

■ Editorial



According to recent statistics, the European economies are starting to recover from the impact of the financial and economic crisis, which had caused many businesses to fail and many people to lose their jobs. The crisis in the financial sector also, and perhaps surprisingly, created discussion about the role of accounting regulations. Several politicians and commentators suggested that fair value accounting was part of the problem in that it led to the amplification of the downturn. Several accounting researchers have reacted to these critical voices, pointing out that accounting was only the messenger, rather than a root cause, of the crisis and that alternatives to fair value accounting could not really offer better solutions.

Meanwhile, the IASB has put forward a draft proposal to amend the rules that stipulate how to account for financial instruments. It is far from evident that the European Union will endorse this reform. A negative reaction by the EU could, in turn, have consequences for

the convergence process between IFRS and US Gaap. In his essay in this issue of the newsletter, Peter Walton discusses this and other aspects of European adoption of IFRS. His essay provides food for thought for everyone who is interested in accounting!

The newsletter also contains retrospective accounts of three recently held events, namely the IPA Conference in Innsbruck, the MAR Conference in Münster and the ENROAC Conference in Dundee. In addition, you will find announcements and calls for papers for future events, some of which are hopefully of interest to you.

The next newsletter will appear in December. Until then, I wish you a productive, but also enjoyable, autumn.

Yours,

Martin Messner
messner@hec.fr

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Letter from the president, Aileen Pierce

Dear Colleagues,

As the new academic year gets into full swing, it is probably a good time for us to reflect on the challenges ahead and on our opportunities to make a difference. The worldwide economic downturn has imposed budgetary constraints which will cause some discomfort in many academic institutions. For many of us, it has also provided a reminder of the somewhat privileged position we occupy in many societies and of the potential contributions we can make, as accounting researchers and educators, to a better future for stakeholders affected or influenced by the work we do. I have no doubt that many research agendas have been tweaked and changed over the past year to accommodate questions highlighted by the recent economic turmoil. For example, issues that suggest themselves as viable, relevant and potentially fruitful research areas include risk measurement and reporting, governance mechanisms, appropriateness of particular accounting methods, adequacy of accounting and information systems to support effective business strategies, quality of the educational challenge presented to students, to name a small number of topical areas.

In a practical and applied discipline such as accounting, it is important that the substantial resources devoted to supporting academic research should yield a dividend that can be demonstrated. Of course, it can be argued that resources committed to research in the social sciences are not adequate to sustain the extensive legitimate agenda identified by researchers, policy makers and other stakeholders. Nonetheless, we need to acknowledge that both public and private funding support academic accounting research in a very real way that carries with it a duty of accountability. Given that accountability is a cornerstone of our discipline, we should not ignore its relevance to our community.

Credibility is also extremely important. Apart from the professional imperative of credibility underscoring the value of academic research, demonstrable credibility helps to ensure that resources continue to be available to sustain high quality and rigorous accounting investigation. As an Association, we have enormous potential to encourage, support and facilitate high quality research across many themes in a great number of countries, reflecting a wide range of research approaches and paradigms. The EAA mission includes, *inter alia*, the objective of providing a “platform for the wider dissemination of European accounting research”. Wide dissemination of research objectives, findings, approaches and limitations is a necessary part of maintaining the credibility of our core activity. Effective dissemination of research output contributes to accountability. Among our traditional mechanisms for dissemination of research output are the annual congress and our journals. The annual EAA congress has been extremely successful over a long period in enabling a sharing of ideas, facilitating informed and expert challenge to emerging research activity, and in establishing and nurturing effective and productive research networks. Moreover, EAA journals have increased the visibility and impact of European accounting research.

However, there is evidence of a widening gap between research and teaching activities and professional practice in accounting and management. This gap poses a challenge to the credibility and effectiveness of our work. The gap also raises issues of relevance, which in turn questions our accountability to those who fund our activities.

These musings about credibility and accountability prompt some questions which I hope will provoke debate within our Association. They may even instigate some change in the way we do things in EAA!

- Do we make sufficient effort to communicate the implications of

our research to a non-academic audience?

- Do we demonstrate sufficiently how our research output connects to practice and can we improve on this?
- To what extent does research drive accounting curricula and teaching approaches to develop reflective, ethical practitioners for the future?
- Can we report the research output of our community in more comprehensive ways than is currently the norm?

Perhaps these questions may lead to interesting opinions being offered for publication in this Newsletter? If you feel stirred to write, please submit your piece to the Newsletter Editor, Martin Messner (messner@hec.fr). You may also wish to offer specific suggestions focusing on how EAA might facilitate improved communication and wider dissemination of the European accounting community’s contributions to accounting and management practice, to enterprise and economic development and to societal leadership more generally. I look forward to receiving your comments and suggestions (aileen.pierce@ucd.ie).

Finally, I would like to refer to our annual Congress and the upcoming Istanbul Congress in particular. Autumn/Fall is a good time to review your preparedness for the EAA 2010 submission deadline. Arrangements for welcoming the 33rd Annual EAA Congress to Istanbul are well under way. The submission date for full draft papers is December 1st 2009 (<http://www.eaa2010.org/tr/home>). EAA is looking forward to visiting this historic and vibrant city at the East-West gateway next May. I hope as many as possible of our members will offer their research papers to the 2010 Congress.

Aileen Pierce
EAA President



News on the *European Accounting Review*

Forthcoming Articles in EAR

Pilcher R. and Dean G., *Consequences and Costs of Financial Reporting Compliance for Local Government*

Howard Mellett H., Marriott N. and Macniven L., *Diffusion of an Accounting Innovation: Fixed Asset Accounting in the NHS in Wales*

Pina V., Torres L. and Yetano A., *Accrual Accounting in EU Local Governments: One Method, Several Approaches*

Arnaboldi M. And Lapsley I., *On the Implementation of Accrual Accounting: A Study of Conflict and Ambiguity*

Schanz D. and Schanz S., *Finding a New Corporate Tax Base after the Abolishment of the One-book System in EU Member States*

Gaio C., *The Relative Importance of Firm and Country Characteristics for Earnings Quality around the World*

Florou A., *The Role of Taxes in Compensation: A Case of Shareholder Expropriation*

Changes to the Editorial Board

The Publications Committee of the European Accounting Association has established a policy of periodical rotations for editors, associate editors and editorial board members. The idea in this rotation is to provide new opportunities for access into the decision making halls of the association. Following this policy, these editorial board members are stepping down this year:

- Willem Buijink
- Leonor Ferreira
- Erkki Laitinen
- Peter Moizer
- Peter Wysocki

This rotation is not in any way related to performance, but is done in the spirit of openness and access. We will miss all of them as editorial board members and I will formally thank them in due

course. The contribution of Willem, Leonor, Erkki, Peter and Peter has been instrumental to enhance the quality and uplift the standards upheld by the journal. As part of this rotation policy, the following scholars are joining the editorial board:

- Eddy Cardinaels, Tilburg University
- Beatriz García Osma, Universidad Autónoma de Madrid
- Brendan O'Dwyer, Amsterdam Business School
- Maria Major, ISCTE (Portugal)
- Teemu Malmi, Helsinki School of Economics
- Caren Schelleman, Maastricht University
- Naomi Soderstrom, University of Colorado at Boulder
- Irem Tuna, London Business School
- Paul Zarowin, New York University



News on *Accounting in Europe*

New editorial arrangements

Professor Lisa Evans (University of Stirling) has been appointed as the Editor of *Accounting in Europe* as of 1st January 2011. While Professor Peter Walton (ESSEC) will continue in the position of the Editor until the end of 2010, Lisa Evans will be working with him as the Co-editor as of 1 January 2010. In that position she will take care of the new submissions to *Accounting in Europe* from the beginning

of 2010. The contact details of Lisa Evans regarding *Accounting in Europe* matters are:

Prof. Lisa Evans
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My warmest congratulations for Lisa Evans upon her appointment!

Kari Lukka

Chair of the Publications Committee of the EAA

■ Looking ahead to the
33rd Annual Congress of the EAA
 19-21 May 2010, Istanbul



The 33rd Annual Congress of the European Accounting Association will be organized jointly by the EAA and the Faculty of Business Administration of Istanbul University. The Congress will be held at Istanbul Hilton Convention & Exhibition Center on May 19 - 21, 2010.

Istanbul is one of the world's most magical and enchanting cities. The two continents of Europe and Asia meet and embrace here across the Bosphorus Strait, carrying with them unique flavors of the Orient and Occident.

Paper Submission

Authors who want to submit a paper must be EAA members in the year of the congress for which they submit. If you are not a member, you will be asked to subscribe for membership 2010 before being allowed to submit.

The deadline for the submission of full papers is **December 1, 2009**. A full paper is a complete scholarly research report that could reasonably be submitted for publication in a public working paper data base such as SSRN. Submissions must be made via the congress website: www.eaa2010.org.

Fees

Early registration (until 22 March 2010): €490. Late registration (from 22 March 2010 onwards): €540

The registration fee includes: Early Bird Reception, Welcome Reception, Gala dinner, lunch and coffee breaks during the conference, admission to all scientific sessions, all congress materials, EAA membership fee of € 50 for 2011 and administration costs.

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Upcoming EIASM events

Here are some of the upcoming EIASM events. For a full list, please visit www.eiasm.org.

- 5th Workshop on Visualising, Measuring and Managing Intangibles and Intellectual Capital, 7-9 October 2009, Dresden (Germany)
- EDEN Seminar in Quantitative Empirical Research in Management Accounting, 14-18 December 2009, Brussels (Belgium)
- EAA Doctoral Colloquium, 15-18 May 2010, Istanbul (Turkey)
- EDEN Doctoral Seminar on Analytical Accounting Research, 7-11 June 2010, Vienna (Austria)
- Workshop on Accounting and Economics, 10-11 June 2010, Vienna (Austria)
- Manufacturing Accounting Research Conference, 20-23 June 2010, Ghent (Belgium)

Looking back at the 9th IPA Conference Innsbruck, 9-11 July 2009

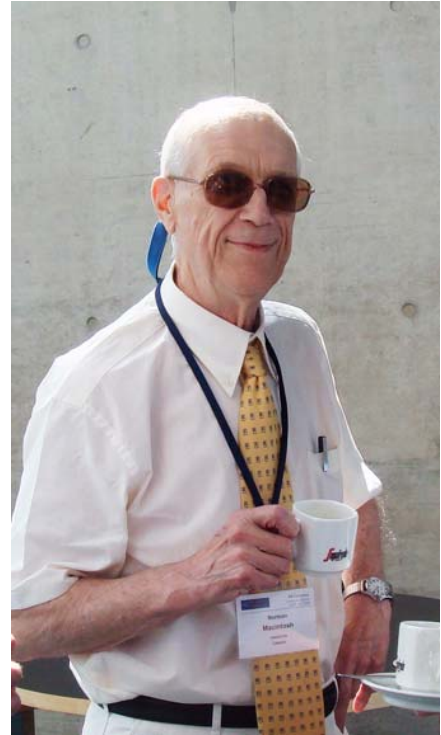
The Interdisciplinary Perspective on Accounting Conference (IPA) takes place every third year. This time, it was hosted by the School of Management of the University of Innsbruck, in Austria. The conference was organized by the school's management accounting research group and was chaired by Albrecht Becker.

As usual, the IPA was preceded by an Emerging Scholars' Colloquium, this time organized by Chris Chapman (Imperial College London) and Martin Messner (HEC Paris). They welcomed 7 renowned faculty and 42 PhD students who benefited from the opportunity to present and discuss their research projects.

The main conference gathered more than 200 accounting scholars who presented and discussed 109 papers in 15 parallel sessions. The papers covered a wide range of topics, from studies in accounting history to research on accounting in developing countries. The IPA started on Thursday, 9th of July, with 5 parallel sessions and the keynote speeches of Theodore Porter and Donald Mackenzie. Theodore Porter is professor of history at the University of California, Los Angeles. In his research, he examines the history of so-

cial science, statistics and quantification. He talked about the power of quantification as a form of 'thin description'. Donald Mackenzie from the University of Edinburgh focuses in his research on the sociology of technology, mathematics and financial markets. In his talk, he problematized the role of rating agencies in capital markets.

On Friday, 6 parallel sessions and two plenary speeches as well as the conference dinner at the Seegrube took place. The third keynote speech was given by Wendy Espeland who teaches sociology at Northwestern University, Illinois. Her work revolves around the relationships between organizations, culture and law. In her speech, she talked about the significance, interpretation and use of numbers in the constitution of identities from ancient history until today. The fourth keynote speaker was Norman Macintosh, professor emeritus at Queen's School of Business (picture). He gave a talk on Foucauldian accounting history. Having been a pioneer in the field of interdisciplinary and critical accounting research and a loyal member of the IPA community, he was particularly warmly welcomed by the audience.



The conference dinner took place at a restaurant in the mountains, at an altitude of about 2000 meters. The ride with the cable car was a great experience for many participants. After the conference had ended on Saturday noon, several participants benefited from the opportunity to stay somewhat longer in Innsbruck or its surroundings and to enjoy warm summer days in the Alps.



Rafael Heinzelmann, University of Innsbruck School of Management

Looking back at the 7th International Conference for ENROAC Dundee (United Kingdom), 23-25 June 2009

In June, the European Network for Research in Organisational & Accounting Change (ENROAC) held its 7th international conference in Dundee. ENROAC comprises academics, practitioners and managers who share an interest in organisational (including accounting) change. Membership has an extremely international flavour.

Since its formation in 1999, ENROAC has also enjoyed previous conferences in Manchester, Oslo, Siena, Groningen, Antwerp and Paris. Kindly sponsored by the Chartered Institute of Management Accountants (CIMA), this year's event began with its traditional 'Practitioner's Day', during which there is a mixture of eminent speakers from both academia and the organisational arena.

The theme for this year's practitioner's day was "Organisations & Sustainability", and attendees were fortunate to listen to enlightening talks by Brendan Dick (Director of British Telecom, Scotland), Helenne Doody (Sustainability Specialist, CIMA), Eoin Cox, MBE (Furniture Maker), Jesse Dillard (Portland State University, USA), Jan Bebbington (St. Andrews University) and Angelo Riccaboni (Siena University, Italy).

As is also tradition at ENROAC conferences, we then follow the first day with two additional days of academic presentations, with emphasis on informal debate ignited in particular by thoughtful commentary of named discussants. The quality of presentations and papers was high, and the debate both enjoyable and thought-provoking. At this year's event, there was a significant number of papers that focused on the issues surrounding 'sustainability' and, in particular, its interface with management accounting. There will be a call for papers for a special issue of *Management Accounting Research* addressing such themes later this year.

The social events for ENROAC 2009 had a typically Scottish flavour to them. To close the 'practitioner's day', a civic reception was held at the 'Discovery Point' on the banks of the River Tay in Dundee, resting place for the remarkable ship which took Scott on his Antarctic expedition. Our second evening was spent at the equally splendid Guthrie Castle in the beautiful countryside of Angus, where we enjoyed a Scottish feast and accompanied amongst other things by Highland Dancers and a Scottish Piper. The wonderful weather for both evenings was included in the conference fee!

ENROAC holds bi-annual conferences and the venue for 2011 will be Lisbon, Portugal. Information will be posted in due course on ENROAC's web pages, see: <http://www.dundee.ac.uk/accountancy/research/enroac/enroac.htm>.

In between its conferences, ENROAC also hosts a bi-annual doctoral summer school in the beautiful (monastery) grounds of Certosa di Pontignano in Siena, Italy. These doctoral events are generously sponsored by the University of Siena, and provide inspirational surroundings for nurturing the scholars of tomorrow. Details of the 2010 summer school can also be found on the ENROAC web pages, we warmly encourage you to apply or to recommend this school to your research students.

Finally, ENROAC always welcomes new members. We charge no fees; we simply manage through an email distribution list and via the web pages. Actual contact is left to an absolute minimum. If you are interested in joining ENROAC, please contact j.e.burns@dundee.ac.uk, who will gladly put you on the email distribution list.



■ Looking back at the 9th Manufacturing Accounting Research Conference Münster (Germany), June 21-24, 2009

From 21 to 24 June 2009, the 9th Manufacturing Accounting Research Conference took place in the Mövenpick Hotel in Münster (Germany). The conference was hosted by the University of Münster and continued a bi-annual EIASM conference series that started in Eindhoven in 1993. This year's conference chair, Professor Peter Kajüter, could welcome more than 80 participants from 20 different countries. 45 papers on contemporary issues in management accounting were presented in 15 parallel sessions. This year's conference featured, for the first time, appointed discussants who provided authors with motivating and useful feedback on their papers. Most of the studies were empirical in nature with a broad mixture of methods applied. Non-empirical papers addressed primarily theoretical issues of current research practice. Some parallel sessions were devoted to a PhD track in which young researchers could present their work and obtain individual feed-

back by members of the scientific committee.

A particular "highlight" of the conference were the four plenary sessions as well as the plenary debate "Management Accounting Research – Does it benefit Practice?" Alnoor Bhimani (London School of Economics and Political Science), Håkan Håkansson (Norwegian School of Management), Kenneth Merchant (University of Southern California) and Richard Watterott (Robert Bosch GmbH) gave the plenary talks. Alnoor Bhimani talked about "Global Issues in Management Accounting Research", focusing on perspectives of comparative management accounting research and management accounting in global organisations. Håkan Håkansson pointed out the importance of networks with reference to findings at Ducati and outlined consequences for accounting. Furthermore, he discussed the benefits of new theories in analysing network related issues. Richard Watterott presented the integrated system of value-

based management and cost accounting at Bosch, a German manufacturing company. He explained why the Cash Value Added (CVA) had been chosen instead of the Economic Value Added (EVA) and how this performance metrics is linked with the cost accounting system. The presentation by Kenneth Merchant focussed on performance measurement. He critically discussed four basic options to improve performance measurement, namely by using market measures of performance, by extending the measurement window, by using non-GAAP financial measures and by applying combinations of measures.

The plenary debate focused on the benefits of management accounting research for practice and contrasted views of researchers, practitioners and consultants. Statements by Falconer Mitchell (University of Edinburgh), Volkmar Dinstuhl (ThyssenKrupp Accessibility Holding GmbH) and Werner Seidenschwarz (Seidenschwarz & Comp.) provided stimuli for a discussion with the audience.

The scientific programme was complemented by social events: The Early Bird Reception in the Palace of Münster, a guided city tour with a reception by the mayor in the historic City Hall of Münster, and a conference dinner in the "Zwei-Löwen-Klub". These events and the entire conference would not have been possible without the financial support of CIMA, Ernst & Young and Seidenschwarz & Comp.

The 10th Manufacturing Accounting Research Conference will already take place in 2010. It will be hosted by the University of Ghent from June 20-23, 2010.

Matthias Moeschler, University of Münster



■ Personal reflections on the

PhD colloquium partnership between EAA and AFAANZ

The European Accounting Association (EAA) has recently formed a new partnership with the Accounting and Finance Association of Australia and New Zealand (AFAANZ). The partnership enables PhD students in accounting to gain experiences from both doctoral colloquiums. In this reciprocation, Ms Robyn King of the University of Queensland, Australia, represented AFAANZ in the 2009 EAA Doctoral Colloquium, and I was selected to go to Adelaide by the EAA to participate in the 2009 AFAANZ Doctoral Colloquium.

With a format that is very similar to the one adopted at the EAA Doctoral Colloquium, PhD students at the AFAANZ Doctoral Colloquium were given the opportunity to present and

discuss their research proposals with other students and established academics. Students were clustered into small study groups in accordance with their research interest. Over three intense days, the discipline-related study groups were fully integrated in discussions that were moderated by the academic faculty. Each proposal had a discussant, making the debate even more interesting and detailed. Criticisms were constructive, which created a friendly and dynamic learning environment. Also, networking skills, knowledge and friendship were gained over the Colloquium.

Even after the exhaustive 30 hour trip and the jet lag that followed, I think my journey down under was worth every minute. I am extremely grateful

to EAA, represented by professors Jan Mouritsen and Peter Pope, organizers of the 29th edition of the EAA Doctoral Colloquium, for this opportunity. I have benefited greatly from this whole experience, and I am keen to participate in future EAA and AFAANZ sponsored events. Finally, I am thankful to Professors Ian Eggleton and Sue Wright, the entire academic faculty, and the PhD students for their warm welcome and support during my short stay in Australia.

Ricardo Malagueño, PhD student

ESADE Business School, Universitat Ramon Llull

■ Call for papers

16th Annual Mid-Year Conference of the International Accounting Section of the AAA Palm Springs (U.S.), 28-30 January 2010

16th Annual Mid-Year Conference and 6th Annual Doctoral/New Faculty Consortium

of the International Accounting Section of the American Accounting Association in collaboration with the International Association for Accounting Education and Research

*Funding Provided by the KPMG Foundation

*Support Provided by San Diego State University's School of Accountancy and CIBER

Conference Schedule

The conference will begin Thursday afternoon, January 28, at 4:00 pm with an IFRS CPE workshop featuring Mary Barth and Katherine Schipper. An early bird reception will follow the workshop. The conference will continue with plenary sessions, panels, concurrent sessions, poster sessions and other events through Saturday

afternoon. Papers, cases, or panel discussion on any area of international accounting are welcome. All paper, case, and panel submissions are due by September 25, 2009. All submissions must be in English. Author(s) will be notified of conference acceptance/rejection by November 23, 2009. As in past years, special consideration will be given to papers and cases that will be presented by doctoral students.

The 6th Annual Doctoral Student/New Faculty Consortium will be held on Thursday, January 28, with an opening reception/dinner on Wednesday evening, February 27. Eligible doctoral students will have all meeting fees waived and hotel costs, for two nights, paid (double accommodation). New Faculty will have similar benefits but must pay the midyear registration fee. Single accommodations will be available.

For further details, contact: Professor Carolyn M. Callahan (E-mail: cmcllhan@memphis.edu)

Registration Information

Participants will be able to register for the Conference through the American Accounting Associations website. The registration fee is \$200, for members of AAA IAS and/or IAAER, \$235 for non-members; the CPE fee is \$25.

Hotel Information

The meeting will be held at the Hilton Palm Springs, 400 East Tahquitz Canyon Way, Palm Springs, California 92262-6605, Tel: 1-760-320-6868. Conference rate is \$179 per night.

More details and information on registration and hotel accommodations will be available soon on the AAA Commons and the International Accounting Section page of American Accounting Associations website: <http://aaahq.org/international/index.html>.

■ Call for papers

6th Accounting History International Conference

Wellington (New Zealand), 18-20 August 2010

Theme: "Accounting and the State"

Sponsored by:

School of Accounting and Commercial Law, Victoria University of Wellington and

Accounting History Special Interest Group of the Accounting and Finance Association of Australia and New Zealand

Papers will be accepted across the full range of accounting history topics and methodological and theoretical perspectives. As the conference is taking place in a national capital city, authors are encouraged to think about the relationships between the State and accounting, such as:

- Accounting in the public sector at the national, sub-national and local levels;
- New public financial management;
- Taxation and public finance;
- Regulation of the profession and standard setting process;

- The State and accounting in social institutions;
- Accounting education and the State;
- Regulation of the not-for-profit sector;
- Regulation of corporate governance, fraud and collapse;
- Comparisons between the public and private sectors;
- Accounting, politics and public policy.
- Accounting reforms and their implications for inter-generational equity;
- The roles, influence and impacts of transnational State-like organisations, such as the EU.

Submission and Review of Papers:

Papers written in the English language should be submitted electronically no later than **19 March 2010** to 6A-HIC@ballarat.edu.au.

All papers will be subject to a double-blind refereeing process and will be published on the conference web site, as refereed conference proceedings, unless otherwise advised. Papers

should be written in accordance with the Accounting History manuscript submission guidelines, which are available at: <http://ach.sagepub.com>. A special issue of the journal on the conference theme will be published following the event.

Notification of Acceptance: Notification of papers accepted for inclusion in the conference program will be made by **10 May 2010**.

An Accounting History Doctoral Colloquium will be held as part of the event.

Inquiries may be directed to the Conference Convenor, Philip Colquhoun, Victoria University of Wellington, at the following e-mail address: philip.colquhoun@vuw.ac.nz.

Information about visiting Wellington can be found at <http://www.wellingtonnz.com/> and for visiting New Zealand see <http://www.newzealand.com/>

■ Call for papers

Management Accounting Research Group Conference

Aston Business School (UK), 19-20 November 2010

Guest speaker: Professor Keith Hoskin (Warwick University)

We are pleased to announce that the annual MARG conference is to be held at Aston Business School on Thursday 19th and Friday 20th November. Papers are invited addressing any area of management accounting research and practice, but we would particularly welcome papers motivated by *links between strategy and accounting, strategic management accounting or practice based understandings of management accounting and strategizing*.

Papers addressing the application, or refinement, of management accounting techniques in practical settings are especially encouraged. Papers from practitioners in such settings would be especially welcome.

The first day of the conference will commence at 10.30am and will consist of plenary presentations of papers related as far as possible to the theme of the conference. At the end of the first day there will be a conference dinner

where delegates will have the opportunity to meet and discuss their research interests and practice developments in a relaxed setting. The second day will have parallel sessions and may be especially appealing to early career researchers, many of whom may still be completing their PhD. The conference will end after lunch on Friday 20th November.

Full papers (or extended abstracts) should be submitted to the organisers by **30th September 2009**. For the plenary presentations on the first day preference will be given to full papers.

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Alan Lowe (+44 (0)121 204 3370; Email: a.d.lowe@aston.ac.uk)

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Aston Business School, Aston University, Aston Triangle, Birmingham, B4 7ET.

Thanks to the generous support of our sponsors, we continue to be able to offer a limited number of free of charge places to our Paper Presenters and Doctoral students. These places include conference attendance, lunches, refreshments, accommodation, breakfast and dinner.

A further limited number of free of charge places will be offered to non presenters however, delegates will be required to pay for bed and breakfast should they wish to use this facility.

Once all complimentary places have been allocated, a conference registration fee of £140 will be charged. This will include lunch on both days, refreshments and the conference dinner. The fee does not include accommodation costs.

The **financial support of the CIMA and ICAEW charitable trusts** is gratefully acknowledged.



■ Call for papers

2nd International Conference of Accounting in Iran

Tehran, 8-9 December 2009

The Iranian Accounting Association plans to hold its Second International Conference of Accounting to coincide with its Sixth Annual Conference during International Accounting Week in Tehran at the IRIB International Conference Center on December 8th and 9th 2009.

This event aims to provide a significant forum for researchers, managers, university professors, professional organizations, and experts in accounting and finance to interact, provide results of new developments and research, and to share their experiences and concerns.

The conference will address topics such as:

- Accounting education
- New issues in financial reporting standards
- International Financial Reporting Standards
- Corporate governance
- Role of Accounting organizations in developing countries
- Accounting careers and management accounting
- Role of IT in Accounting
- Role of Accounting information in capital market development

- Tehran Stock Exchanges and International Accounting Standards
- Development of Accounting Standards and Practices in countries of the Persian Language

Additional information about the conference can be obtained from:

Website: www.iranianaa.com.

Email: info@iranianaa.com and iranianaa@yahoo.com



Essay

European adoption of IFRS: a poisoned chalice?

Peter Walton

Relationships between the European Union's various organs and the international standard-setter have always been complicated, and never more so than during the financial crisis. The EU gave the IASB a major boost when it decided to adopt IFRS, but relationships have been troubled, and the EU's 2008 manoeuvre to force the IASB to allow re-classification of available-for-sale financial instruments dealt a severe blow to the standard-setter's international credibility.

This article sets out to review aspects of this troubled relationship, following on from André et al (2009). It speculates that more difficulties lie straight ahead, with European banking interests trying to limit fair value accounting for financial instruments. The successor to IAS 39 may yet lead to further divergence from the US and European pressure conceivably threatens the future of the convergence experiment, at least in its present form.

Some people suggest that the international standard-setter was born out of a sense of mistrust of the European Union (1) and it is clear that the Commission probably returned the feeling subsequently. Its harmonisation initiatives in the 1970s and 1980s proceeded in parallel with the harmonisation work of the International Accounting Standards Committee. The Commission largely stayed aloof from the IASC (2) and it was as late as 1988 that Georges Barthès was able to ask the Commission to become an observer of the IASC and 1990 before it agreed. Even so, the Commission would apparently still have preferred to support a European standard-setter.

The Commission appeared to recognise that investor-oriented reporting was required to minimise the possibility of a drift of companies to a US listing and to maintain the position of European companies in the international capital markets, even if it would

have preferred that that was not the case. The Commission, however, signalled the abandonment of further European harmonisation in 1995 and announced its intention to adopt international standards for European listed companies in 2000.

Had the EU become an enthusiastic supporter of IFRS? It appeared to be so at first, but of course, the EU is a collection of nation states who do not at all times share the thinking behind

“IASB is perceived by many Europeans as not inclined to listen to them anyway.”

IFRS. Companies have tended still to lobby their national authorities rather than the international standard-setter, and the IASB is perceived by many Europeans as not inclined to listen to them anyway. On top of that, the endorsement structure that the EU felt was necessary to put IFRS into EU law has created a machine that gives people unhappy with some aspect of international financial reporting multiple opportunities to try to reverse standard-setting decisions outside of the IASB's due process.

Different assumptions

As discussed in Walton (2004) there are different standard-setting traditions within the EU member states, different views on the purposes of financial reporting and different ideas about how various factors affect standard-setting decisions. These differences are compounded by significantly different perceptions of what the relationship should be between the IASB and 'client' countries that adopt its standards. The financial crisis has put accounting standards under the spotlight, and is putting a great deal of pressure

on these differences.

To over-simplify for the sake of brevity, there is a continental European tradition of creating standards through trying to reach a consensus that balances the need of a range of interested parties, and there is an Anglo-Saxon tradition of looking primarily to the needs of the capital market. This is reflected in a preference for different standard-setting mechanisms: the one prefers a large body, reflecting the different interested parties, the other a small, specialist group with expert knowledge of capital markets. The different traditions also run to the legal infrastructure where continental Europe puts detailed accounting requirements into the law where they are not expected to change regularly, while Anglo-Saxon countries leave accounting standards just outside the law and they may be expected to evolve continuously. Anglo-Saxon standard-setting works from a conceptual framework and the IASB, at least, strives for consistency and is driven by American concepts of how the financial markets work. Continental European accounting is more concerned with pragmatic compromises.

This has left the EU in perhaps a series of unstable compromises as regards the IASB and IFRS. The standard-setter is in the Anglo-Saxon 'independent expert' tradition and gives little priority to the needs of preparers and governments. This has in turn led to repeated calls, frequently voiced by Internal Market Commissioner Charlie McCreevy, for a widening of the governance structure of the IASB and for greater 'accountability'. It has also led to complaints, particularly from French banks, that the IASB does not listen to them. This in turn has led them to lobby national politicians who seek to bring pressure on the IASB.

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European Adoption of IFRS (cont'd)

The process by which IFRS enter European law, however, is more in the continental European tradition, which therefore gives several points at which politicians can intervene. These interventions are not, however, without consequences. They cause resentment in other parts of the world and collateral damage to the international standard-setter and the convergence process. However, the opponents of the IASB, notably France and to a lesser extent Germany and Italy, do not apparently concern themselves about the impact on non-EU countries. This may be due to another fundamental difference in perceptions. There is an attitude commonly found that the EU virtually invented the IASB and should be the dominant force in international standards. Véron (2009, p. 99) describes the Commission and the European Parliament as still being in mourning for the loss of their sovereignty in 2000-2002. IASB chairman Sir David Tweedie remarked more directly in a presentation at the American Accounting Association in August 2009, 'Europe has a problem – it thinks we are a European standard-setter. It ignores the fact that we set standards for three times as many countries outside the EU as there are in it.'

In essence the perception by many in Europe is that the International Accounting Standards Committee was a talking shop of no consequence until the EU decided to mandate IFRS for European listed companies. The Commission's initiative propelled the international standard-setter into a position of power and influence which it could otherwise never have obtained for itself. Consequently, the IASB should behave in a manner that reflected the source of its enhanced status. A report to the French *Assemblée nationale* (lower house of parliament) published this year (3) is an example of this. The

authors claim that the IASC was nothing but a think tank until the EU decision.

The opposing perception is that while it is acknowledged by all that the EU's decision to adopt IFRS was a major catalyst in global convergence and the rise of the IASB, the fact remains that an enormous amount of work was put in by many bodies around the world since 1973 to get to the point that international standards *could* be adopted by Europe, and they had been endorsed by the International Organisation of Securities Commissions (IOSCO). One should also not ignore that IOSCO's endorsement of international standards in 2000 was also major advance in status, even if somewhat eclipsed by the Commission's announcement. Nor should one forget that a number of French, German and Swiss companies were using international standards in the 1990s because they were thought more credible in international markets than the EU alternative.

"Some European countries find it difficult to deny themselves the right to make standards in exchange for the benefits of convergence."

Anglo-Saxon observers of harmonisation can point out that the European Commission set out to develop harmonised accounting for member states in the 1960s. It generated enormous costs with the implementation of Fourth and Seventh Directives in return for very little benefit and finally agreed in 1995 that it was incapable of harmonising successfully and suggested member states should follow international standards for listed companies.

A further complaint is that the benefits of convergence are only obtained by all participating countries following the same rules. There is a political trade-off with freedom to set national standards being sacrificed to greater economic benefits from uniform international standards. However, some European countries, and apparently France in particular, find it difficult to deny themselves the right to make standards in exchange for access the benefits of convergence.

Accounting and politicians

The financial crisis has caused these fundamental differences in approach to surface very publicly. Political interest in IFRS has become very evident during the financial crisis, but, from the beginning of EU involvement with IFRS, lobbying by companies has alerted European politicians to the traction that may be had from international standards. Starting with French president Chirac's letter about IAS 39 to the European Commission in July 2003 (4), and moving on to the European Parliament's Social and Economic Affairs Committee, politicians have seen an opening for gaining leverage. In 2008, of course, Ecofin told the IASB to fix re-classification or the EU would make a new carve-out (André et al 2009). In 2009, the report to the French *Assemblée nationale* complained that their sovereignty had been hijacked and further carve-outs were essential to protect European business. Commissioner McCreevy said in a recent Brussels speech (5) that: 'Accounting is now a hot political topic'. He added: 'Accounting is now far too important to be left solely to accountants.'

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European Adoption of IFRS (cont'd)

The financial crisis has acted as a catalyst to political intervention. Many commentators have pointed to fair value as causing banks to show large losses, and talked about the procyclical effects of marking to market. This appears to have led some politicians to take the view that if you stopped requiring banks to show losses, confidence in the markets would be restored. Consequently IAS 39 has become a target, and the IASB with it.

French finance minister Christine Lagarde, according to an article in *Les Echos* of 28 August 2009, wrote to the European Commission dismissing the IASB's new financial instrument proposals as increasing the use of fair value instead of decreasing it. She said that the IASB's failure to reflect the G20 *instructions* (emphasis added) underlined the necessity to reform the IASB's governance.

The IFRS endorsement mechanism

Although the financial crisis has particularly exacerbated relations between the IASB and the EU, it can be argued that the worst aspect of EU endorsement of IFRS (from the point of view of the IASB and its credibility) is the 'comitology' process by which IFRS are recognised in European law. Some consider that the European endorsement system is completely dysfunctional in as far as it opens up what is in effect a regional appeals system against IASB decisions. Europeans wishing to participate in due process can do so both by addressing the European Financial Reporting Advisory Group (EFRAG) and by addressing the IASB directly or both.

However, if they do not like the final IFRS, they have a number of further steps available to work against EU endorsement. They can lobby EFRAG to give negative advice to the European Commission. After that they can

lobby their member state to vote against the standard in the Accounting Regulatory Committee (the first IAS 39 carve-outs occurred this way), and if that is not successful there is the European Parliament (which tried to de-rail IFRS 8). At the end of the process is the Economic and Financial Council of Ministers (Ecofin), which forced the IASB's emergency amendment of IAS 39 to permit reclassification. Subsequent enforcement is by *national* regulatory bodies, coordinated on a voluntary basis through the Committee of European Securities Regulators.

It is a frequently heard complaint from the European Commission that the IASB does not talk to it. However, while not defending the IASB's communications policy, it can be seen that one problem is that there are too many institutions involved in the EU endorsement process and there is a gap between the people with the technical knowledge to discuss standards (EFRAG and the Commission staff) and those making the decisions (the Commission, ARC, Ecofin and the European Parliament) and those enforcing their application (national stock exchange regulators). In addition to creating incoherence, all these institutions offer lobbying opportunities and create a cacophony surrounding IFRS that suggests to the rest of the world that Europe does not really support the convergence objective.

An example of the way the EU is dysfunctional is the new Monitoring Board. This is supposed to consist of representatives of IOSCO, the SEC, the Japanese Financial Services Agency and the EU. It is intended to provide oversight of the IASC Foundation and through that of the IASB. Its first meeting was held in March 2009 when members of the bodies represented were asked to sign a Memorandum of Understanding that sets out its rights and responsibilities. Commis-

sioner McCreevy said he could not sign, the document would have to be approved by EU institutions. While IOSCO, the SEC and the Japanese Financial Services Agency could manage to sign up to an arrangement that has been exposed for comment for months, the EU could not - according to those close to the situation because of opposition in the European Parliament. At the time of writing therefore, the EU, which has campaigned loudly and long for reform of the IASC Foundation governance arrangements, has not formally taken up its seat on the Monitoring Board, with consequent reputational damage.

Global convergence in the balance

Convergence faces a very severe test over the next few months and the EU/IASB relationship may well be crucial in determining the outcome. Once again the key issue is accounting for financial instruments. Both the Financial Accounting Standards Board (FASB) and the IASB have put forward draft proposals to reform their financial instruments standards. Both propose to reduce to two classes of financial instruments, with debt instruments held for their underlying cash flows being treated differently from other instruments. However, while the IASB would put those held for their cash flows into amortised cost, the FASB would have them at fair value, with fair value changes reflected in Other Comprehensive Income. All other instruments would be at fair value through profit and loss.

While at the July joint meeting of the two Boards, Board members and staff were minimising the differences between the proposals, it is far from certain that the EU will look favourably on the IASB's proposal, let alone the more radical FASB variant.

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European Adoption of IFRS (cont'd)

The EU has called for less use of fair value accounting. At the same time, both the EU and the G20 have called for a converged worldwide accounting standard on financial instruments as a priority. The IASB is committed to issuing a final standard on classification and measurement by the end of 2009, which leaves very little time for compromise. The Pittsburgh G20 summit in September issued a Delphic recommendation that standard-setters should complete their convergence programme by June 2011.

Things rarely evolve in a dramatic fashion in standard-setting, but those in Europe who would like to be rid of the IASB may well see this as an opportunity to strike a blow (the French finance minister's letter cited above could be seen in that context). Europe could try to force the IASB's hand on changing IAS 39, much as it did last year. If it did so, there would probably be consequences in terms of convergence. The US has limited reporting without a reconciliation to those companies registered with the SEC and using IFRS as approved by the IASB (i.e. not accepting reporting by companies using the EU carve-out). It has not said much publicly about political interference in the IASB, but people close to the SEC suggest that European interference in setting IFRS would almost certainly lead to the US rejecting any move to adopt IFRS for the time being.

It is an open question as to whether that would matter. Not all those who support global convergence think it is a good idea for IFRS to be used in the US, not least because of the very particular litigation environment. They suggest that continued convergence on major accounting approaches would be best, while preserving two separate sets of standards. Adapting IFRS for use by the US could cause them to become too rigid for use elsewhere.

In that case the key issue would be how countries like Japan, China and Canada would see such interventions by Europe. These countries want standards that are acceptable worldwide, in European markets as well as the US. They might be prepared to ignore a little intervention if it resulted in a standard they liked and access to both markets. However, if Europe went so far as to drop IFRS or to adopt a version too far away, then it is doubtful whether there would be momentum enough to maintain convergence with the existing institutional arrangements. We might be writing in time about the 'IASB bubble' and the decade of experiment that started with financial instruments and European adoption and was finally ended by them as well. We might be looking at a further evolution of the international accounting infrastructure.

Notes

- (1) An issue discussed in Bocqueraz & Walton (2006), pp279-282
- (2) This is analysed in detail by Camfferman and Zeff (2007) pp418-433 in a section entitled 'The European Commission's gradual conversion to IASC standards'
- (3) Baert, D., and Yanno, G. (2009) Rapport d'information relative aux enjeux des nouvelles normes comptables Assemblée nationale no 1508
- (4) Reproduced in Alexander (2006, pp79/80)
- (5) Keynote address to "Financial Reporting in a Changing World" Conference, Brussels 7 May 2009. Available from Internal Market Directorate General website (http://ec.europa.eu/internal_market)

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