unprecedented Symposium to life as early as December 2010.

The meeting was intended as a launching pad for general mobilisation. It succeeded, bringing together 200 people for a full day of fruitful debates.

The Symposium provides the opportunity to demonstrate the need to strike a balance, which is so important for the ANC: between the different bases, conceptions and concepts of accounting; between the different objectives of financial statements and financial reporting in general; between the different users and their different needs.

This Symposium was the occasion to address an array of questions, ranging from those of a general nature to those of a more precise nature.

1. First, it is necessary to **clarify the nature of the requests for accounting research, as well as to present existing academic research that is able to meet those requests**. The accounting profession, through the committed voices of Joseph Zorgniotti and Jean-Luc Decornoy; the standard-setter, represented by Daniel Houry; and companies, represented by Olivia Larmaraud, each express, with great precision, all the diversity of the current demand for accounting research. Professor Bernard Colasse, whose knowledge and judgment are unquestioned, establishes a remarkable summary of existing accounting research.



6



7

# Accounting research:

## Is it necessary? For what purpose?

2. Having established the existence of both a supply and a demand for accounting research, whose meeting the ANC would like to facilitate, it is important to **identify the main accounting issues requiring research**. In this perspective, Pascal Imbert and Dominique Bonsergent relate with vehemence and verve the position of companies on current accounting standards and practices. Allister Wilson, a somewhat non-conformist auditor, proposes some hard-hitting ideas on the issue of fair value today. Didier Marteau concludes this part in an original manner by showing how accounting research can offer very promising ideas for discussing and improving accounting standard-setting.

3. Now that the stage has been set, it is essential, before going any further, to **tackle the fundamental issues that govern standard-setting: for what and by whom are the accounts used?** Three talented researchers – Yuri Biondi, Anne Le Manh and Olivier Ramond – address these key and often neglected questions.

In addition some more specific discussions will give rhythm to the day.

Firstly, Professor Yuan Ding illustrates **the issues arising from the introduction of fair value in China**.

Furthermore, Professors Christian Hoarau and Hervé Stolowy describe **how the world of research operates** and outline some very interesting ideas for **working with accounting standard-setters**.

The latter part of the day is devoted to all the practical organisational aspects of the research actions undertaken by the ANC and is presented by ANC Research Director Philippe Bui.

As the Autorité des normes comptables (ANC), the French accounting standard-setter, wishes in the future to be a catalyst for accounting research in France, it seemed necessary to provide a forum to enable all accounting stakeholders to express their ideas, positions and projects on accounting research today.

Representatives of the accounting profession, companies, users, standard-setters and academics have therefore stated their requests and expectations concerning accounting research as well as considered how these could be satisfied.



8



9

# Turn accounting into a meaningful art

## Joseph Zorziotti,

*Chairman of the Superior Council  
of the Ordre des experts-comptables (OEC)*

If accounting is a technique, it can also be an art, that is to say a creative activity the primary purpose of which is not to be found in immediate usefulness or in short-lived consumption.

Accounting is also an art in that accounting standards must not be a sum of assembled but unlinked rules. The standards must be based on foundations that are logical, robust and consistent and which accounting research must help identify and clarify.

Accounting research must therefore be understood in terms of fundamental research. But how can it be stimulated? Be encouraged? Of course, by providing it with the means and the areas for expression, exchange and recognition, both in the academic world and in that of practitioners through collaborative accounting reviews such as the *Revue Française de Comptabilité*, since there can be no real doctrine without such publications.

Nevertheless, before considering different ways of supporting accounting research, is there a French cultural exception in terms of accounting that it would be worth encouraging?

If the Autorité des normes comptables (ANC) has a leading role in proposing and clarifying standards, accounting research is complementary to the work of the standard-setter.

As accounting is not a purely abstract science, but a tool for portraying economic and financial reality, its rules must enable the financial position of an organisation to be represented in a clear, understandable and most faithful manner. It must therefore lay down the foundations for real confidence; confidence vital for the fluidity of capital movements, fundamental for investment and growth.

However, this virtuous trilogy of transparency, confidence and growth requires a common language, in order for standards to be the product of a high-level consensus and to meet the needs of a large number of parties and situations.

The chartered accountant is an ideal intermediary between this environment and that of the researchers and of the legislator.

Accounting must remain clear, understandable, and suffused with common sense. Because accounting is not a matter to be left solely in the hands of technicians, the Superior Council of the OEC is very attached to preserving solid links with fundamental research, so that such association is able to avoid the brutal and systematic acculturation of our accounting standards; and also to listen to users, in order to understand their needs and obtain their agreement.

The principle of prudence is the perfect illustration of this point. Indeed, this principle is linked to our style of governance, to our traditional manner of representing the activity of companies based on a long term view of business life and not focused solely on their volatility. Further on it is its social and institutional role of supporting employment and the creation of wealth over time which differentiates our continental accounting from the more patrimonial Anglo-Saxon model.

To conclude, together we must turn accounting into a meaningful art.

# Two fundamental issues for accounting

## **Jean-Luc Decornoy,**

*Chairman of the Managing Board of KPMG SA,  
honorary Chairman of the Financial Markets  
Department of the Compagnie nationale des commissaires  
aux comptes (CNCC)*

Accounting today has a more strategic and political dimension than ever. Indeed, accounting stands for an essential measurement of the competitiveness and the attractiveness of both companies and States, and is now a feature of the agenda at international meetings at the highest level such as the G20.

But does accounting fulfil the expectations placed upon it? It seems difficult to answer this question because it is necessary to differentiate according to the size of companies, the specifics of business industries and the particular expectations of the vast variety of users of financial reporting.

Nevertheless, even though it is agreed that financial statements complying with French accounting standards satisfy perfectly the need for reliable retrospective financial information, the fact that investors in large companies need more information as regards these more complex entities needs to be recognised. Some expect financial statements to provide information on the performance potential of an entity and on the risks to which it is exposed.

However, transparency does have its limits, especially the preservation of competitive advantages and cost-benefit considerations. Therefore, pleading in favour of disclosing more information implies considering the potential side effects. It also implies a thorough study and streamlining of the expectations, the role and the responsibilities of all participants in the chain of financial information.

Two fundamental issues will then inevitably be raised.

### *How to portray performance?*

IFRS have transformed the financial statements. By introducing very complex instruments to portray companies' instantaneous financial performance, by speeding up the obsolescence of accounts which now reflect very rapid market changes immediately, financial statements are no longer able to provide an understanding of the long-term performance of an entity but offer a juxtaposition of its instantaneous performances.

As a result, these changes have not taken place without some resistance from companies.

Some managers refuse to have their performance assessed on the basis of IFRS financial statements given that market values are beyond their control. They have therefore introduced parallel management accounting systems which are dedicated to the measurement and the management of the economic value of the business as opposed to its financial value.

Financial reporting therefore needs re-thinking. The re-thinking would then follow two lines of investigation. The first would be the acknowledgement that accounting standards cannot satisfy all stakeholders' expectations; the other would be a return to accounting basics with a particular attention paid to ensuring the standards promote consistency and stability rather than the emergence of "accounting bubbles" based and depending on the swing of market values.

Given the extensive nature of these projects, accounting research is essential.

### *To what extent does the audit profession have specific requirements in respect of accounting research?*

French companies today have to comply with and are subject to accounting standards that neither they nor the scientific or academic communities and the other stakeholders in France, including the standard-setter, have contributed to drawing up.

There are two areas where improvements seem possible:

- From the point of view of stakeholders, involvement in the standard-setting process is either limited or disorganised, as the position of France appears ultimately to be the sum of individual interests. A more collective approach, similar to that of the English and the Germans', would give more credibility to the French point of view and ensure it is heard and taken into consideration;
- From the point of view of accounting research there is an urgent need for more concrete, pragmatic research that is to say working outside the closed boundaries of libraries and academic circles i.e. working in forums open to all interested parties, so as to stimulate and develop debate and proposals. For example, the chair set up by KPMG at the Essec business school is an illustration of an interesting interface between the economic sphere and the standard-setter.



# Reflections on accounting and accounting research today

To conclude, auditors do need to rely on extensive accounting research. They feel the need for an external view on the standards, an in-depth analysis of them, of clarifications that take into account all stakeholders' needs and requirements. Such work is definitely in the public interest.

Accounting should help introduce more moderation in global regulation and governance systems. I share the ambition that France and French research will have both a legitimate and important role to play in this area.

## **Daniel Hourri,**

*Senior Magistrate at the Cour des comptes,  
Member of the Supervisory Board of the Caisse  
des dépôts et consignations, Member of the Board  
of the ANC*

Throughout my career, especially at the HEC group, at the bank and today in the Cour des comptes, I have been able to confirm the importance of accounting, the purpose of which is to provide the most reliable and faithful image possible of economic reality. Accounting is a base. If the base is brittle and flawed, then the economic and financial reasoning built on it will be suspect.

But the world is complex and increasingly harder to understand: the economy is globalised, financially driven, information circulates very fast, computer resources are colossal and innovation without limit. This makes the accountant's job difficult and accounting research essential, to anticipate inevitable changes, to update and enhance the battery of accounting standards and techniques.

But the perception of economic reality depends on the protagonist and the prism through which it is observed. Workers, the state, the short-term investor, the long term investor, creditors, all have their own view of the company, its dynamics and balance, and therefore of the needs its financial statements must satisfy.

Today accounting has to deal with a major difficulty, that of representing a reality which is perceived differently by its users which often have conflicting sets of values.

If in the past we had the impression that accounting was passive and neutral, we have to recognise that today it can influence behaviour and strategies. The debate on the pro-cyclical nature of fair value illustrates this remark.

Lastly, accounting is a universal language used by very different entities: the state, large groups, SMEs, associations, etc. How is that possible? How can we take into account each of those entities' specific characteristics?

Accounting research is at the heart of all of these issues: innovate, progress, anticipate or fade, this is what is at stake.

# What do companies have to say about accounting and standard-setting?

**Olivia Larmaraud,**  
*Head of Consolidation and Accounting Standards  
at PSA Peugeot Citroën, Member of Acteo  
and of the International Accounting Standards  
Commission of the ANC*

Companies are not just preparers of financial statements, according to IASB terminology, but important users of accounting statements as well as essential stakeholders for standard-setting.

To understand the role of companies in respect of accounting in general implies determining how groups use their consolidated financial statements in practice (are they only really the preparers of the accounts?), what accounting should represent for them, as well as what fundamental principles underlie accounting standard-setting.

## *How do companies use their financial statements?*

Companies are considered by the IASB to be only preparers of consolidated accounts and not users along the capital providers. Yet, they are undoubtedly essential users of consolidated financial statements.

Indeed, the consolidated accounts are an essential instrument for monitoring a group's performance and financial position month after month.

Furthermore, it is because the consolidated statements can be used for both internal and external reporting that they are sufficiently reliable and the basis for quality financial reporting.

It is moreover because groups have up to now been able to use their consolidated financial statements for both purposes that the financial statements presented to date are of good quality.

Accounting is therefore aimed at companies. Should we not ask then what it should represent for them?

## *The need to take into account the business model*

The requirement for comparable financial statements often seems to lead to mandatory identical accounting treatment for same nature items in the financial statements of different companies.

However, this requirement is unintelligible for the companies themselves. Indeed to them, each of the items must be classified and measured according to the use of the underlying item they represent, otherwise the financial statements will admittedly be uniform, but such theoretical uniformity will not represent economic reality.

Furthermore, companies may not see any sense in what they present in their accounts. This loss of meaning could encourage the use of non GAAP measures in the consolidated financial statements, and therefore detract from their reliability and from the overall quality of financial reporting.

Listening to what companies have to say about accounting implies acknowledging the idea that if the accounts are to have a meaning for these economic players they must reflect their business models rather than consist in a purely academic presentation.

This reconsideration of what accounting should represent for companies leads us next to questioning the fundamental principles governing the preparation of financial statements.

## *A reconsideration of fundamental accounting principles?*

As we have seen, it is possible for companies to not understand their own accounts. The same confusion exists in respect of the fundamental principles supporting the current draft new IFRS standards.

Indeed, the new draft standards (Revenue, Leases or the one dealing with the presentation of financial statements) could have major consequences on financial statements and even on the economy as a whole, by modifying certain fundamental principles.

For example, take the Revenue exposure-draft in which the concept of the transfer of risks and rewards is replaced by the control concept, which has a considerable impact on the profit or loss of entities engaged in long-term activities, while the Leases exposure-draft, in which new assets or liabilities would be recognised on the basis of the right of use and which would allow optional renewal periods to be taken into account, could lead to the artificial

# Five questions

## about French language accounting research

recognition of debt; these two draft standards could therefore have major consequences for accounting and the economy.

The issue of the presentation of comprehensive income (made up of profit or loss on the one hand and other comprehensive income on the other) as part of the discussion of the concept of performance, is also a good illustration of a certain lack of understanding by companies of the guiding principles in the new accounting standards.

To conclude, it is absolutely necessary that companies become involved at an early stage in the due process of developing accounting standards, but more generally they need to truly reflect on the accounting fundamentals before working on proposed new standards.

**Bernard Colasse,**

*Professor at Paris-Dauphine University,  
Member of the Advisory Committee of the ANC*

When I meet practitioners and we discuss accounting research, they almost always ask the same questions: does French language accounting research actually exist? There is at least a degree of scepticism in this question. If my contact is somewhat convinced by my reply, he then asks: What kind of research is carried out in France? Doubtful however of the originality of French language research, he continues: Is French language accounting research different to Anglo-Saxon research? And as he still doubts the usefulness of French language research, he continues on a playful note: Are the subjects dealt with by the researchers likely to interest us as professionals? The inference is: What use are you? Do you have, if not, a social use at least a professional one? As my reply does not really satisfy him, he puts forward a final question which is the one underlying this Symposium: how can we better adapt accounting research to requests from professionals or from the standard-setter?

I shall attempt to answer these five recurrent questions in this article but as we should always allow for an extra question, I have included a sixth question. Does French language accounting research have a future?

### *Does French language research exist?*

The reply is of course “yes”: today French language research exists. I say today because thirty years ago there was scarcely any at all; thirty years ago, that is before the creation in 1979 of the AFC, the French Accounting Association (which became the French language Accounting Association), the association which includes French language academics from the sphere of accounting-management accounting-audit.

This research takes several different forms:

- communications presented at the annual congress of the AFC but also at the more and more frequent scientific events organised in universities and schools, sometimes in partnership with the accounting professions;

- articles, mostly published in the excellent review of the AFC, *Comptabilité-Contrôle-Audit* (I encourage the professionals to subscribe to it!) as well as in the section "Reflections" of the *Revue Française de Comptabilité*;

- theses: about fifteen are submitted each year (this is only an indication as it depends of the scope of items included);

- books, some of which are based on the best theses;

- as well as specialised masters' theses.

To complete this list we should add a certain number of memorandums prepared to obtain qualification as a Chartered Accountant which adopt a genuine research approach; this is a largely unexploited source except by students who have themselves to prepare a paper and examine the work of their predecessors.

Having said this, this source of research, although it exists, is not very significant, considering it deals not only with financial accounting topics but also with management accounting and audit. Behind the low quantity of research is the difficulty encountered by French higher education institutions in recruiting researchers in accounting, management accounting and audit. We will come back to this problem at a later stage.

If we now consider no longer the quantity but the quality of research on offer, we must conclude that there is a considerable improvement in quality, in particular from the methodology point of view. A certain number of French researchers compete today with Anglo-Saxon researchers and publish in English in excellent British or American reviews, in particular in *Accounting, Organizations and Society* (AOS).

If the research does exist and if overall its quality is good, that does not necessarily mean that it is adapted to the requests expressed by professionals. It simply does not necessarily correspond to the type of research which is the most requested by the latter.

Should the sceptics now be convinced of the existence of French language accounting research, we can move on to the next question.

### *What type of research is carried out in France?*

Based on the usual classification three types of accounting research can be identified: fundamental research, applied research and normative research. However, we should note that this classification used in the "hard" sciences is not quite adapted to accounting research, which is a management science and further, a human and social science: certain types of research would be difficult

to classify and others may belong to two or even three categories. Despite this, let's use this classification.

### **Fundamental accounting research**

It considers accounting as a historical, social, economic and organisational phenomenon; and deals with various questions related to its concepts, methods, functioning and role essentially from a cognitive perspective (that is to say "scientific" if we consider the cognitive objective as the characteristic of science):

- How do accounting concepts develop and change? What is the origin of the depreciation concept? A question dealt with remarkably by Yannick Lemarchand in his thesis, eighteen years ago.

- Does the accounting information produced satisfy the needs of its users? Does the information published in the annual reports of nuclear power operators (Areva, EDF, CEA, Andra) meet the expectations of the stakeholders? Question dealt with in a thesis submitted last December at Paris-Dauphine University.

- What do users, for example, financial analysts, do with the accounting information they receive? Do financial analysts prefer, as another example, profit or loss or comprehensive income as a performance indicator for an entity? What are the economic characteristics of entities that practice income smoothing? Issue dealt with in several articles belonging to the trend of the so-called positive accounting theory.

- Are accounting performance indicators correlated to stock market indicators? Do they have relevance for the stock market, a value relevance? An issue also dealt with in several articles.

All of these issues are quite general and suitable subjects for theses but they may also be of interest to the practitioner and more particularly to the standard-setter (for example, the issues relating to user needs).

We can also classify as fundamental research works dear to me relating to the standard-setting institutions and their due process, that is to say research studying the standard-setter itself.

### **Applied accounting research**

It is more directly aimed at improving the tool and takes the form of engineering work either for developing accounting models, or for their adaptation to new needs, including the use of new technology.

For example, a certain number of researchers have already been working for a long time on the development of accounting models for environmental phenomena; which may lead to concrete improvements to the "sustainable development" report and to the formulation of alternative indicators (like those mentioned in the Stiglitz report).

As a further example, some researchers are devoting their work to the accounts of public entities and, in particular, to the accounts of the state.

Yet another example is the research relating to the integration of accounting into integrated management software.

This applied accounting research is undoubtedly of interest to practitioners. Some of the research is indeed very similar to surveys carried out by consultants.

### **Normative research**

In France it is called “doctrinal research” and in Anglo-Saxon countries it is called “research in accounting theory”.

It is the research which deals more or less directly with the problems standard-setters are confronted with.

This research has a theoretical or “reflective” aspect; it is about, for example, thinking about how to capture the intangible in the accounts, raising the related problems and examining possible solutions? This can lead to producing memorandums or theses which are similar to the papers published by Anglo-Saxon organisations when they start to develop a standard (the discussion memorandum); in the United States it is in fact often academics who write the discussion memorandum.

It also has a more empirical aspect illustrated by field tests, that is to say pre- or post-implementation tests designed to determine the potential or observed impact of the standards: pre-implementation if they are carried out prior to application of a standard being developed, post-implementation if they are carried out after application of the standard in order to carry out a sort of assessment of the implementation of the standard. It is by the way regrettable that more pre-implementation studies are not carried out prior to the issue of IFRS. We would have liked, for example, impact studies to be carried out on the micro- and macro-economic effects of implementing standards calling measurement at fair value.

Certain studies on value relevance, that is relevance to stock markets, which we have classified as fundamental research, are similar to post-implementation studies: they are statistical tests of the relationship between accounting and stock market value indicators.

All three types of research may be useful to practitioners, which seems obvious for so-called normative research but is also true of applied and even fundamental research; hence, certain work on the history of accounting classified as fundamental research can clarify contemporary debates, such as the history of measurement methods.

### *Is French language accounting research different to Anglo-Saxon research?*

Firstly, it is far more recent: the American Accounting Association (AAA) was set up in 1916 (under the name of Association of University Instructors in Accounting) and the AFC in 1979, 63 years later! Today, the AAA must have around 10,000 members (including 2,000 from outside the US) and the AFC, 500.

It is not therefore surprising that French language accounting research is much less abundant. This remains true if we include in it the research from Quebec which, even when expressed in French, which is more and more infrequent, is mainly “US-type” research from a methodological point of view. There are around thirty Anglo-Saxon academic reviews as compared to one in French, *Comptabilité-Contrôle-Audit*.

Let us deal with the question itself: Is French language accounting research different to Anglo-Saxon research?

One comment before replying: so-called Anglo-Saxon research is no more uniform than so-called Anglo-Saxon accounting practice or standard-setting. There is in particular a difference between British and US research: British research, as illustrated by the review *AOS (Accounting, Organizations and Society)*, is more qualitative and borrows more from human sciences than US research, which is more quantitative and very dependent on economic research; the dominating trend in the United States, that of Positive Accounting Theory as illustrated for example by *The Journal of Accounting and Economics*, can be considered as a by-product of economic research.

If we refer to the articles published in *Comptabilité-Contrôle-Audit*, French language research appears very diversified both in terms of topics and methodology. This diversity reflects the intentions of the successive editors of *Comptabilité-Contrôle-Audit*. However, French language research appears closer to British than to US research. US mainstream cannot be considered to be the French language mainstream.

### *Are the subjects dealt with by researchers likely to interest practitioners?*

It is the question of whether the supply matches the requests from professionals, a question which brings us to how researchers are assessed today.

Researchers are assessed on the basis of their publications in so-called academic reviews.

What is an academic review? Let's say a review written by researchers and read by other researchers.

The articles published in these reviews are assessed essentially for their methodological rigour. This basis for assessing researchers' work does not motivate them to take on subjects which would interest professionals or to carry out applied or normative research. Indeed, these subjects are not generally compatible with a methodological approach approved by the research community and considered suitable for publication in academic reviews. This explains why normative research of a reflective nature on concepts and accounting principles has practically disappeared from Anglo-Saxon academic reviews.

The CNRS (The National Committee for Scientific Research) has drawn up a list of academic reviews which count for the assessment of researchers, in the fields of accounting, management accounting and auditing. The AFC's review *Comptabilité-Contrôle-Audit* is included in the list but not the *Revue Française de Comptabilité*, published by the Ordre des experts-comptables (OEC); actually it is no longer included on the list because it was originally included in the CNRS classification... This is quite regrettable because this review is read by practitioners and offers an opportunity for researchers to make their work known in the part entitled "Reflections" and serves as a bridge between researchers and practitioners. Moreover, there are researchers that contribute to this review but will they continue to do so, given that it does not count for their assessment as researchers? It is not at all certain. It is up to the Ordre des experts-comptables (OEC) to approach the CNRS so that its review is once again on the official list of reviews it recognises.

It could be added that the problem of the assessment of accounting researchers is by no means a French or French speaking problem.

The researchers in Anglo-Saxon countries are assessed in the same way, and it is precisely because they are assessed in this way in the Anglo-Saxon countries and in the United States in particular that they are now assessed on the same basis in France and in the French speaking countries; a neoinstitutionalist researcher would say this is a case of isomorphic mimicry: the forms of assessment result from an imitation of the dominant country's practices.

In the United States there are academic accounting reviews which are unintelligible to most people, which does not matter in itself, but what does matter is that they are also unintelligible to a majority of accounting researchers and it raises the question of how useful these reviews are!

If we were to carry out a test to see which of the members of the AFC regularly read *The Journal of Accounting Research* (JAR), we would no doubt discover that one of the five major academic accounting reviews in the world is not read

by many French language accounting researchers! And that is why I suggest that JAR should be taken off the CNRS's list! It's only a joke but....

The problem we are coming up against here is the double relevance of accounting research. Ideally, accounting research should be professionally relevant (and socially, lest we forget), address issues of professional (and social) interest, and be methodologically compliant with the requirements of the scientific community. Today it seems that, because of the way researchers are assessed, methodological relevance takes precedence over professional relevance and that accounting research is in danger of academicism. This is true of both French and English speaking countries. What can be done about it?

*How can we increase the amount of French language research?  
How can we ensure that this research is better adapted  
to professional requests?*

Firstly, there would be more research if there were more researchers.

But French higher education institutions and in particular universities are currently faced with serious recruitment problems which cannot be kept silent. These problems have diverse causes: the numbers of students in accounting are continually increasing, which increases the demand for teachers; moreover the baby-boomers need replacing, the accreditation organisations require institutions to recruit academics with a doctor's degree; the last, and perhaps the most important reason, is that financial remuneration levels are lower than those that a master in accounting, management accounting and audit could expect in companies or in the accounting profession. Let us not elude the question of money: a junior in a large professional firm earns as much at the age of 23 as what a young university Professor (in the first level of the second grade) earns at the age of 40; and a manager in a large professional firm earns at the age of 30 what a Professor earns at the peak of his career (in the 2nd level of the exceptional grade), if he succeeds in attaining it, at the age of 60. Hence the pessimism about the perspectives of increasing the number of researchers.

Instead of increasing the number of researchers, the introduction of incentives could be considered to increase the productivity and the publications of researchers ("work more to earn more!"). A certain number of institutions have already introduced individual compensation schemes, as well as publication-linked bonuses but these schemes can misfire. By differentiating various categories of academics they may prevent the necessary cooperation for the efficient functioning of higher educational institutions from taking place. In addition, an academic may be inclined to sacrifice teaching because of the financial incentives to carry out research! In the British universities where this

# A Chinese view of accounting issues

type of incentive has been introduced, a deterioration of the quality of teaching has been observed as well as a decrease in the number of pedagogical publications, in particular of manuals.

As far as adapting supply to demand is concerned, let us say that we simply need bridges between the two, for example reviews that are intermediaries (the *Revue Française de Comptabilité* could have this function), common spaces such as chairs in accounting, go-betweens, people that go back and forth between universities and the profession, etc. We also need funding. Why not set up a foundation for accounting research based on the model of the National Foundation for the Teaching of Management ("FNEGE")? These are just a few ideas.

## *Conclusion: does French language accounting research have a future?*

French language accounting research is, as we have seen, faced with many difficulties but its main problem, which we have not yet addressed, is the future of the French language. Its future is under severe threat like that of the French language. In other words, it has a future if it learns English ... at the risk of losing its own specific character and of being absorbed by Anglo-Saxon research, not necessarily US research. But we do not believe it can continue to exist without adopting English which, until Chinese takes its place, is for the moment the language of accounting, of standard-setting and of accounting research. This is the paradoxical challenge for French language accounting research: adopt English to survive but in doing so run the risk of cultural death.

As accounting today is globalised, and debates and discussions on the relevance of the guiding principles in accounting standards is not specific to France, Yuan Ding, Chair of Finance and Accounting Department in CEIBS, one of the most prestigious Asian business schools, has presented his thoughts on accounting practice in China and on accounting in general at the Symposium.

# Reflections on fair value: the Chinese experience

**Yuan Ding,**

*Head of the Department for Finance and Accounting  
at China Europe International Business School (CEIBS)*

Talking about China on such a technical subject as fair value is interesting with regard to developing accounting thinking on this subject.

Indeed, for five hundred years accounting has used historical cost, whereas it is only over the last few years that more and more items in the balance sheet have to be measured at fair value. China is not an exception regarding this change. Since 2007 all Chinese companies have to apply a set of standards very similar to IFRS and therefore measure their financial and property assets at fair value.

However, there are certain significant exceptions to the use of fair value including: the restriction of the use of fair value to cases where there is a liquid market (marked to model measurement is not used), restrictions of the use of fair value when accounting for acquisitions and mergers of entities under common control, and lastly a different definition of levels of control.

This transformation of Chinese accounting practice has raised questions about the benefits and limitations of applying IFRS. It has led in particular to studies on the pro-cyclical effects of fair value – in a rising or falling market, or again in considering the intrinsic subjectivity of this measurement method.

These are the two main points that we consider important to consider in detail here, before moving on to some more general considerations about the consequences for accounting of introducing fair value in the very foundation of accounting.

## *The pro-cyclical effects of fair value: the example of China*

The example of China provides a unique case study for examining the pro-cyclical effects of fair value.

Indeed, in 2007, the year of first application by Chinese companies of standards similar to IFRS, the main Chinese stock exchange index increased by 100% in one year; before decreasing by 70% the following year. The considerable magnitude

of these fluctuations had an important effect on business activity via the use of fair value. This is clearly illustrated by the story of Youngor Company over this period, a conglomerate specialised in property construction and financial investments.

So, in 2007, the company's total assets doubled in value mainly due to the increase in the fair value of the financial assets and the increase in equity was even more incredible. The leverage ratio of Youngor went down by 1%.

This very favourable trend in the financial position of the business encouraged the directors to undertake an even more aggressive strategy regarding its property activity. Through the latter and because of the specific characteristics of the Chinese property market, the company undertook several new projects.

However in 2008, when the Chinese index fell by about 70%, Youngor's situation was reversed. As its reserves decreased – due to the massive drop in the fair value of its assets as a result of a turnaround in the market – its leverage ratio increased by 16%; its property projects were curtailed. This forced the company to take out short-term borrowings to finance the projects commenced in 2007.

At the beginning of 2009, Youngor nearly went bankrupt, and would have disappeared if the Chinese government had not stimulated an upturn in the property market in the second quarter of 2009.

What conclusions can be drawn from this example? Clearly this example illustrates well the pro-cyclical effects of using fair value.

Indeed, during a boom period, the measurement at fair value leads to an internalisation of the company's risks. By overestimating the value of the company's assets and its borrowing capacity, it amplifies the optimism of managers and investors because significant unrealised profits are recognised through equity and/or profit. The resulting price earning ratio (PER) appears lower, which boosts general confidence in the company.

On the contrary during a period of market decline, with measurement at market value – mark to market – the value of the company's financial assets drops, bringing a corresponding decrease in the company's net equity. The leverage ratio of the company increases considerably and can even lead to bankruptcy.

Thus, when using fair value, it is already too late when the difficulties of the company are uncovered.

The use of fair value therefore seems to bring very significant pro-cyclicality into the financial statements. In addition, where transaction costs and the difficulties of selling the company's assets are not taken into account, it reinforces the doubts one may have on the value of this measurement base in terms of the quality of financial reporting.

The pro-cyclical character of fair value measurement was a matter that needed



to be raised. Now another problem related to measurement at fair value, namely its subjectivity also needs to be discussed.

### *Subjectivity in fair value valuations*

The use of mark to market, whilst aiming at representing a value closer to the reality of the net assets of the company, overlooks the effect of a possible sale by major market players (which would bring down market prices), although at the same time these players value their own assets at this same market value, supposed to represent the liquidation value. Thus fair value measurement does not take into account the significant difference there is between actual and theoretical transactions.

This problem is clearly illustrated by the mutual funds in China, in which many companies adopted similar investment strategies, and so the securities were only liquid as long as nobody sold them.

During my own career, I have also been confronted with the intrinsic subjectivity of fair value measurement. As an independent director of an electronics group and chairman of the audit committee, I took part in considerable discussion about the difficult issue of valuing a purely speculative investment in oilfields.

Indeed, according to the way the transaction was structured, it was possible to recognise the investment for an amount varying between 100 and 900 millions of Hong-Kong dollars, which left the directors with considerable latitude, but also with potential litigation between management, auditors and investors. After discussion with the Chinese Finance Minister and the Chinese standard-setter, it was decided to adopt the equity method of accounting for the listed company holding the oilfield, instead of a stock market valuation of the shares in that invested company, which ultimately resulted in a fairly prudent and certainly less volatile valuation.

Nevertheless, this example shows that fair value measurement leaves a significant room for manoeuvre to the management, in particular for valuing commercial property or goodwill. The degree of optimism or pessimism of the management at the time of the transaction will ultimately be decisive in determining fair value.

Since it is now clear that the use of fair value leads to pro-cyclicality and subjectivity, its overall effect on the very foundations of accounting should be reflected upon.

### *A few thoughts on accounting*

Firstly, in view of the points made above, it seems difficult to claim as is often done that fair value represents an undeniable progress for accounting. Nor is it something new as most accountants have known about it for a long time, as illustrated by its past use for calculating provisions for example.

The real novelty consists in negating the principle of prudence by enabling the recognition of unrealised profits or by allowing astonishing liberties to be taken with accounting prudence as with IFRS in October 2008 or in April 2010 with US-GAAP: in a rising market unrealised profits are recognised; however, when the market turns around, they revert to measurement on the basis of held to maturity, so that the fall in market value is not recognised in profit or loss.

In addition, the use of fair value raises an important problem with respect to the going concern and liquidation bases of accounting. Under the going concern basis, the assets are treated together as a unit, as the essential elements for implementing the business model, and as such are only considered from the point of view of their utility as opposed to their sales value. The going concern principle supports measurement at historical cost and justifies the existence of goodwill, which recognises a part of the unrealised profits associated with the assets. Whereas under the liquidation basis, this unit is broken down into a series of individual assets that can be liquidated separately. The liquidation principle supports fair value measurement of each individual asset but appears inconsistent with the recognition of goodwill. International accounting standards seem to reflect a certain accounting opportunism, in which they allow fair value and goodwill to coexist.

To conclude, since financial accounting is a powerful tool for wealth-sharing within society, between present and future, between the short and the long terms, it is highly regrettable that accounting standards give priority to short term performance rather than to long term performance.

# Can accounting research enable theory to benefit practice?

This roundtable dedicated to discussing the means available to accounting research to benefit practice, brought together speakers from very different horizons (companies, auditors, bankers and professors).

It was a unique opportunity to understand the diversity of thinking and positions concerning the best way to represent economic reality and business life in accounting, and in particular to address the question of the choice of measurement bases and the way research could help clarify such choice.

# IFRS, accounting research and midcaps

## **Pascal Imbert,**

*Chairman of MiddleNext,*

*Chairman of the Managing Board of Solucom*

### *What do midcaps have to say about IFRS?*

MiddleNext is the association for midcaps listed in France. It is made up of 150 companies listed on Euronext B and C, as well as on Alternext.

We have to admit that IFRSs are not very popular with us, members of MiddleNext and managers of listed SMEs and listed medium-sized companies ("ETI"). Why?

Firstly because the implementation of IFRS is a costly and complex exercise, particularly on first adoption.

In addition, even when the adoption phase is over, the concepts underlying IFRS, which are a radical departure from our historical accounting principles, are difficult for us as non-specialists to grasp. And this is all the more so because the instability of the standards from one year to another changes all that we had begun with difficulty to understand in the previous version...

Over and above this complexity and these difficulties, we as entrepreneurs, are less and less happy with the way the economic reality of our businesses is reflected in IFRS financial statements. And this is really the main problem.

An example: the number of cases of purely financial accounting treatment which do not correspond to authentic business transactions, from discounting guarantee deposits made to a lessor, to the restatement of all leases as depreciable fixed assets. I could also mention the gradual disconnection of the income statement and the balance sheet, under the effects of fair value dogma, the latter leading to more and more items being directly recognised through equity.

In the very manner in which our transactions are accounted for, the IFRS concepts are more and more removed from industrial reasoning. Recent developments in the treatment of business combinations are a striking illustration of this divergence.

To sum up, we are sorry to see that our companies' IFRS financial statements tend to portray a short-term financial view of our businesses.

### *IFRS financial statements no longer enable companies to monitor their activity*

We are deeply concerned by this trend, given that in general our companies are engaged in long term industrial projects. Many companies are family businesses, managed and controlled by their founder, business models whose capacity for creating value and employment should not be forgotten after the recent financial crisis.

We might consider that the divergence being progressively created between our financial statements and the view we have of our activity is not a very serious matter in itself.

After all, why not monitor our business using non-accounting information based on our industrial view? We could simply periodically reconcile that information to the "official" financial statements.

We refuse this approach and consider it to be quite harmful.

Our financial statements are at the heart of our communication strategy with regard to all our stakeholders. For us, it is essential that they represent as faithfully as possible the business model and the business plan that our shareholders, employees and all our partners buy into. It is essential in terms of efficiency, attractiveness and even transparency.

We therefore call for a change of direction in the work on accounting standards.

### *What role, then, for accounting research?*

The time has come to give up once and for all the delights of financial abstraction and elegant concepts, and turn towards pragmatism and economic reality. We will then return to an accounting language which may be more rustic but so much more useful.

We are conscious of being ill-equipped to bring about such a change of direction. Not only because of the political and financial interests that are at stake, but also quite simply because we have to fight against ideas and dogma that are now well-rooted in the minds of certain people.

# For accounting measurement

that represents economic activity

This is of course where accounting research has an important role to play.

Only research is in a position to challenge these inappropriate ideas and dogma, by profound reflection and proposals that are sufficiently robust and substantiated to enable equal footing in taking part in the coming confrontation and debate.

It is a strategic issue, which justifies uniting our efforts in order to ensure together that our ideas prevail!

**Dominique Bonsergent,**  
*Advisor for the Total group,  
Member of the International Accounting  
Standards Commission of the ANC*

If accounting research aims at interesting and assisting practitioners and companies, it must do so quickly in order to prevent the formation of what might become an accounting "bubble". Indeed, accounting seems to have reached a turning point, with the choice either to develop more and more into a valuation system or to remain more a reporting system.

From this point of view, we should not overlook the fact that the financial statements must ultimately account for the performance of the economic activity of a company.

This leads to asking three questions about the accounting system: how should the financial statements represent economic activity? Which measurement bases are the best adapted to meeting this objective? What is then the place of fair value?

## *The financial statements: the objective of representing economic activity*

As already said, we have to determine whether an accounting system is intended for reporting or valuation.

Andreas Bezold<sup>1</sup> in his study replies that, if we consider that the financial statements are to portray the capacity of an entity to create value by its economic activity, then the accounting system is considered to be a reporting system. On the other hand, if we over anticipate the value creation process, by including in the accounts valuations based on uncertain assumptions relating to the generation of future cash flows, we introduce on the one hand too much uncertainty into the representation and on the other too much distance from the value creation process. In this perspective, the accounting architecture required, whilst having its roots in the cash flow generating events, must be capable of linking the accounting representation precisely to the manner in which the entity generates its net cash inflows.

1 - BEZOLD A.,  
'Towards A  
Measurement  
Framework For  
Financial Reporting  
By Business Entities'  
- An Alternative  
View', NSS meeting  
Rome, paper 10,  
2010. The article  
can be found on  
the ANC's website  
(www.anc.gouv.fr).

This task may be more or less difficult. In the case of a group like Total for example, several decades may go by between the moment when drilling to locate petrol takes place and the moment when the petrol produced is distributed to the customer.

However, if the principal objective assigned to financial statements is the representation of economic activity, the measurement base adopted must be consistent with the latter.

### *A measurement base consistent with this objective*

In order to understand financial statements conceived as a reporting system, it is necessary to be able to conceive how the business activity is structured, from the construction of the initial cash flows required up to the production of the return cash flows, and the manner in which it manages to generate ultimate value in excess of the invested capital. Thus, the financial statements will enable a real process to be portrayed rather than them being built on fictitious value creation models.

This is exactly what A. Bezold stresses in his research. He shows effectively that accounting conceived as a system of reporting must start by understanding the Business model of the entity which it represents, by seeing how the entity's research and development costs and investments are engaged, including the manner in which the activity generates cash flows that create its wealth.

The reporting model corresponding to the accounting system whose principal objective is to represent the economic activity of a business is more of a flows model, if we consider that behind all the discussions about mark to market, mark to model, etc. there is the idea that the process of value creation always refers to flows, the only undisputable items in accounting. The balance sheet model, the model preferred in IFRS, which attempts to anticipate as much as possible the entity's cash flows, only makes sense when the business model of the entity is based on taking advantages on changes in value.

This point is particularly interesting because it encourages us to consider the current use of fair value.

### *Should fair value be eliminated as an accounting concept?*

Accounting research should take on this important problem, namely whether an accounting system intended as a reporting model is more of a flows than a

balance sheet model. In the light of my previous remarks, we might consider that a reporting model is primarily concerned with flows, and therefore only very marginally with fair value valuations.

If, as previously stated, we consider the accounting model as a flows model, then nothing obliges us automatically to include fair value accounting. For a company like Total once again, the amortised cost model better portrays the activity of production of the business which is mainly of a long term nature in which it is important to obtain a return on investment after capital repayment or maintenance, rather than in short-term trading transactions.

Personally I believe that the fair value concept should be eliminated, because it is not through endless repetition that it really becomes an accounting concept; and this is for two reasons.

Firstly, fair value as a single figure does not exist. Groups do not talk about fair values but ranges of value, so there cannot be a single value other than in a transaction which takes place at a determined price. The issue of what is a fair price exists in accounting, not that of fair value.

Furthermore, the definition of fair value presents amortised cost under the name of historical cost, as a model which is too traditional and no longer appropriate, at the same time as contrasting it with other quite different measurement bases grouped under a single name. In fact it proves to be a fundamental change for accounting, the relevance of which has not been fully examined.

To conclude, wanting a measurement model that represents the economic activity of a business entity is not about a conflict between continentals and Anglo-Saxons, which we may well have in mind when we speak about fair value. No, when you speak about accounting, when large groups from every country, such as Total, speak about it, it is always a reporting system they mention.

All the elements related to reporting presented here formed part of the original IAS conceptual framework, but no longer appear clearly in the new IFRS framework. It is therefore urgent for accounting research to take on this issue very quickly.

# How fair is fair value?

## 5 years after

### **Allister Wilson,**

*Senior Audit Partner of Ernst & Young, Convenor of the Research Committee of the Institute of Chartered Accountants of Scotland*

Having spent the last twenty-five years in the accounting profession in Europe in a large auditing firm, following my previous life as an academic, I would like to share some brief insights and observations on the current state of financial reporting and accounting research from both perspectives.

As a preface, I thought I might make an observation on the point that was made earlier this morning about languages in accounting standard setting. During my time as ad hoc technical advisor to the European Commission I was privileged to be a member of the EC delegation on the IASC Board from 1996 to 2001. During that time it never ceased to amaze me how Anglo-American research dominated the thinking of the Board. Whenever literature reviews were conducted, they always only covered work that had been published in the English language, ignoring the great wealth of literature and research published by non-English speaking academics, such as Lassègue and Schmalenbach. This issue of acknowledging non-English-written research needs to be addressed.

I here plan to reflect mainly on the impact that fair value measurement has had on financial reporting, but I will also provide my personal views on the direction of financial reporting.

### *Fair value – what does it do?*

First of all, there is no dispute that value is the defining metric in a market economy. Companies create value by investing capital from investors to generate cash flows at rates of return that exceed the cost of that capital. However, an important corollary to this is that anything that does not increase cash flows through improving revenues or returns on capital does not create value.

In fair value accounting terms, this distinction is blurred because it suggests that an increase in revenues without an associated increase in cash flows does create value. This confuses the creation of value on the one hand, and the redistribution of risk on the other. For example, in the run up to the recent

financial crisis, it was assumed that the securitisation of high risk home loans created value. However, the reality was that the aggregate cash flows to be derived from the securitised home loans were not increased, so no value was created. All that happened was that risks were passed from one investor to the next. In fact, the only cash flows that occurred were cash outflows in the form of bonuses and dividends.

In 2005 when IFRS was introduced in Europe I wrote a paper entitled *How fair is fair value?*<sup>2</sup> because I was concerned that the standard-setters did not understand how to value value and how businesses actually create value. My concerns were centred primarily on the focus on the balance sheet and on the reliability of the measurement of the fair value of assets and liabilities, which ranged from mark to market values in deep and liquid markets, through to mark-to-model values in highly illiquid markets. You all know that most fair values today are, in fact, not so-called level 1 values; in other words they are not determined by reference to quoted prices for identical assets in active markets. My main concern therefore centred on the quality of reported earnings and the impact on performance reporting of unrealized fair value gains, especially in times of rapidly rising markets, as we saw with the run up to the financial crisis. When you link this with the removal of the prudence principle, and the fact that these unrealized gains could be used as a basis for performance related remuneration and the distribution of dividends – even if those gains never resulted in cash flows for the company – a complete disconnect was created between reported earnings and value creation.

### *Where is financial reporting going and what should be done?*

Financial reporting is becoming increasingly more complex. The disclosure obligations placed on companies are, in my view, clearly getting out of control; this is having the effect of turning the preparation and audit of disclosures into a tick-box exercise, and making it increasingly difficult for investors to distinguish between disclosures that are particularly important and those that are less so.

Moreover, accounting rules have introduced a “false” volatility in the accounts; for instance due to the mismatch between how companies manage their risk and how hedge accounting does or does not allow them to reflect their risk management practices. This is evidenced through the growing disconnection between how companies report to the market through their financial statements and how they actually manage their business. This gap becomes wider and wider as a company’s business model and its financial reporting become increasingly detached.

It is well known that there are differing views on the asset/liability as opposed to the income approach to financial reporting. In other words, should the primary focus of financial reporting be on the recognition, measurement and derecognition of the reporting entity's assets and liabilities, or should the focus be on the income generating activities of the entity? Much of this distinction revolves around what is meant by "profit".

The IASB supports the asset/liability focus and the primacy of the balance sheet view. That is, in order to measure performance, an entity first identifies and measures its economic resources and the claims on them. This approach defines income as the increase in the net resources of the enterprise during a specified period. This methodology clearly underlies, for example, the IASB's new asset/liability approaches to revenue recognition and accounting for leases, where changes in contractual rights and obligations are viewed as representing performance. However, the danger with this approach to performance measurement is that changes in net assets that do not represent business activity, or result in cash flows, are nevertheless recorded in net income even though no value has been created.

'Business activity' is the process of investing cash in non-cash resources to be combined according to a specific business model to generate future net cash flows. The net cash flows are generated by the business activity in its entirety, not by single non-cash resources or constructs like 'net assets'.

The value of a non-cash resource depends on the way that resource contributes to the entity's specific business model. In other words, the value of a non-cash resource depends on its function and use within the business.

It clearly follows that accounting concepts and measurement methods should be aligned with the inherent economic logic of an activity if faithful representation is to be achieved. If alignment fails – for example, by the use of assumptions contrary to the economic logic of the activity – the results may be misleading. An example of such a misalignment could be measuring assets at their modelled market value (which, in some cases, is theoretical) rather than their value to the business.

Reporting temporary value changes as income potentially represents misinformation when those changes have to be reversed in subsequent periods as the assumptions used are proven erroneous – as has amply been illustrated by the problems that the banks now face.

This leads to the fair value dilemma. Fair Value Accounting is based on the notion that an increase in the market value of an asset necessarily makes its owner better off in income terms. For example, the fact that an individual's house goes up in value does not mean that he has greater purchasing power or, indeed, that he has made a profit.

A general inflation of the price of houses (without an increase in their quantity or quality) cannot benefit the economy as a whole; it simply creates winners and losers. The 'wealth effect' argument does not apply to house-price inflation (as there is no genuine increase in wealth) and cannot justify the explosion of credit.

The fair value dilemma is the root cause of the mistaken belief that it is appropriate to lend as long as the loan is adequately covered by the market value of the property. However, what home owners can afford to borrow (without losing their homes) normally depends on their ability to service the loan out of income, not on an estate agent's most recent price estimate.

In the same way, fair value in many cases is no more than a model-based hypothetical value in a hypothetical market. Whilst the increase in these hypothetical values might be of interest to some users of financial statements, they do not represent an increase in wealth or the creation of value and certainly do not represent a profit. To repeat – temporary value changes that are not realized in cash can be relevant information; however, they are not relevant to periodic income.

Unfortunately, though, existing accounting rules force companies to report these value changes as if they were profits. This is of fundamental importance, since it drives the belief that profit can be created without the completion of the cash conversion cycle. As we have seen in the run up to the financial crisis, this can result in the cash payment of remuneration and dividends, when in fact there is no cash realization or value creation.

Academic's here today will be familiar with a system called Continuously Contemporary Accounting (CoCoA) developed by Ray Chambers, an Australian academic. In my view, this is the model which standards setters, consciously or not, have adopted. But, what does CoCoA actually mean ?

Chambers' CoCoA theory is based on the premise that entities must be able to choose between alternative courses of action and, because resources are limited, they need to know what resources are available to enable them to engage in exchanges. Consequently, Chambers asserts that this capacity to engage in exchanges is measured by the opportunity cost of holding assets (including inventory) in their existing form, and that this opportunity cost is represented by the current cash equivalent of assets – which Chambers defines as being their current sales value.

But, this is not how business works. If you look at the activities of companies, you do not look to individual assets but to the activities of the business; you consider the business model and the cash flows produced by this entire model. Chambers' view that the company should value assets at their "higher and best use" does not take into account the fact that businesses are not in the

# Moral hazard and standard-setting:

## a little explored area of research

business of selling their assets. For example, a manufacturer is in the business of manufacturing; moreover, CoCoA does not take account of the social implications linked to the sale of the assets.

In conclusion, my personal position is that earnings is the single most important output of the accounting system. Improved financial reporting should lead to improved usefulness of information about earnings and their related cash flows. However, this is not the case at present. The usefulness of earnings as an output of the accounting system is gradually being eroded by the standard-setters' expansion of the balance sheet approach and their failure to discern the fair value fallacy.

Business success rests fundamentally upon the underlying trading performance of the core activities of the enterprise. In other words, users are interested primarily in what the reporting entity actually did and what its prospects are for the future.

It seems apparent, therefore, that at least one fundamental objective of financial reporting should be to give a clear, unambiguous and understandable statement of the trading performance of the core activities of the business, solidly and soundly based on the transactions it has made. Let me be clear: this does not necessarily rule out the possibility of more complex matters being reported upon separately. I acknowledge that changes in the economic position of an entity are an important element of the assessment of an entity's future prospects, and I am not advocating (for instance) that derivative financial instruments should not be measured at their economic value. What I am suggesting, though, is that these should not obfuscate an appreciation of the real trading performance and sustainable free cash flow of the business.

The second essential that I consider needs restating is that profits based on real transactions that will be settled in cash are fundamentally different from valuation 'gains' often based, not on observable market transactions, but on hypothetical values derived from valuation models. Therefore, a clear distinction should be made between the two and they should not be presented in financial reports as if they were similar or even equivalent. Moreover, a distinction should be made between effects on changes in fair value that are not directly caused by the entity's operating activities and those that are; and, even more importantly, between changes in fair value that may never become cash flows to the entity in contrast to those that will. This is necessary in order to avoid the confusion that surrounds the investment implications of valuation gains versus the completion of the cash conversion cycle.

There is clearly substantial scope for research into the connection between, on the one hand financial reporting and, on the other hand, business activity cash conversion cycles and business models.

### **Didier Marteau,**

*Professor at ESCP, lecturer at La Sorbonne,  
author of the report "Normes comptables et crise financière"*

Although the crisis was accentuated by macro-economic imbalances, the causes of the recent financial crisis are largely micro-economic, that is to say it was brought about by a multiplication of moral hazard behaviours<sup>3</sup> on the financial markets and by the failure of regulation.

To neglect the role of accounting and in particular of fair value in creating situations of moral hazard would expose our economies to renewed difficulties of the same nature.

Consequently, it seems important to analyse to what extent fair value as a method of accounting representation may maximise moral hazard behaviour by detaching market operators from the consequences of their decisions; as well as examining the role of "mark to model" valuations in causing moral hazard.

### *Fair value: a good vehicle for moral hazard?*

Because it impacts market operators' compensation in an asymmetrical way, fair value increases the likelihood of moral hazard situations.

Indeed, a trader's bonus contract is akin to a free call option based on the profit or loss of his employer. With this kind of contract, the trader will make money when his employer makes a profit, but will not be exposed to potential losses because he is only the holder of an option.

On the basis of this very simple illustration and supposing that the profits of the employer follow a normal distribution, it is easy to demonstrate that the trader's bonus is an increasing function of the volatility of the unrealised or realised profit of his employer.

This means that the more the trader exposes his employer to risks by different purchase and sale transactions, the better his chances of increasing his compensation without having to assume responsibility for any damage caused by his risky transactions.

<sup>3</sup> - Moral hazard may be defined as the phenomenon that maximises the individual interest of a market participant without regard for the consequences of his decisions on the public interest.



It is therefore perhaps not public interest which inclines accounting towards fair value with its tendency to increase the volatility of profit or loss, but rather private interests, leading to moral hazard situations because the latter do not bear the overall costs associated with their actions.

As fair value may be determined either by reference to market prices or to pricing models, to what extent then is the current debate about mark to market or mark to model measurement another illustration of, on some occasions, the accounting origins of moral hazard?

### *Mark to model: the cause of situations of moral hazard?*

It is not sufficient to identify an active market, with a sufficiently important volume of transactions, to be certain of the validity of valuations at market value – marked to market. Indeed, from a theoretical point of view, if for example possible price fluctuations and the illiquidity of a market resulting from significant asset purchase or sale transactions are not taken into account, the market valuation is no longer valid.

Further, behind *mark to market* is in reality the issue of *mark to model* – that is to say valuation based on in-house pricing models for assets that cannot be valued at market value.

As an illustration, a close look at the assets measured at fair value in the balance sheet of Goldman Sachs for the third quarter of 2010, shows that 99.99% of 991 billion dollars of assets measured at fair value are *marked to model*<sup>4</sup>. Even more, a discretionary variation of only 10% of the valuations derived from pricing models using non-observable data (level 3 valuations) would be equivalent to the third quarter profit for 2010 of Goldman Sachs.

Model-based valuations confront us again with moral hazard situations, because the changes in value based on these techniques are recognised through profit or loss, and are therefore treated as an increase in the value of the company whereas they may just be accounting illusions.

To conclude, we can see more clearly now, that the issue of fair value goes back ultimately to that of the governance of standard-setting institutions, the issue of their actual or supposed ability to defend the general public interest rather than private interests. This leads us to the question of whether public interest should become or should, once again, become one of the foundations of the standard-setting process.

The issue of fair value also raises the question of whether there is a real need today to have distinct standards according to the management horizon, based on a clearer distinction between exchange value and value in use; or to give greater importance to performance, instead of focusing on changes in balance sheet values which tend to lead to moral hazard situations.

4 - In all, three levels of valuation are used for the assets of Goldman Sachs and of banks in general. Level 1, which is fair value based on market prices (0.01% of the quarterly balance sheet of Goldman Sachs). Level 2 valuations, using in-house models with observable market inputs, either directly observable (prices), or indirectly observable (determined by reference to prices); and level 3 valuations, determined by in-house pricing models but with non-observable market inputs.

# Accounting research:

Should we not first ask ourselves what the accounts are used for and by whom?

Because it is always possible to ask questions about users and the needs that accounting should serve or satisfy, it seemed interesting to show at this Symposium how accounting research can already contribute to discussion on these vital questions.

Thus, the research presented has provided the opportunity to recall that as the nature of an accounting rule is completely dependent on the viewpoint adopted, on the needs and the users targeted, it is still essential to ask research what is the purpose and who are the users of accounting.

# The enterprise entity and its stakeholders:

## a common basis for the accounting model?

**Yuri Biondi,**

*Tenured Research Fellow of the CNRS,  
appointed to Ecole Polytechnique of Paris*

International accounting standards raise many questions. Amongst them, it may be interesting to study the ideas and views underlying the conceptual framework adopted by the IASB.

When we try to see to what extent IFRS standards succeed in representing the point of view of a supposedly unique investor, we must necessarily consider the difficulty of meeting the sometimes contradictory needs of the different stakeholders of an accounting entity. It may therefore be useful to situate the enterprise entity and its relationships with stakeholders at the centre of the accounting model.

### *Accounting standards and the point of view of the investor*

International accounting standards are based on the rather “naïve” assumption that the focus of the accounting model should be a mythical, supposedly unique investor, uniform and primary user of accounting information. However, investors are neither all equal nor similar, and have different points of view and analytical criteria, as illustrated by reading the financial press or by the variety of academic investment decision models with different strategies and time horizons. If we include among the investors, bankers and other creditors, including customers and especially employees who may be very concerned creditors, this variety and diversity is even more evident.

It is possible and necessary to go further than that simplistic view by considering that all stakeholders, including shareholders, are concerned by the financial statements that represent the performance and financial position of an enterprise entity. But, here again, these other stakeholders are very diverse and varied.

This is why, it is absolutely necessary in order to overcome the difficulty represented by the multiple investors with numerous and different needs, to consider together the concepts of accounting entity and stakeholder.

### *The stakeholders and the accounting entity*

Indeed, our starting point could be that the stakeholders (shareholders and others) are very diverse and varied, and even that we should not forget their conflicting interests, as part of an immanent conflict in respect of decisions to be taken, including their shares in the performance of the entity and the way in which that performance is portrayed.

These contradictions prove all the difficulty, practically the impossibility, of building a comprehensive and sustainable accounting model on the basis of the pre-supposed views of stakeholders or different groups of them with uniform interests.

The conception of a common accounting model would require accounting focus on the entity concept. The fundamental principle is then what all the stakeholders have in common: their commitment to the enterprise entity which is the business firm (Biondi 2010; Biondi et al. 2007).

In fact, this approach is only a return to the idea of general interest according to the institutional approach which was central to control, governance and regulation before the drift toward a financialised approach over the last forty years.

It therefore appears necessary to define the characteristics of this accounting entity, and also to consider the place of investors in this new model.

### *The enterprise entity as the focus of the accounting model*

We have seen that the concept of enterprise entity can and should be the focus of the accounting model. We have not yet however defined what this entity really is.

If we look closely at the conceptual framework of the IASB for example, this fundamental accounting entity is not clearly defined, unlike the FASB framework where the entity is as a minimum a cash flow generating unit (Biondi 2011). Investors entrust the business firm with cash inflows, the business firm transforms them into non-financial resources, and repays the investors with cash outflows of a higher amount. It is then by reference to this definition of the entity that the American standard-setter concludes that the priority of financial reporting is to satisfy the needs of investors.

The central importance given to cash flows, and therefore to financial capitals providers, in the accounting model, creates a dilemma for business accounting: should it move towards a cash basis of accounting like in the budgetary systems

of public sector accounting<sup>5</sup>, or rather move towards a system measuring flows, cash flows, through time and space, whilst integrating different levels of uncertainty? In the latter case, which is the direction taken by private sector accounting standards, this can lead to a fair value model, which obtains present values by discounting these cash flows and therefore adopts the financial logic of trading shareholders.

If we consider investors as the ultimate and priority users of accounting information, it would perhaps appear consistent to move towards this financial representation, because investors eventually receive cash out-flows generated "elsewhere" by the enterprise entity that had previously received their cash in-flows.

However, the notion of an accounting entity autonomous from its investors, enables the accounting model to be understood differently. Indeed, the role of investors can be considered from the point of view of the enterprise entity. Investors are one of the providers of (financial) resources entrusted to the entity but not the only one. It seems reasonable then that the investors are entitled to a reasonable remuneration based on their contribution over time. From this perspective, it seems possible to avoid changing fundamentally the structure of the existing accounting model whilst taking into account in their true role the particular stakeholders that are investors. It is sufficient to introduce computed equity interest<sup>6</sup>, paid by the entity to the investors on the basis of committed shareholders' equity (in the same way as is already done by management accounting), thus identifying the cost of equity as well as facilitating profit or loss sharing for the enterprise entity as a whole. Entity equity and shareholders' equity may consequently be distinguished from the functional and institutional viewpoint.

### *The institutional function of accounting*

Thus, reporting for this enterprise entity does not represent the same view as the one which the investors are supposed to have of the business, without forgetting that fair value accounting may not be the best way of controlling the activity of the business even in the investors' interest, as illustrated by financial scandals and the recent financial crisis (Bignon et al. 2009).

By defining the particular place and the role of investors, without exaggerating their importance within the business firm, it would be possible to introduce other functions of accounting, and other stakeholders. This would enable the accounting system to better represent the activity of the enterprise entity over time, and the remuneration of each of the stake-holding parties out of the global income to the entity, instead of focusing solely on the remuneration of

5 - This trend could be interesting from the sociological point of view of accounting: whereas central governments are increasingly encouraged to adopt private sector accounting, businesses could end up adopting former central government accounting.

6 - As an alternative, the gross profit of the business may be shared proportionally between the business and the investors, as in German company law.

the investor. This means abandoning the widespread idea that the shareholders are the owners of the business, which is contrary to law and the economy of the business firm (Robé 2011, Strasser and Blumberg 2011).

It would also be possible to revert to the prudential function of accounting – according to the logic of the going concern principle – , which is currently neglected, namely that the risks taken by the joint going concern are borne by both the investors and all the other stakeholders who may even be more exposed than the investors to those risks.

### *References*

Bignon, Vincent, Biondi, Yuri & Ragot, Xavier (2009), "An Economic Analysis of Fair Value: Accounting as a Vector of Crisis", Cournot Centre for Economic Studies, Prisme, No. 15. URL: <http://ssrn.com/abstract=1474228>

Biondi, Yuri (2010), *"L'entité entreprise au croisement de l'économie, du droit et de la comptabilité"*, Sarrebruck: Éditions Universitaires Européennes (EUE).

Biondi, Yuri, Canziani, Arnaldo & Kirat, Thierry (2007) eds., *"The Firm as an Entity: Implications for Accounting, Economics, and Law"*, New York and London: Routledge.

Biondi, Yuri (2011), "The pure Logic of Accounting: A Critique of the Fair Value Revolution", *Accounting, Economics and Law – A Convivium*, (1) 1, n° 7. URL: <http://www.bepress.com/ael/vol1/iss1/7>

Robé, Jean-Philippe (2011), "The Legal Structure of the Firm", *Accounting, Economics, and Law – A Convivium*, 1 (1), n°5. URL: <http://www.bepress.com/ael/vol1/iss1/5>

Strasser, Kurt A. & Blumberg, Phillip (2011), "Legal Form and Economic Substance of Enterprise Groups: Implications for Legal Policy", *Accounting, Economics, and Law – A Convivium*, 1 (1), n°4. URL: <http://www.bepress.com/ael/vol1/iss1/4>

# Considerations

## on the role of the accounts

**Anne Le Manh**, *Assistant Professor at ESCP*  
**Olivier Ramond**, *Professor at Paris-Dauphine University*

The debate at this first Symposium on research on the advantages and disadvantages of fair value is both necessary and instructive. However, this should not make us forget the other issues of increasing importance being raised.

Amongst the latter, three issues seem to us to be really fundamental, precisely because there has been a tendency to neglect them for many decades.

### *What is the role of the conceptual framework?*

First of all, the IASB assigns two main functions to accounting, or rather to an accounting framework: that of assisting the standard-setter to develop a set of consistent standards, as well as that of helping the different stakeholders – preparers, auditors and users – to prepare, audit and understand the financial statements.

However, in taking the time to study the history of the conceptual frameworks – both IFRS and US GAAP –, doubts surface about the way they have been used, as certain standards are not only inconsistent with one another, but also with their conceptual framework. Their continual revision over time confirms this first impression, and a possible conclusion may be that perhaps neither the FASB nor the IASB really intended to give a genuine role to their different conceptual frameworks.

Accounting research has given considerable attention to the role of the conceptual framework. First of all because the framework is not binding for the standard-setter, since when there is an inconsistency between certain standards and the conceptual framework, the standards take precedence, so that the framework is placed below the standards in the hierarchy. Moreover, the conceptual framework is not always finalised before new standards of the same inspiration are issued, which confirms the existence of a hierarchy between the conceptual framework and the standards.

Ultimately, a conceptual framework provides a standard-setter with a discretionary margin in its actions. As a result, should we not consider that conceptual frameworks have a more political objective rather than any genuine practical value?

As we have seen it is possible to discuss the role of the conceptual framework for the standard-setter. But which users of accounting information have priority in the standard-setter's conceptual approach?

### *Who are the users of the accounts?*

Indeed if we consider the different users of the accounts, it is clear that the bias of the IASB, and moreover of the FASB, in favour of capital providers as the priority users of the accounts is not conceptually valid.

Indeed, the IASB like the other standard-setting bodies claim public interest status for their mission. But at the same time, they designate capital providers as the priority users, and justify this bias by indicating that they are the most genuinely and directly concerned by accounting information, as well as being the ones that, whilst they do not have another source of information, have the most uniform requirements.

However, the arguments of the standard-setter are debatable, as it would a priori be equally valid to argue the opposite for the three points mentioned.

Thus, as it is difficult for all conceptual frameworks to establish a hierarchy for users of the accounts, it appears necessary to ask what information should be provided by financial reporting.

### *What type of information should be included in financial reporting?*

Before answering this question, we should first define what is meant by financial reporting. The FASB and IASB conceptual frameworks do not provide a precise definition of this term. The IASB has a tendency even to mix up accounting information and information related to financial reporting.

Moreover, the conceptual frameworks are silent with respect to what determines the quality of financial reporting. The IASB and the FASB simply assume that the decision model for investors would be the most suitable. However, nobody seems able to describe this model, and especially to explain it, by showing for

# What are the accounts used for and by whom?

example how it can be adapted to different categories of investors (differences in the time horizons, etc.).

In addition the academic literature dealing with this subject is not very clear. It refers mainly to common sense principles to define the relevance of financial reporting information, and especially to a choice between opposite principles (transparency as opposed to quality, transitory as opposed to permanent, a value concept as opposed to a price concept); a choice about which standard-setters remain silent.

Therefore, the important issue of whether accounting should monitor value creation rather than value the net assets of a company remains.

To conclude, a clarification of the principles determining the structure of accounting information as well as the benefits and limits of conceptual accounting frameworks is necessary, in order to make financial statements simpler to use rather than, as is currently the case, financial reporting that is considered to be complex by all stakeholders.

**Jérôme Haas,**  
*Chairman of the ANC*

In July 2010 we already raised this question “What are accounts used for and by whom?” a question which would appear to be very simple but, after listening to the different presentations at this first Symposium, turns out to be incredibly difficult. In drawing up our *Strategic Plan*<sup>7</sup> this year, members of the ANC Board were right to recall that the question is far from trivial, gratuitous or futile.

There are indeed different views of accounting. At least two main ones stand out.

On the one hand, the view of accounting standards as part of the law, used for producing a set of reliable, certified and objective figures that form a common basis for meeting the needs of all economic stakeholders. This view coincides exactly with our economic system, dominated by activities of medium term production, a system based on the principle of prudence.

On the other hand, there is the other view of accounting, exactly opposite point-for-point to the one I have just described; accounting for international use and therefore indifferent to law; used as a common language for capital markets and therefore focused on short term variations and the calculation of instantaneous positions, volatile by nature, and which above all only concerns category of financial investors.

We have dealt with this duality by considering that the two views do not apply to the same companies, or the same accounts, and therefore by differentiating two respective sets of standards applicable to consolidated and separate accounts. And we have found a way of articulating the two languages by assigning different missions to each of them whilst striving to maintain their consistency. Our objective at the ANC is to coordinate the two sets of standards whilst avoiding unreasonable developments of either of them, leading to excessive risks. Our counterparts throughout the world accomplish the very same mission in different ways.

The conceptual framework is one of the issues raised by the existence in parallel of these two views, represented by two sets of standards. On reflection, a conceptual framework is only useful when accounting is not part of law. Otherwise, the conceptual framework would either represent a useless repetition of legal requirements or introduce a difference between the latter

7 - The Strategic Plan 2010-2011 is available on the ANC's website ([www.anc.gouv.fr](http://www.anc.gouv.fr))

– which are highly legitimate and unquestionable – and accounting. We must avoid that danger: we do not need a conceptual framework. At the most we could consider establishing a set of fundamental principles. Actually, it would be useful to have such principles that would enable certain helpful definitions and safeguards to be established.

**Is it then possible to find a compromise between these very different ways of thinking?** I believe it is possible; as an illustration, the European Commission in its recent consultations on the mission of the IASB, without going back on the predominance given to investors in financial reporting, also refers to the importance of other stakeholders which up until now were not even mentioned.

Over and above discussions of principle, **it is necessary to reflect on the actions to be taken.**

In 2009, **the G20 stated for example that it was necessary to differentiate investors according to their investment horizon**, that is to say their time horizon: short or long term. Now that they have shown the way, it is up to you and to us through our efforts to fill in the space left open for reflection.

Standard-setting also raises a **question of governance, related to the fundamental issues**: who should carry out standard-setting? Which procedure should be adopted? Should all users be equally represented in standard-setting bodies? We need to know who are the users of the accounts to articulate governance and procedures, to have a chance of building a consensus.

Therefore we need to find what we call “centres of gravity” in the *Strategic Plan* for all these institutional and conceptual questions, and stimulate and pilot research on these questions, both to obtain results in the short term and to stimulate the fundamental debate. This ambition remains first and foremost a **question of public interest.**

On this subject, I must express my great surprise to discover in my discussions with my counterparts throughout the world, that there is a debate as to whether standard-setting should serve the public interest.

Nevertheless this is the decisive issue at stake: the recognition of public interest in standard-setting is the only way to move towards the rigour and prudence we need to increase security in the financial sphere, of which we observe each day the influence on our economies. We have, in this respect, reached a decisive moment.

# Developing a working relationship between the ANC and accounting researchers: what programme and what methods?

This Symposium has also provided the ANC, the French accounting standard-setter, with the opportunity to present its work plan for 2011 and the following years, as well as the practical arrangements for carrying out and funding the research work with academics.

# Issues and conditions

## concerning relations between researchers and standard-setters

**Christian Hoarau,**  
*Professor at CNAM, Member of the Board of the ANC*

The financial crisis of 2008, and previously the debate on IAS 39, has demonstrated that international accounting standards are not just a technical matter but a genuine issue for society. As a business language, they express choices in the way the activity of businesses is represented and are not just a reflection of society and economic, legal and social models. They act in return as a structuring influence on economic and social practices.

Designed solely for the purposes of capital providers, the standards of the IASB convey a model or an accounting representation determined by a view of an entity advocated by financial capitalism, in which the entity is reduced to a community of shareholders with an assignment to create short term stock market value.

This view is not shared by all the entities' stakeholders and members of the accounting community at national, European and international levels. Therefore influencing the orientations of the IASB is the subject of harsh intellectual competition between countries with different economic and social models.

How can France increase its influence in this worldwide competition? The mobilisation and organisation of all the stakeholders in the accounting community expressing themselves with a single voice is essential and led moreover to the creation of the ANC, the French accounting standard-setter.

In this perspective, does accounting research have a role to play? Are contacts between academics and standard-setters necessary? Three main reasons plead in favour of a closer relationship between the academic world and that of standard-setting: worldwide intellectual competition for influencing the orientation of IFRS; rebuilding the accounting model which has lost relevance in the face of changes in technology, of the factors which create wealth and of the information requirements of the different stakeholders; the recognition of the value of research in standard setting, in particular research in accounting theory not considered of value until now by academics except by those specialised in law.

Although necessary, are the relations between researchers and standard-setters compatible and lasting? A quick examination of the links existing between these two communities with different time horizons throughout the world

shows that in Anglo-Saxon countries there are closer links than in continental Europe. France has got a long way behind but the initiatives of the ANC are an attempt to catch up. But what are the conditions for creating lasting relations?

The example of the United States, where the FASB has maintained very close ties with university research for decades, indicates that the standard-setter's support for research should take different forms and be lasting and that it is possible for researchers to contribute despite strong academic institutional constraints<sup>8</sup>.

### *An active and lasting support for accounting research*

The FASB in the United States has carried out three types of action since its creation in 1973: firstly universities are permanently represented in the FASB and involved by taking part in periodical or occasional activities, next through the direction of academic knowledge at the source to make it useful to the standard-setter, including setting up in the middle of the 1990s a programme for academics and for doctorates, and lastly in 2007, the creation of the Financial Accounting Standards Research Initiative, and by funding an annual research fellowship with the FASB.

The involvement of academics is greater when they are active members of the standard-setting organisation. Therefore, since the creation of the FASB, one of the seven (today five) members of the Board is an academic. In addition, academics are also members of the working group that advises the FASB on the major projects on its agenda.

The involvement of researchers takes other forms when they are invited to take part in periodical or occasional activities to assist or advise the FASB. Amongst these activities we will mention preparing the specification of the scope of research projects, taking part in round tables and conferences financed by the FASB such as the one organised with the IASB and formally with the American Accounting Association (AAA) which deals with issues relating to financial statements.

Occasionally the FASB involves academics by funding a specific research project. As an illustration we will mention the study ordered on the economic and policy factors relating to the adoption of IFRS in the United States<sup>9</sup>: *Global accounting convergence and the potential adoption of IFRS* (Hail, Leuz and Wysocki, 2009). The value of this paper to the Board is illustrated by its inclusion in the comment letters sent in response to the consultation organised by the SEC. It then underwent an academic review.

8 - For a detailed analysis of this relationship, see Christian Hoarau (2010) « Les interactions entre la recherche et la normalisation comptables » ("The interactions between accounting research and standard-setting"), *Revue française de comptabilité*, Special accounting theory edition, number 433, June.

9 - Quoted by Jeffrey Hales (2010), see below



With a view to making its activities better known to academics and PhD students of accounting, the FASB set up in the 1990s two specific programmes which alternate every two years. A small group of academics (or PhD students) is formed and given the opportunity to spend several days at the FASB in order to observe the different activities of the standard-setter.

These different actions, to which should be added the possible participation of academics in the standard-setter's due process via comment letters, do not achieve sufficient researcher involvement according to the FASB. But we may ask whether the FASB has not benefitted in a passive manner from academic research for many years (Hales, 2010).

As from 2007, the FASB took two major decisions that marked a structural change in its relationship with American accounting research: firstly the creation of a position of research fellow resident for one year at FASB's head office, and then the implementation of a structured programme of measures intended to increase the level of inter-action with researchers, the Financial Accounting Standards Research Initiatives (FASRI). The latter has the purpose of assisting the American standard-setter in achieving its missions by increasing the level of awareness on issues that may be of interest to researchers. In this perspective, the latter benefit from the assistance of the FASB in the design and completion of research that can inform Board deliberations.

To resume, we note that the FASB has moved from a diversified model of relations with the academic community from which it benefitted passively for many years to a pro-active model as from 2007.

This model is not directly transposable in France where accounting research has developed more recently and the process of standard setting is different. Nevertheless, with a view to basing its positions on concepts validated by research, the ANC has included the funding and the promotion of research in its strategic plan 2010-2011. More precisely, two types of action are planned, on the one hand to stimulate sustained demand for the production of research useful for accounting standard-setting, on the other hand to mobilise the whole process and all the stakeholders to reinforce and structure the supply of French accounting research<sup>10</sup>.

By this pro-active approach over the long term, the French standard-setter has sent a clear message to the academic community that it wishes to develop close relations with researchers. But what can the standard-setter actually expect?

### *Researchers' contribution to standard-setting subject to institutional constraints*

The ANC's social demand cannot be ignored by researchers but it raises questions about the development and the promotion of accounting research.

In the realm of financial accounting, and more generally in management, research cannot develop only according to a self-centred in-depth discipline-based approach totally ignoring social demand. Knowledge production is partly the result of the demand from the outside world interacting with the knowledge production approach of the discipline, according to Gibbons who called this "mode 2" knowledge production (Gibbons, 1995). In this perspective the relationship between researchers and standard-setters is compatible but subject to certain conditions specific to research and its methods of assessment.

Researchers by their contribution may satisfy three kinds of need. Firstly they may provide facts, concepts and theories enabling standard-setters to understand and deal with accounting problems in their economic, legal and social context, in other words a general analytical framework or a conceptual framework in the general sense of the term. Then, for decisions or specific standards, they may assist the standard-setter in identifying and assessing the realistic alternative choices. Lastly, once the decision is taken or the standard adopted, the standard-setter may be interested by the results of accounting research on the economic and social consequences observed for adopted standards. (Hoarau, 2001)

It is not the researcher's purpose a priori, that is to say his initial objective, to provide persuasive arguments to the different stakeholders of accounting standard-setting. But, as a result of the closer links with accounting research, the French standard-setter may find, in the finalised research intended to produce knowledge directed towards action, certain solid basic elements that strengthen its position with respect to the IASB.

The life cycles of accounting research and standard-setting do not have the same time horizons. Therefore, because of the strict methodological rules which a researcher must apply, it seems unlikely that he could define his work topics only on the basis of the standard-setter's current agenda, and expect as well that the results of his work will provide useful information in time for the standard-setter's deliberations. In addition, according to the topics and the methodologies adopted, there are different time horizons.

Moreover a fundamental contribution of the researcher is to anticipate issues which are in the process of development in his specialised areas by referring to underlying economic, financial and legal questions which, in the future, could be major issues on the agenda of the standard-setter.

In addition to these timing differences there are also institutional constraints relating to the promotion of research in the academic world. On average the lapse of time between the beginning of a research project and its promotion in an article published in a peer-reviewed journal is around three years, or four years for a prestigious international journal.

But all research in response to needs expressed or anticipated by the standard-setter cannot give rise to articles that qualify for publication in these journals. Even so, should this research be ignored by the academic community? It is not ignored in the United States when it gives rise to articles published in the review *Accounting Horizons*, the second review of the American Accounting Association (AAA), or in Europe in the review *Accounting in Europe*.

The relationship between the requirements of the discipline and those of the standard-setter is also based on the promotion of research and the dissemination of technical and scientific culture. In addition to the publication of articles, work carried out for the standard-setter may be promoted in collective works which he supports. The relationship between the standard-setter and the academic community is strengthened by communication, on a regular and not just occasional basis, of the results of accounting research as a whole.

This regular communication may take the form of publications in specialised media (for example an electronic journal and/or on the web site of the AFC for the French speaking world), summaries of academic articles published in the review *Comptabilité-Contrôle-Audit*, articles or research papers related to standard-setting and/or professional practice which cannot be published by the *Revue Française de Comptabilité* because of its editorial policy, comment letters sent to the IASB by academics.

Lasting relations with the standard-setter also imply a sufficient and constantly renewed supply of accounting researchers, which makes it necessary to increase the size of research teams at European level. This is dependent on being able to attract the best accounting students towards an academic career when the large accounting firms offer salaries beyond comparison with those of the academic world.

In conclusion, relations between the standard-setter and researchers appear necessary and compatible in spite of the institutional constraints of the academic world. For these relations to have a lasting nature they must begin at the earliest possible stage with academics and their PhD and Master students.

The standard-setter will benefit from the proximity of researchers whose work will be useful for its activity. Researchers can expect a better promotion or recognition of the social utility of their work outside the academic community. They can legitimately expect the standard-setter to be open to the observation and analysis of the researcher which bring greater diversity and variety to

accounting research. In other words, if the standard-setter benefits from accounting research he will have to accept being a subject for research, and if in general researchers benefit from public funding they cannot ignore social demand.

### *Bibliography*

Beresford D.R., Johnson L., "Interactions between the FASB and academic community", *Accounting Horizons*, 1995, 9:32-33

Gibbons M. et al, "*The new productions of knowledge. The dynamics of science and research in contemporary societies*" Sage publications, London, 1995

Hales J., "Informing standard setting through research", *6th Annual APLG/FSA Joint Seminar*, 2010

Hoarau C., "*Normalisation et recherches comptables : enjeux, méthodes et perspectives critiques*", in *Faire de la recherche en comptabilité financière*, Editions Vuibert, collection FNEGE-Vuibert, 2001

Hoarau C., "*La régulation comptable internationale*" in *Les nouveaux concepts en droit des affaires*, Éditions LGDJ Montchrétien, 2010 :103-120

Hoarau C., "*Les interactions entre la recherche et la normalisation comptables*", *Revue Française de Comptabilité*, N° spécial de doctrine comptable, n° 433, Juin 2010

Schipper K., "Academic accounting research and the standard setting process", *Accounting Horizons*, 1994, 8: 61-73,

# Understanding and cooperating

## with the world of accounting research in France

### **Hervé Stolowy,**

*Professor at HEC, Member of the Advisory Committee  
of the ANC*

The commission for the "Organisation of a network for accounting research in France" is a group of about fifteen people with different backgrounds (ANC, universities and schools, business, or audit firms) which met several times between 2009 and 2010. It must therefore be considered from the start as the first attempt to bring together academics, the standard-setter and practitioners to improve dialogue and work between these communities.

Consequently, it seems interesting at this first Symposium on research to mention the main activities of the Research Commission to date, as well as outlining possible ideas for future cooperation between academics and the professional world.

### *The activity of the Research Commission today: clarify and explain the rules of the research world*

Because the members of the commission come from very different backgrounds, one of its main activities was to try to establish a greater mutual understanding between the stakeholders, in particular by explaining what academics understand by research.

Indeed, academic research is rarely involved in current matters, the short term, because it takes on average four years from the start of a research project before its work is published in a peer-review. Research work therefore has a medium-term perspective.

The notion of what is current therefore has a very specific status for a researcher. Frequently, considering the above-mentioned time lapses before publication, practitioners think that academic studies are out of date because they appear several years after the events that gave rise to them. More often than not this is not so, because the methodological approach, the validity of the sample and the relative stability of the situations being studied, ensure that although the research may no longer be up to date it remains interesting, useful and relevant.

We need therefore to understand that the most important thing for a researcher is the interest of the phenomenon being studied not whether it is up to date; even with quite dated information, the analysis of a phenomenon may still be interesting.

Another element that is important to mention as soon as you try to clarify the rules of the research world is that research requires a network to be able to operate. Moreover the Research Commission reflects the fundamental nature of this preoccupation by including it in its official title.

The existence of an academic network today with the Association Francophone de Comptabilité (AFC) which has five hundred members, a journal and conferences means that the main task of the Commission is in reality to create a network uniting the world of academics with those of the standard-setter and practitioners. In this respect, the first meetings organised by the ANC in educational institutions in order to meet and dialogue with academics is a welcome initiative that should be repeated in the future.

If we have seen what the role of the Commission is in explaining the rules of the research world to the non-academic world, we must now show how cooperation could be developed in the future.

### *Some ideas for future cooperation*

One of the Commission's most discussed projects was the idea of associating students with ANC research by suggesting topics for their research memorandum paper.

These discussions have now led to the publication of a list of priority accounting research topics, communicated via the AFC and proposed to students on a voluntary basis with some projects already underway on these topics today.

Another possible form of cooperation could be to invite academics or students to take part in meetings with the ANC, and some such meetings have already taken place and been successful.

On the other hand, several forms of cooperation seem possible in a more distant future at the ANC's initiative.

The ANC could for example generate occasional research topics with a strong technical accounting content for academics or react to research work published by academics, organise student training courses, offer funding for teacher research projects along the same lines as what was organised in the past by the FNEGE then the Ordre des experts-comptables (OEC), or again subsidize

# How does the ANC materialize its support for accounting research?

scientific congresses such as that of the European Accounting Association (EAA) which will be organised in Paris by Paris-Dauphine University in 2013.

Without having to be the sole contributor for each of these cooperation projects, the ANC must take an active part in supporting these initiatives.

**Philippe Bui**, *Research Director at the ANC*  
**Florence Segurel**, *Project Manager at the ANC*  
**Éric Preiss**, *General Manager of the ANC*

One of the three main missions of the Autorité des normes comptables (ANC) is to stimulate and coordinate accounting research in France. Over a period of several years international debate and reflection has shown the need for a standard-setter to be able to rely on structured research work developing argumentation in support of its positions at national and international levels.

In this perspective, the support of the ANC for accounting research takes three main forms: the identification of priority topics for academic research, different forms of cooperation and lastly suitable funding schemes.

## *Priority topics identified for accounting research*

The priority topics for accounting research already posted on the ANC's website are the needs identified by the ANC, with particular focus on the clarification of accounting concepts underlying international standards and the result of thinking on this topic over several years.

This list of priority topics is a starting point, which will be amended and updated in the future, that materializes cooperation between the world of research and the ANC. Indeed, now this list has been published, academics, post-graduates and students will find in it subjects for their work and contributions and give life to this cooperation, as the draft theses that have already been produced in this perspective suggest.

The identified topics represent six main areas of concern. First of all, the issue of what needs accounting should satisfy and what as a result it should set out to represent; then the issue of how to account for performance and the appropriateness of the measurement bases for the desired accounting representation; these four subjects make up a coherent group which accounting research could deal with as a priority. In addition, other more specific technical issues, like the problem of the identification of the reporting entity or including accounting in the developments of the European legal framework, complete the list of topics considered as priorities<sup>11</sup>.

11 - The complete list of priority topics can be accessed via the ANC's website at the following address: [http://www.anc.gouv.fr/sections/la\\_recherche\\_a\\_anc/programme\\_de\\_recherche/folder\\_view](http://www.anc.gouv.fr/sections/la_recherche_a_anc/programme_de_recherche/folder_view)

As far as 2011 is concerned, directly in line with this Symposium, it seems important to continue the study of what the accounts should represent, that is to say to analyse priority users and possibly their needs, as well as the representation of performance and the corresponding measurement bases, in particular by studying whether the accounts should represent business models or simply consist of financial valuations.

### *Which forms should cooperation with the research world take?*

It seemed important to consider very diverse forms of cooperation with French accounting research, in order to be able to support short term projects, such as work close to literature reviews, but also to be able to pilot more complex long-term projects.

In the hope of federating the academic world and encouraging research on topics considered to be a priority for standard-setting, it appeared important to propose and implement forms of support suitable for each type of production and activity. Thus, trainees have already been called upon; subjects proposed for theses and lastly the funding of theses following an invitation to tender is also planned in 2011.

In addition, another important form of support of the ANC for research is to launch calls for papers in the same way as for the preparation of this first Symposium, and such calls could be used to support the organisation of other conferences on defined subjects. Moreover, invitations to tender on precise subjects with related funding suitable for the project presented will soon be issued. Pluriannual partnerships jointly funded with other stakeholders are also under consideration.

Lastly, since the ANC has so far tried to develop co-operation between the world of research and that of professionals, the participation of academics in the working groups of the ANC would represent in the future a mutually beneficial form of co-operation.

### *Suitable funding arrangements*

The funding of research is a combination of two elements: on the one hand, an allocation out of the ANC's own budget, and on the other hand a top up from private stakeholders in the accounting profession as well as issuers on Euronext, as users of IFRS standards.

This novel type of arrangement, implemented for the first time in 2009 is the result of a particular form of governance which enables all the stakeholders to be involved in fixing the true priorities. As far as funding procedures are concerned, the smaller projects are selected by a fast track procedure, by the General Manager of the ANC; whilst the more important projects will be dealt with by an ad hoc selection committee.

On the other hand, how can you find out about the ANC's future research projects?

Of course, the list of priority research topics is a good indication, but a subscription to the ANC website will enable academics to access news and new invitations to tender.

Lastly, collaboration programmes will gain progressively in importance between 2011 and 2013. The content of this co-operation will need to be co-ordinated with the main international debates, to enable the ANC to anticipate these discussions.

The first results of so-called "long" projects, which are more complex to develop and more important for accounting standard-setting, will enable the first conclusions to be drawn on this effective support for French accounting research.

# Close of the first Symposium

on accounting research

*Message from the Director General of the Treasury,*  
**Ramon Fernandez**

I am pleased to close this first Symposium on accounting research, which is an essential phase in the mission which Mme Christine Lagarde, Minister for the Economy Finance and Industry, entrusted to the Autorité des normes comptables.

The Treasury Directorate General is fully aware of the strategic importance and of the major impact that accounting standards can have on the economy. France was at the forefront, in Europe, at the height of the financial crisis, in October 2008, in limiting the pro-cyclical effects of accounting standards.

Even so, we have not yet succeeded in concluding the debate by the necessary reforms and by finding a consensus. Today, we have to recognise that international standards still reflect a preference for an essentially short-term view at the risk of creating volatility in the balance sheets of our companies and in our economy. It is fundamental that all stakeholders (businesses, accounting profession, academics, investors, regulators, and standard-setters) help us to concentrate on the subjects essential to the smooth running and funding of our economy. The ANC must rally all the French stakeholders in order to count in the international debate.

We will listen to what they have to tell us: we want to benefit from the debate which has not taken place up until now.

I would therefore like to congratulate the chairman of the ANC for this initiative and thank all those who support him today.

I count on the academic world to contribute and to fully respond to the call of the ANC.

# Conclusion

## and future prospects

This first Symposium on accounting research took the gamble of rallying companies, auditors and all accounting practitioners, investors and accounting researchers around the standard-setter.

They all came in numbers to spend the whole day in discussion, which shows that there was a genuine expectation for this initiative.

This day has revealed the considerable enthusiasm of all of those who, each in their own way, have decided to devote their time to these accounting issues.

In short, this Symposium confirms the need to study continually the concepts, foundations and practices of accounting in order to strike a balance between the different constraints and provide the necessary reference points in the global public debate, in the public interest.

These Proceedings allow us to keep a record of the discussions of the Symposium held on the 16th December 2010.

They are also an encouragement for the ANC to pursue with the adventure and to start with by renewing the experience by organising another Symposium next year.

# Annex:

## Speakers' Biographies

**Yuri Biondi** is tenured research fellow of the CNRS, appointed to Ecole Polytechnique and affiliated Professor at CNAM, in Paris. Graduate of Bocconi University of Milan, of Lyon University, of Brescia University and of Paris Sorbonne University, he is editor in chief of the Journal *"Accounting, Economics and Law – A Convivium"* (published by The Berkeley Electronic Press), editor in chief of the collective work *"The Firm as an Entity: Implications for Economics, Accounting and Law"* (Routledge, 2007), co-editor of *"The Socio-Economics of Accounting"* (Socio-Economic Review, special issue, October 2007), as well as co-editor, with Stefano Zambon, of the collective work *"Accounting and Business Economics: Insights from National Traditions"* (Routledge, 2012). His research interests include economic theory, accounting and financial regulation, as well as the relations between economy, accounting, and finance in for-profit and not-for-profit entities. (<http://yuri.biondi.free.fr>).

**Dominique Bonsergent** has shared his career between auditing and accounting with responsibility for the accounts of large groups and most recently for Total. He is a member of the International Accounting Standards Commission of the ANC and Chairman of the Strategic Committee of Acteo. He is co-author of the "Que sais-je?" edition of the university publishers (PUF) "100 mots de la comptabilité" ("100 words of accounting"). He is a graduate of HEC and a qualified Chartered Accountant.

**Philippe Bui**, Research Director, Autorité des normes comptables (ANC).

**Bernard Colasse** is a Professor in management sciences at Paris-Dauphine University. He is founder-Member and former Chairman of the Association Francophone de Comptabilité (AFC). He was the first editor in chief of the accounting, management accounting and audit journal *Comptabilité-Contrôle-Audit*. He was also the first to introduce an accounting mastership in advanced studies (DEA), which is still the only such mastership, in France (in 2005 it became Master in Accounting-Management-Audit: Study and Research). Several dozen doctors in accounting, management accounting and audit have graduated with the DEA. He has also held the position of Vice-Chairman of Paris-Dauphine University in charge of research. As a specialist in accounting standard-setting, he was in his function as technical expert, a member of the Conseil national de la comptabilité and is currently a member of the Advisory Committee of the ANC. He is an honorary member of the Académie des sciences et techniques comptables et financières.

**Jean-Luc Decornoy** is Chairman of the Managing Board of KPMG S.A. (KPMG France). Graduate of ESSEC, Jean-Luc Decornoy is also a chartered accountant and auditor. Jean-Luc Decornoy joined KPMG in 1977. He became partner in 1988. He was appointed as General Manager in 1993 and is Chairman of the

Managing Board of KPMG France since 2001. Jean-Luc Decornoy is the auditor of several large French groups in the sectors of distribution, high tech and energy. He is honorary Chairman of the Financial Markets Department ("DMF") of the Compagnie nationale des commissaires aux comptes (CNCC). Jean-Luc Decornoy sits on the Worldwide Board of KPMG International and is Member of the "Global Executive Team". He also sits on the Board and on the Strategic Committee of KPMG for the region EMA (Europe, Middle-East, Africa). Jean-Luc Decornoy taught accounting and finance at ESSEC as well as at École Centrale de Paris for ten years.

**Yuan Ding** is Professor of accounting and head of the department for Finance and Accounting at CEIBS. There, he co-founded the first CFO open program in China and gets involved in many top executive programs co-organised with Harvard, Wharton, INSEAD, New York University, London School of Economics, IESE and HEC Paris. Prior to joining CEIBS, he was a tenured faculty member of HEC Paris. He is co-editor of *The International Journal of Accounting* and associate editor of *China Journal of Accounting Research* and also editorial Board Member in several other journals, like *Journal of Accounting and Public Policy*, etc. He received his Doctoral Tutorship Qualification and PhD in Accounting from the Montesquieu Bordeaux IV University. His research has been published in many International journals, like *Accounting, Organizations and Society*, *Journal of Accounting and Public Policy*, *European Accounting Review*, *Abacus*, *The International Journal of Accounting*, *Issues in Accounting Education*, *Journal of Business Venturing*, *Journal of International Business Studies*, *Management International Review*, *Corporate Governance: An International Review*, and also in some French academic journals, like *Revue du droit comptable*, *Revue française de Comptabilité*, *Comptabilité Contrôle Audit* and *Finance – Contrôle – Stratégie*.

**Jérôme Haas** was named Chairman of the Autorité des Normes Comptables (ANC) in January 2010. The ANC is the French accounting standard-setter. He is a member of the boards of the French market regulator (Autorité des Marchés Financiers -- AMF) and of the French prudential supervisor (Autorité de Contrôle Prudentiel -- ACP). He previously served as deputy director at the French Treasury, where he has held several positions: In the field of public sector management, he has been Secretary General of the Comité Interministériel de Restructuration Industrielle (CIRI) and Deputy Head of the Agency in charge of State-owned companies. In the field of international finance, he has served as Alternate Executive Director at the World Bank in Washington and Secretary General of the Paris Club (negotiation of non-OECD sovereign debt). In recent years, he has been active in the field of financial regulation, serving on regulatory committees at the national, European and international levels, including the Haut Conseil du Commissariat aux Comptes in France and the Financial Stability



Board at international level. Jérôme Haas joined the French Treasury after his studies at the Ecole Nationale d'Administration. He holds a degree from the Institut d'Etudes Politiques de Paris ("Sciences Po") and a degree in Law from the University of Paris.

**Christian Hoarau** is Professor with a chair in financial accounting and audit of CNAM and Director of the laboratory CRC-GREG EA n°2430. He is "Agrégré des Facultés en Sciences de Gestion", doctor of management science, diploma qualifying him to direct research (Paris XII Val de Marne University) and qualified Chartered Accountant. He is Member of the Board of the ANC and previously Member of the Conseil national de la comptabilité (1989-2009). He is also a member of several scholarly organisations such as the French management society ("SFM"), the Association Francophone de comptabilité (AFC) of which he was the chairman, the American Accounting Association (AAA) and of the editorial committee of several journals such as *Comptabilité-Contrôle-Audit* of which he was chief editor. He has published several works and articles including recently one on international accounting regulation "*La régulation comptable internationale*" in *Les concepts émergents en droit des affaires*, Éditions LGDJ- Montchrestien, 2010; on the interaction between research and accounting standard-setting "*Les interactions entre la recherche et la normalisation comptables*", *Revue Française de Comptabilité*, n° 433 special edition on accounting theory.

**Daniel Hour** is a professor in management and magistrate at the Cour des comptes. He was a research analyst with Publicis, project manager at the ministry of Equipment (1969-1972), associate Professor (1972-75), Training and Advisory Manager (1975-80) and General Manager Delegate of the HEC group (1980-82). Between 1982 and 1986, he was Chairman of the Banque parisienne de crédit then appointed Board Member of the Compagnie financière de Suez (1983-86), of the Banque Monod (1983-86), of the Banque de l'Aquitaine (1983-86), of Mutuelles générales de France, of the Compagnie internationale de banque and of the Crédit lyonnais (since 1989). He then held the position of Chairman of the Banque française commerciale and of the Fondation à l'exportation artisanale, of Advisor to the chairman of the Crédit social des fonctionnaires (1987), of Director General of Crédit et services financiers (Créserfi – 1987-91) and of Master Councillor at the Cour des comptes (1991). Since 2010, he has been a member of the Board of the ANC. He is also a member of the Supervisory Board of the Caisse des dépôts et consignations (since 2009), Chairman of the financial commission of the Agence France-Presse (AFP) (since 1997) and Vice-Chairman of the association PlaNetfinances (since 1999).

**Pascal Imbert** is a graduate of École Polytechnique and of Télécom ParisTech. He started his career in the computer service company Télésystèmes in 1980, where he took part in several innovative projects. In 1988, he joined Cirel Systèmes, manufacturer of telecommunication products, and became Assistant

General Manager. In 1990 he founded the consultancy firm Solucom with Michel Dancoisne, and built up the business with the latter over a period of 12 years. He became Chairman of the Management Board of Solucom in 2002, whilst Michel Dancoisne became Chairman of the Supervisory Board. Today the firm has around a thousand employees and a turnover of over 100 M€ and is one of the top 5 consultancy firms in information systems in France. Solucom has been listed at the Bourse since 2000. Pascal Imbert has been a member of the Board of MiddleNext since 2006 and Chairman since 2010.

**Olivia Larmaraud** joined PSA Peugeot Citroën in 1995, and has been Group Consolidation and Accounting Standards Manager since 2000. She supervises the departments that prepare the group consolidated financial statements and those of the holding company, address group accounting issues and draw up internal accounting standards. She is also responsible for relations with the auditors. As a qualified Chartered Accountant, Olivia Larmaraud plays an active part in the preparation of comment letters on new draft IFRS standards, especially via Acteo and the ANC (Member of the International Accounting Standards Commission). She also has regular meetings with members of the IASB in her role as Member of the Global Preparers Forum.

**Anne Le Manh** is assistant Professor in the Accounting-Management-Audit department of the Parisian campus of ESCP Europe. She teaches financial accounting, accounting in an IFRS environment and financial information. She is a member of the Association Francophone de Comptabilité (AFC), of the European Accounting Association (EAA) and of the American Accounting Association (AAA). Her research work is on the IASB standard-setting process and on the application of IFRS by listed entities. Graduate of ESSEC and doctor in management science, she began her career in an audit firm before turning to teaching and consulting. She is the author of several works on IFRS standards, written in collaboration with Catherine Maillet associate Professor at ESCP Europe.

**Didier Marteau** is Professor at ESCP and advisor for Aon France. Author of the report "*Normes comptables et crise financière*" (Accounting standards and the financial crisis) presented to Christine Lagarde (La Documentation Française, April 2010). Author of the publication "*Monnaie, banques et marchés financiers*" (*Currency, banks and financial markets*) (Economica 2008).

**Eric Preiss**, General Manager, Autorité des normes comptables (ANC).

**Olivier Ramond** is Lecturer at Paris-Dauphine University and Research Fellow at Manchester Business School (U.K.). Doctor in management science, qualified in law and as an actuary, an auditor, he is also learning co-ordinator of the course Master 229 in "Financial Auditing", co-Director of the diploma of "Law and wealth engineering" and of the "preparation for the examinations of the Chartered Financial Analyst Institute" at Paris-Dauphine University. Author of

academic and professional articles on financial reporting, on IFRS standards, on tax law and corporate finance, he teaches these disciplines in different universities and institutes (Sciences-Po Paris, Paris-Dauphine University, Manchester University etc.).

**Florence Ségurel**, Project Manager, Autorité des normes comptables (ANC).

**Hervé Stolowy**, is Professor in the Department of Accounting-Management Accounting of the HEC group. He is a graduate of ESCP, has a master's degree in private law (Paris XII Val de Marne University), an applied language degree in English-Russian (Paris IV Sorbonne University), is a Doctor of Management science (Paris I Pantheon-Sorbonne University) and holds a diploma qualifying him to direct research (Paris XII Val de Marne University). He is also a qualified Chartered Accountant. He is the author or co-author of nine books, of chapters in 10 collective works and has published more than 65 articles of an academic or professional nature. He is the former chairman of the AFC and current co-editor in chief of the accounting, management accounting and auditing journal *Comptabilité-Contrôle-Audit*. Hervé Stolowy teaches financial accounting on different courses of the HEC group (HEC-MBA and HEC Master of Science in Management – Grande Ecole). He also takes part in HEC's doctor's course (research in financial accounting) and directs several doctors' theses.

**Allister Wilson** is a senior audit partner in the European firm of Ernst & Young LLP, based in London. He is a current member of the UK's Auditing Practices Board, and has recently been appointed convenor of the Research Committee of the Institute of Chartered Accountants of Scotland. Allister Wilson has published extensively in the area of international financial reporting. He was the founding author of Ernst & Young's "International GAAP" and "IFRS/US GAAP Comparison" books.

**Joseph Zorziotti**, Chairman of the Superior Council of the Ordre des experts-comptables (OEC), holds an equal share, with four of his former trainees, in a partnership, with a staff of 13, in Strasbourg. After higher education in both business school and as master of law, he qualified as a Chartered Accountant in May 1985. As a trainee, he took on his first professional responsibilities as Chairman of the Anecs (National association for trainee chartered accountants and auditors) for Alsace before becoming Vice-Chairman of the Anecs at national level. He then pursued this commitment by becoming national Chairman of the CJEC (Young chartered accountants' club) in 1985 and 1986. At the age of 40, he became Chairman of the Regional Council of the OEC in Alsace from 1996 to 2000 before devoting his time to professional policy at national level, firstly as Vice-Chairman of the Superior Council of the OEC from 2001 to 2005 and from 2004 to 2007 as national Chairman of the ECF (French union of chartered accountants and auditors). He has been Vice-Chairman of the Economic Council of Alsace since 2001, with responsibility for social cohesion and health.

The Autorité des normes comptables (ANC), the French accounting standard-setter, held its first Symposium on accounting research on December 16th 2010. Today it presents the corresponding Proceedings.

This first Symposium gave rise to intensive discussion. It drew attention to:

- The necessity to take a better account of the diversity of users' needs in accounting standard setting;
- The necessity to increase the contribution of research to improve analysis, stimulate debate and, ultimately, to improve accounting standards.

