Audit financiar, XVIII, Nr. 2(158)/**2020**, *323-338*
ISSN: 1583-5812; ISSN on-line: 1844-8801

Paper presented at 6th Congress of the Romanian Audit Profession

Evolutions of Accounting Standardization: The Shock of Financialization and Globalization

Professor Emeritus Alain BURLAUD,
Conservatoire National des Arts et Métiers (CNAM) Paris, Laboratoire interdisciplinaire de recherche en sciences de l'action (LIRSA),
e-mail: alain.burlaud@lecnam.net

Abstract

Accounting is a mirror of society and therefore reflects the shock of the financialization and globalization of the economy. From 1970 to 2000, international accounting standards were based on three standards: the American, which, like the dollar, could in fact become hegemonic, European and global but of private origin, the IASC. In the 2000s, the IASB, which succeeded the IASC, asserted its power, especially with the adoption of its standards, IFRS, by the European Union. After this victory, the IASB now faces two new challenges: how to develop global standards for SMEs when they do not have access to the capital market; how to account for the non-financial dimensions of corporate performance when all dimensions are interdependent and, beyond investors, of interest to all stakeholders.

Keywords: *accounting, financialization, globalization, standardization*

JEL Classification: *M41*

To cite this article:
Burlaud, A., (2020), Evolutions of Accounting Standardization: The Shock of Financialization and Globalization, Audit Financiar, vol. XVIII, no. 2(158)/2020, pp. 323-338,
DOI: 10.20869/AUDITF/2020/158/008

To link this article:
http://dx.doi.org/10.20869/AUDITF/2020/158/008
Received: 18.09.2019
Revised: 27.10.2019
Accepted: 26.03.2020

Introduction

As its history shows, accounting is a mirror of society. Here are some past milestones before we approach contemporary history.

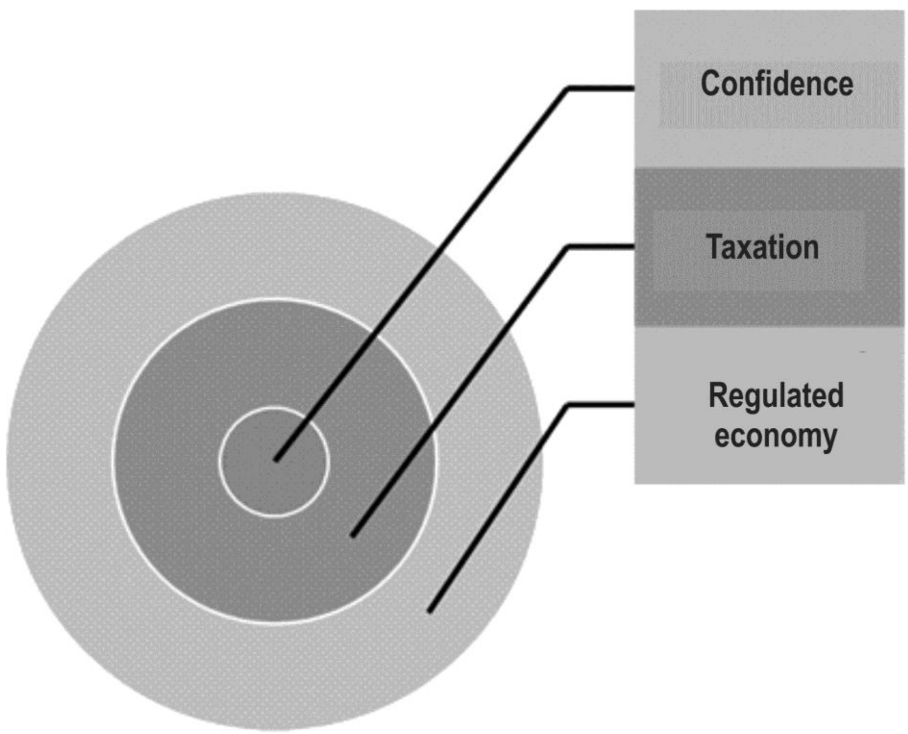
Colbert's ordinance of 1673, largely reflected in the 1807 French Code of Commerce, aimed at developing trade by establishing an atmosphere of trust: justice tailored to the needs of merchants and accounting as means of proof in the event of a dispute. Accounting remained a private matter.

Taxation was invited into accounting with the industrial and commercial income tax systems set up in France in 1917 in order to finance war efforts. Accounting becomes a matter concerning all citizens.

The French accounting standards (*plan comptable*, Fr.) and the chart of accounts appeared in 1943 with the aim of articulating private and national accounting systems to meet the needs of a controlled economy (*économie dirigée*, Fr.). This multi-stakeholder conception under the license of public authorities was taken up by the following accounting plans set up in 1947, 1957 and 1982. The production of this (the 1943) accounting plan involved all stakeholders, which were represented in the Accounting Standardization Commission (Commission de normalisation comptable, Fr.), established in 1941, which still exists today as the Accounting Standards Authority (Autorité des normes comptables: ANC, Fr.).

Accounting norms, with each evolution, do not erase previous regulation but complement it. The field of accounting thus expands to new audiences in concentric circles as shown in *Figure no. 1*.

Figure no. 1. Expansion of accountancy field



Source: Own projection

From the 1970s on, the global landscape, largely based on the industrial revolution, has changed considerably in favor of globalized trade, as shown in **Table no. 1**, adding new circles to the scheme in ***Figure no. 1***.

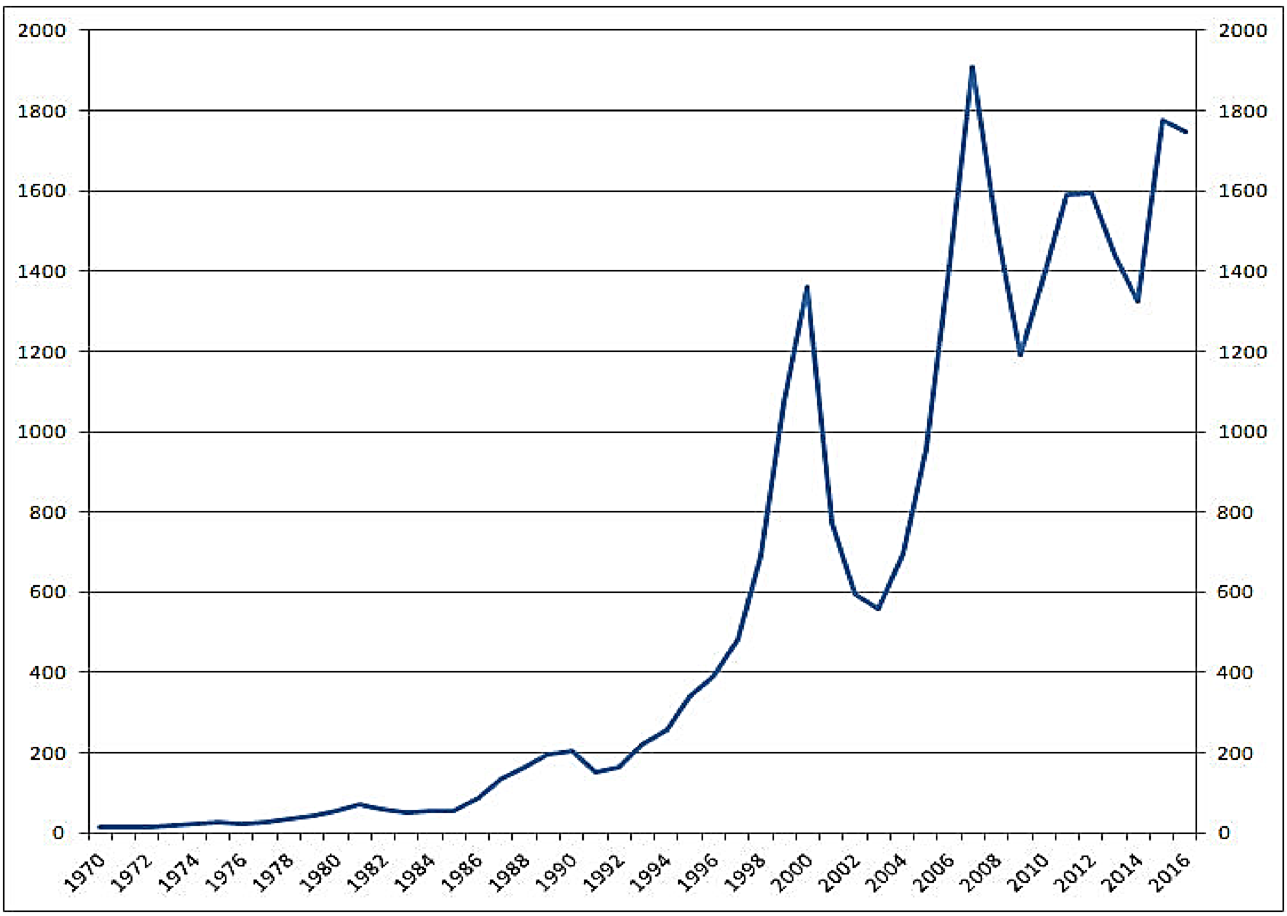
[1] The French *Plan comptable* includes the accounting standards and a chart of accounts.

Table no. 1 Comparative evolution of world merchandise exports and global GDP				
	Value of world merchandise exports		Global GDP	
	Index 100 in 2005	Annual growth rate	Index 100 in 2005	Annual growth rate
1970	3		34	
1980	20	+21.0%	51	+4.0%
1990	34	+5.5%	70	+3.0%
2000	62	+6.0%	88	+2.0%
2010	146	+9.0%	111	+2.5%
2014	180	+2.0%	121	+1.0%

Source: WTO

As the growth rate of exports is much higher than that of GDP, this is not a homothetic growth but an actual pattern shift. Moreover, there was also a financial dimension of the globalization process. Global foreign direct investments (FDI) follow the trend described in *Figure no. 2*.

Figure no. 2 Global foreign direct investments (in billions of dollars)



Source: UNCTAD

The financialization and globalization of value chains is accompanied by a theoretical[1] and/or an ideological[2] development, essential in providing legitimacy for the policies accompanying these phenomena: the Neoliberalism. As a result, the balance between the stakeholders involved in accounting standardization is changing: the withdrawal of the states in continental Europe in favour of international investors and the differentiation of SMEs standards from those aimed at public interest entities (PIEs). It is this story, with the resistance to this evolution, that we will develop.

1. The gestation period of international accounting standardization: 1970 to 2000

In response to the financialization and globalization of economy, the need for internationally recognized accounting standards has become more pressing. The task of elaborating such standards was taken over by the European Union (the European Community at the time), by various countries, mainly the United States, and by an *ad hoc* set up body, the International Accounting Standards Committee (IASC).

1.1. European accounting guidelines

The production of accounting standards is one of the attributes of sovereignty, accounting being a common good[3]. Thus, the major economic powers have adopted such standards, replicating their approach in other domains, such as the standardization of measurement systems (e.g., in France, the adoption of the meter in 1795 by the Convention government[4]), of technical devices (e.g., electrical safety standards, etc.) or of control devices (e.g., in France, the Ministry of Finance's Weights and Measures Department, or, in our field, the audit standards and oversight authorities).

The European construction involved transfers of sovereignty from the member states in favor of the European Union. Accounting standardization was among such transfers.

The **4th European Directive** has defined the accounting rules applicable to the annual (*i.e.* individual) accounts of listed companies. Its development began around 1967 when, at the request of the European Commission, preliminary work was initiated by the Corporate Law Study Group within the Community Accountants' Study Group of the European Economic Union (EEC), established in 1961[5]. At the end of these discussions, on October 10, 1971, the European Commission presented its first proposal for a 4th directive to the Council of European Ministers. It was then submitted for advice to the European Parliament on November 16, 1972 and then to the European Economic and Social Council on February 22, 1973. Following this first journey, the European Commission presented on February 28, 1974 an amended proposal for the 4th directive, which was finally adopted in the European Council of Ministers on July 25, 1978. The directive had to be subsequently implemented in the national law of various European countries, with France complying in 1983, whereas Italy only in 1991.

It took more than 20 years to produce and implement an accounting system across all European countries. This delay may seem unreasonable, yet it is nonetheless common in this area. It was necessary to find a compromise that would allow combining the flexibility of the true and fair view concept with the advantages of legal security and the simplicity of standardization, at the cost of a multitude of options which were also limitations of the directive.

1 Theory: "Rational or ideal representation, implying (...) that the facts (or the practice) do not correspond to it exactly. " (Paul FOULQUIE: *Dictionnaire de la langue philosophique [Dictionary of philosophical language].* PUF, 1982, p. 726)

2 Ideology: "A more or less coherent system of ideas, opinions or dogmas, which a social group or a party presents as a rationale, but whose actual function is to justify enterprises destined to satisfy interested aspirations and which is mostly exploited by propaganda. (Foulquié, *Ibid.* 337)

3 See: Alain BURLAUD & Roland PEREZ: "La comptabilité est-elle un 'bien commun'? [Is accounting a 'common good'?]" in *Comptabilité, société, politique. Mélanges en l'honneur du professeur Bernard COLASSE [Accounting, society, politics. Essays in honor of Professor Bernard COLASSE].* Economica, 2012, 216-233.

4 See: Franck JEDRCZEJEWSKI: *Histoire universelle de la mesure [Universal history of measurement].* Ellipses, 2002, 156 & s.

5 See: Didier BENSADON *et al.* (under the direction of): *Dictionnaire historique de comptabilité des entreprises. [Historical dictionary of corporate accounting].* Presses universitaires du Septentrion, 2016, 329.

While the diversity of national accounting standards hindered the comparison of annual corporate accounts within the EEC[1], the situation was even worse with respect to consolidated accounts[2]. In the United Kingdom, companies published group accounts as early as 1910! In Germany, the law had introduced the obligation to publish consolidated accounts in 1965. In France, it was not until the publication of the 7th Consolidated Accounts Directive on June 13, 1983 and its transposition into the French national regulations by the law of January 31, 1985 and its decree of February 17, 1986. The implementing order incorporating CRC 99-02 was signed on June 22, 1999.

At the European level, there was a similarly long process. In 1974, the Commission solicited the Working Group of Accountants as it had already done for the annual accounts. The latter proposed a draft of the directive sent for advice to the Council of Ministers of the European Economic and Social Council in 1977 and to the Parliament in 1978. The requested amendments opened new negotiations, with the directive not finally signed by the Council until June 13, 1983. The process took about ten years, because no European country, except Germany, had a legal definition of the group concept at the time.

The normative scheme will be completed on April 10, 1985 by the 8th directive concerning the certification of those responsible for the legal control of general-purpose financial statements, that is, in France, the statutory auditors (*commissaires aux comptes*, Fr.).

We shall remember three essential ideas from this presentation of the creation of a European accounting law:

- the difficulty of the negotiations due to the importance of economic issues and, as a result, the length of the process, which spans over a decade;
- the fact that the public authorities rely on the technical skills of professionals at the risk of losing an extent of its independence, its impartiality, its vocation to legitimately represent a higher interest; and finally
- the fact that no conceptual or theoretical framework has been produced.

[1] The EEC had not become the European Union (EU) until 1st November 1993.

[2] See BENSADON, *Op. cit.*, 333s.

1.2. Accounting standardization in the United States

After observing the gestation of the accounting standardization in Europe, it is interesting to compare it with the progress made in a continent-state whose practices in this field influence the whole world, i.e. the United States.

Before the 1929 crisis, there were no accounting regulations in the United States, but dominant practices[3]. The accounting profession represented by the American Institute of Certified Public Accountants (AICPA), established in 1887, set up the Committee on Accounting Procedures (CAP) in 1938, which published Accounting Research Bulletins (ARB) proposing solutions to technical problems. The Committee was replaced in 1959 by the Accounting Principles Board (APB), which published ‘Opinions’, most of which are still in force today and constitute a genuine normative repository. The ‘Opinions’ were supplemented by ‘Statements’, which provided guidelines, but were insufficient to ensure consistency of standards and provide a true conceptual framework. Until 1973, American accounting standardization was in the hands of practitioners without the arbitration of an authority with the legitimacy of public power.

The Financial Accounting Standards Board (FASB) was established in 1973 and placed under the authority of the Financial Accounting Foundation. The FASB originally had seven members representing the American Accounting Association (AAA, academics), AICPA (accounting professionals) and Chartered Financial Analysts Institute (CFAI, finance professionals).

These changes are significant. The term ‘Accounting’ refers to a discipline that is aimed at being neutral and in the service of a plurality of stakeholders, codified following a major crisis, and the word "Financial" is now used, which refers to an objective or a very particular perspective.

The government, that is, the Congress, took over accounting standardization through its agent, the Securities and Exchange Commission (SEC), which gives force to the standards produced by the FASB, i.e.

[3] See Bernard COLASSE (under the direction of): *Encyclopédie de comptabilité, contrôle de gestion et audit [Encyclopedia of accounting, management control and audit].* Economica, 2009, 173 s.

the Statements of Financial Accounting Standards (SFAS). In addition, since 2003, the SEC has required that FASB financing be fully public, provided by a royalty paid by listed companies.

The FASB is the first standard-setter to have elaborated its conceptual framework, currently made up of seven Statements of Financial Accounting Concepts (SFAC). It states that general-purpose financial information is primarily produced to meet the needs of investors.

This development shows that accounting standardization, initially considered an area reserved for professionals and for the needs of professionals, has become a public good, a component of public policy under the responsibility of the State. However, the latter is limited here to the role of a censor since it 'outsources' the production of standards to professionals. But these standards only apply to companies that go public and their subsidiaries. SMEs are not required to comply with SFAS; they comply with 'tax-based accounting' rules, unlike the EU, which regulates accounting practices of all businesses.

1.3. The birth of international accounting standardization

The importance of the US financial market has provided American standards with much broader scope than the US. However, the 'Opinions' of the ABP and the SFASs could not, officially, become global standards, as it would have implied all other countries renounce this part of their sovereignty in favor of a third country, even if it were the world's leading power.

In 1973, ten professional organizations, pertaining to the French Institute of Certified Public Accountants (Ordre des experts-comptables, Fr.)[1], represented by Robert MAZARS, created an association, the International Accounting Standards Committee (IASC), based in London. Its aim was to publish accounting standards, the International Accounting Standards (IAS). But a private organization could only claim power of influence for lack of any authority. The first standards, published since 1975, were more of a collection of good practices, leaving many options and laying down some prohibitions, each country striving to preserve its national practices. IASC members made no commitment other than to make their 'best effort' to implement the IASs in their own countries. But in most of these countries, with the exception of the United Kingdom at the time, the accounting profession was no longer or had never been the standard-setter.

This was a far cry from the objective of transparency, comparability and efficiency of financial markets around the world. In 1998, the president of the IASC, Georges Barthès de Ruyter, a Frenchman who would later become president of the National Accounting Council (Conseil national de la comptabilité: CNC, Fr.) and a member of the jury for academic certification in management sciences, launched the project "Comparability" to just reduce the options within the standards. This work was all the more necessary as the International Organization of Securities Commissions (IOSCO) made it a condition for accepting IASs instead of national standards. This support was the subject of an agreement signed in October 1997 at the International Federation o Accountants (IFAC) World Congress in Paris[2]. IOSCO undertook to recommend recognition of IASs to its members[3] on the condition that they were adjusted as required within two years. This was achieved in 1998, a year before the deadline. In order not to remain a private body with no real power, the IASC had to have this recognition.

In addition to the agreement with IOSCO, the IASC, which was threatened with being absorbed by IFAC, a global organization established in 1977 at the World Congress in Munich, finally reached an agreement which made IFAC members, about 100 organisations at that time, to also became members of the IASC. This decision was planned at a joint IFAC/IASC meeting at the 1987 Tokyo World Congress and a report was requested to investigate the forms of this relationship to a commission chaired by John Bishop (Australia). The "Bishop Working Party Report" was adopted by both organizations in 1989, clearly establishing the division of roles: the IASC is recognized as a monopoly on accounting standardization and IFAC is the monopoly of everything else, *i.e.* the standardization of audit, ethics, initial and continuing education and the standardization of public sector accounting ... which relies heavily on IAS!

---

1 The other nine countries were: Germany, Australia, Canada, USA, Ireland, Japan, Mexico, the Netherlands and the United Kingdom.

2 The World Congress of the Accounting Profession was held every five years. Currently the Congress is held every four years. René RICOL was voted 'President elect' at this congress and became president of IFAC in 2002 for a term ending in 2006.

3 For France, the Securities and Exchange Commission (la Commission des opérations de bourse: COB, Fr.), which will become the Financial Markets Authority (l'Autorité des marchés financiers: AMF, Fr.).

However, accounting standardization by the profession (and for the profession?) posed a problem of legitimacy[1] and ran up against the power of national standard-setters who had gained their independence in the face of the profession. This is how, the 'G4+1' was created in 1992, including the national standard-setters from Australia, Canada, the United States, the United Kingdom plus New Zealand. Apart from the fact that they were all English-speaking and politically close, they had in common the idea to promote a conceptual framework, contrary to the continental European or Japanese tradition. This raised the question of the representativeness of the G4+1.

From 1992 to 2001, the G4+1 produced research papers deemed to be of high quality and used by the IASC to produce its own standards. A Joint Working Group united the two organizations to prepare IAS 39 on financial instruments. This cooperation put an end to the existence of the G4+1 but was a stimulus to push the IASC to reform itself. Technical quality was not enough as there was also a question of legitimacy.

The United Nations Conference on Trade and Development (UNCTAD) established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (1982) (ISAR), based in Geneva, to produce global accounting standards. This extremely large group enjoys excellent geographical representation (the Third World is very well represented) and the legitimacy of an intergovernmental organization, with governments supposed to represent the public interest of their country. ISAR publishes an annual report entitled *"International Accounting and Reporting Issues", "Guidances"* on good practices and training, *Research Papers* and other documents on CSR, environmental, social and governance reporting, sustainable development, etc. But the dispersion of interests, the size of the assembly that meets once a year in Geneva, the rapid rotation of delegates and their lack of professionalism and technical skills have not allowed ISAR to truly compete with the IASC.

At the end of the 1990s, the IASs existed and gained a certain notoriety in professional circles. It remains to be seen how they will prevail.

[1] See BURLAUD A. & COLASSE B.: "International Accounting Standardisation: Politics Return?" in *Audit Financiar*, vol. 8, no. 1 (61) / 2010, p. 3-11 and vol. 8, no. 2 (62) / 2010, p. 10-15.

2. International standardization in the quest for power in the 2000s.

The gestation period, which lasted 30 years, from 1970 to 2000, was Darwinian: there were many attempts at international standardization, but few survived. The pursuit of power by the IASC, which aspired to become a global accounting "regulator", had to go through a strategy of legitimization in four directions:

1. political legitimacy based on the independence of the standard-setter;
2. political legitimacy based on the recognition of IASs by the public power which alone has the power of coercion;
3. procedural legitimacy based on *due process;*
4. substantive legitimacy achieved through a conceptual framework. Substantive legitimacy based on the quality of the standards was already acquired, among others due to the extensive technical support provided informally by the 'Big Five'[2], the five major audit firms at that time. However, the overall coherence given by a conceptual framework was lacking.

2.1. From IASC to IASB: asserting power independent of special interests

Rendering independence more visible required a modernized and a more professional structure, similar to that of the FASB.

According to a witness at the time, Gilbert Gélard, who sat on the Boards of the IASC and then the IASB from 1988 to 2005, some criticized the IASC, in the late 1990s, for being difficult to manage: there would have been too many people around the table and two opposing conceptions of how to regulate clashed[3]. On the one hand, there were proponents of a political-representativeness view, which assumed that representatives of the various stakeholders had to debate in order to find a consensus or, at the very least,

[2] In the early 2000s, Arthur Andersen still existed alongside Deloitte, Ernst and Young, KPMG and PWC.

[3] See: Gilbert GELARD: "De l'IASC à l'IASB: un témoignage sur l'évolution structurelle de la normalisation comptable internationale." ["From IASC to IASB: a testimony to the structural evolution of international accounting standardization."] *Revue française de comptabilité,* n° 380, September 2005.

a compromise, even if it meant sacrificing a little the quality and technical consistency of the standards. This view, defended by the European Commission, required a large Board, as it had to be representative of all special interests. But since the sum of special interests was not of general interest, others, including the FASB and the members of the G4+1, proposed an organization that favoured technical expertise with a Board comprised of exclusively and full-time employed members, independent and unaccountable to the national regulator of their country of origin.

To inform the debate, the IASC created a Strategic Working Party in 1997 chaired by Ed Waitzer (Canada). Finally, the current organization based on the model of independent experts was unanimously adopted by IASC Board members in Venice on September 9, 1999. The result was a rather complex structure that was supposed to guarantee independence through statutory provisions relating to Board members and through a multiplicity of bodies combining powers and counter-powers. IASB members cannot have any financial connection with any stakeholder because of the prohibition of any cumulative remuneration. As for the IASB organizational chart, largely inspired by that of the FASB, it included essentially the following four major structures:

- the IASC Foundation, a private foundation based in Delaware, USA, a 22-member assembly (trustees), which funds the IASB and appoints members of the following three committees;
- The IASB, a technically independent body composed of 14 remunerated members, which produces the IASs and then the International Financial Reporting Standards (IFRSs) based on a team, the *Staff,* of professionals which are also remunerated;
- The Financial Reporting Interpretations Committee (IFRIC), comprised of 15 members, which publishes interpretations of standards to facilitate their understanding following issues raised by their implementation; these interpretations must be approved by the IASB and have the same authority as the standards;
- the IFRS Advisory Council (IFRSAC), which is responsible for advising the IASB in the preparation of its work program. It is composed of 50 members representing the entire accounting community: financial analysts, preparers of financial statements (companies), academics, auditors, standard-setters and professional organizations (accountants and auditors). In addition to the IFRSAC, there are about 20 other complementary bodies representing various stakeholders: financial markets, emerging economies, Islamic finance, SMEs, insurance, etc.

As FASB is still not convinced of the independence of the IASB, it was decided in January 2009 to create an additional structure, the Monitoring Board (MB), which is to ensure the link between the *trustees* of the IFRS Foundation and the public authorities, that is to say essentially the ‘watchdogs’ of the stock exchange, and increase the accountability of the Foundation. The MB monitors compliance with the Foundation's statutes and validates the appointment of *trustees.*

However, this reorganization does not solve all the problems. The independence of board members is real only from a formal point of view. However, the Board members are intimately linked by a common perspective on the role of accounting, or more precisely, financial information, in society: serving the needs (and interests?) of investors, with other stakeholders coming only second[1]. This translates into an evolution of the vocabulary used. Thus, the IAS are renamed IFRS, the word ‘accounting’ disappearing completely to be replaced by ‘financial reporting’. We are in the service of finance.

However, we should be more specific: the world of finance is not homogeneous. What do family capitalism, with a long-term vision of the company’ wealth, and the stock market nomadism of portfolio managers, with purely short-term financial objectives, have in common? Of course, other stakeholders also have financial concerns. But these are not the same perspectives: solvency over the long term for creditors, going concern and capital maintenance for employees and local authorities, etc.

Finally, the IASB inherited the IASC acquis by taking over all IAS; only the new standards will be called IFRS.

The new structure, due to its complexity and a its subtle balance of powers, is able to demonstrate, at least formally, the independence of the standard-setter.

2.2. The European Union adopts IFRS: the search for political legitimacy

If the IASB is a body of appointed experts, they must still be in the service of the public, as the statutes affirm. The

[1] See: Burlaud & Colasse, *Op. cit.*

IASB therefore lacked political legitimacy without going through an election system. Salvation came from the EU, which, by Regulation 1606/2002 of 19 July 2002 on the application of international accounting standards, required European companies to publish consolidated IFRS accounts as of January 1, 2005. It should be remembered that a European regulation is imposed directly on the Member States without having to be transposed into national legislation. The experience of the delays in transposing accounting directives had served as a lesson. For the consolidated accounts of unlisted companies, EU member states remain free to authorize or impose IFRS. Europe thus becomes the first 'customer' of the IASB.

Article 1 of the Regulation justifies the adoption of International Accounting Standards (the word IFRS is never used) by ensuring "a high degree of transparency and comparability of financial statements and hence an efficient functioning of the Community capital market and of the Internal Market." Accounting is no longer a common good but a tool for a class of stakeholders, except assuming that financial markets serve the public interest.

Article 2 introduces restrictions seeming to assert a remnant of sovereignty: international accounting standards can only be adopted if they are not contrary to the following principles:

1. 4th Directive of July 25, 1978, Article 2(3): "The annual accounts shall give a true and fair view of the company's assets, liabilities (*une image fidèle du patrimoine*, Fr.), financial position and profit or loss";
2. 7th Directive of June 13, 1983, Article 16(3): "Consolidated accounts shall give a true and fair view of the assets, liabilities (*une image fidèle du patrimoine*, Fr.), financial position and profit or loss of the undertakings included therein taken as a whole";
3. "and are conducive to the European public good."

It is important to note that Article 2 of the Regulation, which is apparently essential, has had no effect.

First of all, the notion of 'patrimoine' is totally ignored by IFRSs as they constitute an independent and totally autonomous accounting law (*droit comptable*, Fr.). But the definition of 'patrimoine' falls under other branches of law, civil law in France, for example. Directive 2013/34 of June 26, 2013, repealing the 4th and 7th directives, reiterates in Article 3 the reference to the 'patrimoine' but for annual accounts only, which renders the European accounting law in agreement with the IFRSs, if they are only to be applied in consolidated financial statements.

The reference to the European public good remains. No European text defines it. Is it the collection of special interests? In any case, the concept is broad enough to be opposed to the adoption of just about any standard. However, the preliminary work for the directive underlines two components of this European public good: not to handicap the competitiveness of European companies and not to undermine the stability of financial markets.

The statutes of the IASB also proclaim that the standard-setter acts in the name of the public interest, but this should actually be a global interest! Unable to give concrete content to the concept of European public good, the EU has provided an institutional response with the recognition of the European Financial Reporting Advisory Group (EFRAG)[1].

EFRAG, a private body, was established in 2001 by the European accounting profession, preparers, users and standard-setters, and officially recognized by the European Commission in 2006. It provides technical assistance to the Commission, which also relies on a political body, the Accounting Regulatory Committee (ARC). EFRAG expressed reservations on two topics: accounting for financial instruments (IAS 39 and IFRS 9) that raised the issue of fair value and macro-hedging[2].

Following the Maystadt report of 2013[3], EFRAG was radically reformed in October 2014. It featured a 16-member Supervisory Board and a 12-member Technical Experts Group. Today, depending on the need for ensuring checks and balances, the EFRAG is organized as follows:

- General Assembly: composed of various European professional bodies and national standard-setters (the ANC for France); it appoints members and the president of the Board and votes the budget;
- Board: Composed of 17 members (8 European professional organizations, 8 national standard-

[1] Christopher HOSSFELD & Yvonne MULLER-LAGARDE: *L'intérêt public européen.* Autorité des normes comptables [*The European public interest.]* Autorité des normes comptables [Accounting Standards Authority], 2018.

[2] HOSSFELD & MULLER-LAGARDE, *Op. cit.*, 42 s.

[3] Philippe Maystadt: *Should IFRS standards be more European?*, 2013

setters and one president); it makes decisions on IFRS;

- Technical Experts Group: Composed of 16 members (4 appointed national standard-setters and 12 qualified personalities); it gives advice to the Board. Members volunteer 15-20% of their time on this activity and are appointed for one year;
- Consultative Forum of Standard Setters: it brings together European national standard-setters and ensures that the Board expresses a European point of view.

This reorganization, which has professionalized the expression of a European point of view, illustrates two things:

1. accounting standardization is too serious a matter to give *carte blanche* to a regulatory 'subcontractor', *i.e.* the IASB;
2. but there is no way out of a debate limited to experts in the world of finance.

In conclusion, the adoption of IFRS by the EU has allowed the IASB to play in the big leagues and gain political legitimacy.

2.3. The search for procedural legitimacy: the *Due Process*

The *Due Process* is the formal consultation method of the various stakeholders put in place by the standard-setter in order to ensure the respect of democratic constraints when making decisions[1]. The implementation of such a process dates back to the Carta Magna of the 13th century in England, it was taken up in the American Constitution and transposed to accounting standardization by the relevant bodies in Canada and the United Kingdom in the 1960s and 1970s and then by the IASC. But initially, in the latter case, the procedure was rather unrigorous. Calls for comments were limited to IASC stakeholders and national standard-setters, responses were not made public and deliberations were held behind closed doors. IOSCO questions the IASC on the practice in 1987 and the situation was remedied with the creation of the IASB and the publication of the 58-pages *Due Process Handbook* in 2006.

It is based on three main principles:

- Transparency: IASB and IFRIC meetings are public and recorded;
- Full and fair consultation of all stakeholders whose responses are published on the IASB website;
- Accountability: The IASB must assess, without necessarily quantifying, the impact of the new standards or of the changes of existing standards against certain criteria, including improving comparability of financial statements, and to provide justifications for its decisions.

Two scenarios need to be considered: the adoption of a new standard and the annual revisions of existing standards.

Adopting a new standard goes through the following steps:

- preparation of the IASB's work agenda based on topics proposed by its members or by third parties (national standard-setters, financial market regulators, professional organizations, etc.) then presenting this program for advice to the IFRS Advisory Council;
- the IASB, with its technical team and, if necessary, with the support of other standard-setters, prepares a non-binding *discussion paper* and the exposure draft, accompanied by a comment letter*;* Anyone interested is asked to respond.
- comments on the exposure draft, which are mandatorily written in English, come mainly from national standard-setters, stock exchange authorities, professional organizations, large firms (the Big Four), finance directors of large international groups and some academics; they are published on the IASB website, are reviewed and sometimes answered, and synthesized in the Report and the *Feedback Statement;*
- depending on the results of the consultation, the IASB can either prepare a new exposure draft in the event of significant changes, or adopt the standard with or without minor changes;
- two years after the standard coming into effect, the IASB must carry out an impact assessment (*Post-implementation Review)* by interviewing the 'public'

[1] See: BENSADON, *Op. cit.*, 337 – 338; BURLAUD – COLASSE, *Op. cit.;* Anne LE MANH-BENA: *Le processus de normalisation comptable par l'IASB : la cas du résultat [The Accounting Standardization Process by the IASB: The Case of The Result].* Ph.D. in Management Science, CNAM, 2009.

(Request *for information)* and by taking into account its own observations.

The revision of existing standards is done as part of an *annual improvement process.* A single exposure draft containing all proposed amendments is published by the IASB and is the subject of a call for comments.

However, this ideal construction can only be a façade. "Writing comments on a preliminary discussion paper or on an exposure draft involves considerable resources in technical skills and time due to the complexity of the standards and, for many, due to the language barrier since the answers must be worded in English. In the absence of such resources, many parties affected by international accounting standardization, in particular third-world countries, are under-represented. The *due process* can therefore be compared to a vote on highly technical issues with a paid participation and without the result of that vote having a binding value for the person who organized it. *Due process* is the support of governance by experts. In these circumstances, should it be surprising that the "abstention rate" is high and close to 100% among those who cannot otherwise exert a strong pressure on the IASB?"[1].

2.4. Substantive legitimacy is strengthened: the conceptual framework

In order to ensure that accounting standardization is not based on circumstantial reasoning when issues arise, the need for coherent, stable and explicit general principles was felt. Pragmatism has its limits; theory, deductive reasoning and not standardizing practices according to an inductive approach were required. The FASB pioneered the publication of six SFACs between 1978 and 1985 that met the need for a conceptual framework. But it is largely the culmination of academic work published as early as the 1930s[2]. It was largely taken over by the IASC in 1989.

In some respects, the publication of a conceptual framework that had hitherto been implicit is a courageous step. Cardinal de Retz is alleged to have said in 1717: "One emerges from ambiguity only at its own expense". By explaining the reasoning and the choices underlying a decision, the room for maneuver enabled by ambiguity is limited and critique is rendered possible. The single-issue technical debates then take on a political dimension.

On September 18, 2002, in Norwalk, United States, an agreement was signed between FASB and IASB to bring the two accounting systems together and coordinate their future work to improve the comparability of financial statements. A memorandum, signed in February 2006, provided for the publication of a common conceptual framework.

Phase A of writing this common conceptual framework, focusing on the objectives and qualitative characteristics of financial reporting, was completed in September 2010. But phases B to G remained unfinished. Today, following a number of disagreements, cooperation between the two standard-setters is at a standstill and, on March 29, 2018, IASB issued its individual version of a new comprehensive conceptual framework. What also made the "divorce" easier or more tempting was the SEC's decision on November 16, 2007, to remove the obligation for US-listed companies that opted for IFRS to publish a reconciliation statement between the US-GAAP and IFRS, thus restoring the US-GAAP to their autonomy. This obligation was considered too costly by the companies concerned.

It could be concluded today that, having a comprehensive conceptual framework, a set of standards evolving over time, a complex organizational structure reflecting the complexity of a global accounting standardization in the service of financial markets, IASB marks the end of this story. In reality, there are other challenges ahead.

3. From History to the Future: New Challenges for the IASB

Two major challenges threaten the development of the IASB's sphere of influence:

- it does not meet the needs of all businesses, including small and medium-sized enterprises that are not managed from a stock market perspective;
- it is limited to a purely financial view of information at a time when investors increasingly need a broader view of the performance of their targeted companies.

[1] BURLAUD – COLASSE, *Op. cit.*

[2] See: BENSADON, *Op. cit.*, 412-413.

3.1. The difficult consideration of the needs of SMEs

The IASB's ambition is to become **the** global accounting standard-setter. This means removing one obstacle: the complexity of IFRS. For example, the *Handbook* represents two volumes totaling, with the application guidelines, about 4,500 pages! Complexity of meaning and complexity of abundance are, strictly speaking, acceptable to large multinational groups with sufficient internal expertise, necessary financial and IT resources that can justify these efforts by the complexity of their business models and legal arrangements. The auditors of listed companies, mainly the Big Four, can also comply, especially since they have largely inspired IFRS. But this goes beyond the means and needs of SMEs, which account for 95% of businesses[1].

Aware of these difficulties, the IASB initiated an IFRS project for SMEs in 2003. In June 2004, it published a *Discussion paper* accompanied by eight questions, the first of which was: "Should SME-specific financial reporting standards be developed?" All the replies we have seen answer in the affirmative to this question and support the opportunity of the project[2]. This encouraging start led to the publication of an *Exposure draft* in February 2007. The responses and comments received led the IASB to substantially modify the project by removing cross-references to complete IFRS, most complex choices, proportional consolidation, etc. The final standard was published in 2009.

It was welcomed by creditors, including the World Bank[3], which wanted to impose it on all the emerging countries it funds in order to have a coherent and comparable collection of financial information. In Reports on the Observance of Standards and Codes (ROSC), the World Bank systematically compares national standards to IFRS as a kind of *benchmark* and advocates convergence. Pressure was extremely high, particularly on the Organization for The Harmonization of Business Law in Africa (l'Organisation pour l'harmonisation en Afrique du droit des affaires: OHADA, Fr.), so much so that the revised OHADA Accounting System (Revised SYSCOHADA)[4] incorporated this desire for convergence. OHADA and the firms it employs had been paid for it.

Despite this good news for the IASB, the success of the IFRS for SMEs was extremely limited in practice for many reasons. This standard remained complex, unsuited to the needs and reality of emerging countries, costly to implement, and above all, incompatible with the needs of the tax authorities of the various countries. Without being said, the standard did not meet the needs of non-existent investors but those of the World Bank. If it could influence the choices of national or regional standard-setters, such as OHADA, it could not really influence the practices of local businesses and of auditing and accounting firms. In the most advanced countries, it was not very successful either as it was not adopted by the EU states, Australia, Canada, not to mention the United States, since they did not adopt IFRS at all[5].

SMEs seldom produce state of the arts accounts, but for the needs of tax authorities and social insurances. For internal needs, the main issue is monitoring cash and third-party accounts. As for external *reporting,* this can be done based on tax regulations, due to the lack of a mobile shareholding and the lack of financial analysts. Banks are more interested in the actual guarantees that executives can offer. Finally, in the absence of an auditor in most SMEs/TPEs, there is no sanction in case of a 'local/home' adaptation of accounting standards provided that tax rules are respected. As for chartered accountants and accountants, they are not responsible for sanctioning their clients.

In conclusion, the IFRS for SMEs is more of a tool used to pressure national standard-setters to achieve convergence than a standard actually used by companies to produce their financial statements.

3.2. When financial accounting is not enough to accurately represent performance

A company is not only a cash machine, even for investors! It has a long-ignored social and environmental

---

1 Pascale DELVAILLE *et al.* : "Enjeux et limites de l'application des IFRS aux PME [Issues and limits of the application of IFRS to SMEs]" in *La comptabilité en action. Mélanges en l'honneur du professeur Geneviève Causse [Accounting in action. Essays in honor of Professor Genevieve Causse].* Harmattan, 2016, p. 184

2 Alain BURLAUD: "Faut-il un droit comptable pour les PME ? [Should there be an accounting law for SMEs?]" *La Revue du Financier* No.168, November-December 2007, p. 127.

3 See: Pascale DELVAILLE, *Op. cit.*, 186 s.

4 Regulation 01/2017/CM/OHADA of June 9, 2017 on the harmonization of the practices of accounting and auditing professionals in OHADA Member States.

5 See: Pascale DELVAILLE, *Op. cit.*, 187.

responsibility that is of interest to all stakeholders. Thus, in 1776, Adam Smith wrote, " It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest." In another form, Milton Friedman took up the same idea, stating that the company's sole responsibility was to make a profit as long as it stays within "the rules of the game, which is to say, engages in open and free competition without deception or fraud." IFRS is fully compatible with this vision of the world, that of an homo *œconomicus*[1].

But in parallel with the financial capitalism that makes the investor the ultimate decision maker, the privileged recipient of financial information and the accountability judge of the leaders, a more comprehensive perspective on the company has been developed. The company is an institution that lives by and for a community of people whose ambition is not limited to the accumulation of profit. In addition, to provide relevant information to investors, one cannot simply produce financial information regardless of any context. Scandals triggered by industrial pollution or human rights violations can have financial consequences that put the company at risk. This is more important to investors than, for example, the accounting of commitments made to customers as a result of a loyalty program such as airline miles.

In response to these limitations of financial accounting, and more generally of a purely economic conception of the role of a company in society, the idea of environmental accounting[2] has been developed in the early 1970s, but also the idea of a different form of "accounting" such as the social balance-sheet (*bilan social*, Fr.) made mandatory by the law of July 12, 1977, for companies with more than 300 employees. We will see that this widening of the scope of accounting poses conceptual problems, but that standardization and practices are still progressing. Experiments precede the conceptual framework, as was the case with financial accounting.

Corporate social responsibility (CSR) requires knowing what is meant by "responsibility." The civil code defines it by its consequences. "Any act of man, which causes damages to another, shall oblige the person by whose fault it occurred to repair it."[3] Accounting is well known for dealing with civil liability (for example, provisioning damages) or criminal liability when the penalty is monetary (payment of a fine, for example). But responsibility has widened and takes on a moral dimension that can be punished without a judgment. For example, entrusting the manufacture of products to a subcontractor in a Third World country that employs children in undignified conditions is not a crime for the contractor, who is not the employer. But the client may have a moral responsibility if he is aware of this fact and be condemned to the "court of public opinion", lose his capital of sympathy and, ultimately, lose clients[4].

CSR goes beyond third parties with contractual relationships with the company. Thus, pollution can create damage to others without the victims being identifiable. The emission of greenhouse gases probably harms the whole of humanity, but without being able to associate a victim with a polluter. Humanity is not a legal entity. As early as 1810, the legislature had taken steps to punish security and environmental violations through preventive administrative controls.[5] Furthermore, in order to sanction this responsibility or irresponsible risk-taking, there is also the *name and shame* practice, the moral sanctioning that has a cost.

As information was performative[6], it was intended to promote awareness, in parallel with the financialization and globalization phenomena, of the existence of common goods whose preservation could not be ensured by the mechanisms of the market. The result was a request for non-financial information to be produced by large companies. Specifically, it was about introducing among the clients or investors' decision criteria of extra-financial considerations by means of financial penalties inflicted indirectly on the less "virtuous" companies.

The development of non-financial information, in addition to the social balance sheet, was primarily the result of individual initiatives. Various "green accounting" models have been developed and companies have taken part in

1 Milton FRIEDMAN, *New York TImes Magazine*, 19/9/1970.

2 See: COLASSE, *Op. cit.*489.

3 Article 1382. It dates from the civil code of 1804 and has never been amended.

4 This refers to the Nike case in 1997, which employed children at its subcontractors in Asia.

5 See: Bernard CHRISTOPHE: *La comptabilité verte. De la politique environnementale à l'écobilan* [*Green accounting. From environmental policy to an eco-balance-sheet].* De Boeck, 1995, 26.

6 See: Alain BURLAUD & Maria NICULESCU, "Non financial information: an European perspective", *Audit Financiar*, Bucharest, vol. 13, no. 6 (126) / 2015, p. 102 – 112.

the game. The shift from a voluntary to a mandatory approach took time. The issue was addressed in 2011 by the OECD in its *"Guidelines for Multinational Enterprises."* But the OECD does not have royalty power. On October 22, 2014, the European Parliament and the Council adopted the 2014/95 directive as regards "disclosure of non-financial and diversity information by certain large undertakings and groups". "The European Parliament acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust. Indeed, disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection."[1] However, the directive does not propose a standardized framework of indicators and relies on private initiatives to operationalize the objective, just as the 2002 Accounting Regulations actually defer to the IASB. And there were many initiatives. To stick to the main ones, there were, at the international level, ISO 26000 *Guidelines on Social Responsibility* and the Global Reporting Initiative (GRI). These two initiatives consist of defining a set of standard indicators. In France, an academic, Professor Jacques RICHARD, designed the CARE[2] model of applying the depreciation mechanism used to measure the consumption of fixed capital and finance its renewal to human and natural capital.

However, 'standard shopping' (*vagabondage normatif*, Fr.) does not ensure the neutrality, completeness and comparability of information and does not allow for the sanctioning of manipulations. In application of the European directive, the President of the French Republic signed on July 19, 2017 the Ordinance No. 2017-1180 *as regards disclosure of non-financial and diversity information by certain large undertakings and groups.* These large-companies are required to publish an "extra-financial performance statement" inserted in the management report. It deals with the social and environmental consequences of its activity, respect for human rights, the fight against corruption, climate change, sustainable development, the circular economy, the fight against food waste, working conditions, the fight against discrimination and the promotion of diversity. This information must be verified by an independent third party whose report is forwarded to shareholders, in the same way as the auditor does. Decree No. 2017-1265 of August 9, 2017 sets out the terms of application of the order. It specifies the thresholds at which information must be published and, where relevant and proportionate, provides a detailed list of items containing what the order requires. The logic is more that of the social balance-sheet (*bilan social*, Fr.) than of that of an accounting system which requires a single unit of measurement such as money.

In conclusion, we can see that accounting has evolved into financial information and subsequently has been accompanied by non-financial information. But the steps in standardizing the latter are similar to those which international accounting standardization has gone through:

- practices and standards derived from private initiatives;
- a relay taken by the public authorities to give force of law to a model;
- a mechanism for certifying information produced by an independent third party.

4. Conclusion

History, whether it is that of a man, an institution or an object, is not a simple collection of anecdotes even if it feeds on it. From these anecdotes, we must learn lessons to explain, to understand the chain of events, to identify causal links.

Let's start with our introductory sentence: "accounting is a mirror of society." It must be understood that the mirror, if it gives <u>an</u> image of reality, objectively, is also a tool for the transformation of reality because we are in the presence of a mirror distorting by its imperfections or because it has been manipulated knowingly. Moreover, it cannot represent the whole of reality. It is aimed to only one sense: sight (without depth) but it is oblivion to what activates smell, touch, hearing and taste. This imperfect mirror produces an imperfect image to inform the questions we ask ourselves to act.

The history of accounting is an answer to the following three fundamental questions that structure accounting:

[1] 2014/95 European Directive, Whereas No. 3.

[2] Comptabilité Adaptée Renouvellement de l'Environnement: CARE [Adapted Accounting Environmental Renewal]. Registered trademark.

- For whom is the information produced?
- What is to be done with it?
- How is it produced?

For whom? We have seen that the 'public' of accounting has grown over time. The initial aim was to serve the needs of the contractor (management of the merchant's accounts, using double-entry accounting), then those of the community of entrepreneurs (evidence in case of dispute between traders), then the tax authorities and more generally governments, employees, investors and, increasingly, society as a whole.

For what? For what decisions? Of course, each actor has its own information needs. But standardization reduces them to simple needs. Reality is not simple. Thus, the needs and objectives of the entrepreneur are not the same when it comes to an individual business, the partner in a family SME or the leader of a large company. Similarly, the needs and objectives of investors are not the same depending on whether they are a small investor, an institutional investor or employee shareholders.

How? Standardization, whether in the field of accounting or in other areas, is a royalty prerogative in the same way as the right to beat money. It is produced by public or private institutions under a system of public protection that allows the technical skills of professionals to be combined with political power imperatives. These standards are performative, that is, they shape reality. Those who produce goods or services that are supposed to meet the standards are controlled by independent experts such as auditors or government departments such as the Internal Revenue Service or the Weights and Measures Department.

The contemporary history of accounting standardization is characterized by the effects of financialization and globalization, which have resulted in an empowerment of accounting law (*droit comptable*, Fr.) and greater power in the profession. But counter-powers have emerged at the same time to prevent the trend towards self-regulation: the stock market authorities, the political power that, for example in Europe, has introduced the notion of European public good, and society at large, which calls for greater transparency and an extension of the scope of information to the non-financial domain on comparable terms.

REFERENCES

1. Bensadon, D. *et al.*, Dictionnaire historique de comptabilité des entreprises. [Historical dictionary of corporate accounting], *Presses Universitaires du Septentrion*, 2016.
2. Burlaud A., Colasse, B., International Accounting Standardisation: Politics Return?, *Audit Financiar*, Bucharest, vol. 8, no. 1 (61) / 2010, p. 3-11 și vol. 8, no. 2 (62) / 2010, p. 10-15.
3. Burlaud, A., Should Financial Statements Represent Fairly or be Relevant? Considering the IASC/IASB Conceptual Framework, *Audit Financiar*, Bucharest, vol. 11, no. 4 (100) / 2013, p. 30 – 47.
4. Burlaud, A., Faut-il un droit comptable pour les PME ? [Should an accounting right be made for SMEs?], *La Revue du Financier*, no. 168, November – December 2007, p. 121-137.
5. Burlaud, A., Hoarau, C., IFRS-PME contre directive européenne n° 34. Entre pertinence et mimétisme [IFRS-SME vs. European directive No. 34], în „L'entreprise revisitée. Méditations comptables et stratégiques" (conducted by Pierre Gensse, Eric Severin and Nadine Tournois), *Presses Universitaires de Provence*, 2015, p. 29 – 41.
6. Burlaud, A., Niculescu, M., Non financial information: a European perspective, *Audit Financiar*, Bucharest, vol. 13, no. 6 (126) / 2015, p. 102 – 112.
7. Burlaud, A., Perez, R., La comptabilité est-elle un "bien commun ?" [Is accounting a "common good?], in „Comptabilité, société, politique. Mélanges en l'honneur du professeur Bernard COLASSE", *Economica*, 2012, p. 216 – 233.
8. Capron, M. (ed.), Les normes comptables internationales, instruments du capitalisme financier. [International accounting standards, instruments of financial capitalism], *La Découverte*, 2005.

9. Christophe, B., La comptabilité verte. De la politique environnementale à l'écobilan. [Green accounting. From environmental policy to eco-balance], *De Boeck*, 1995.
10. Colasse, B. (ed.): Encyclopédie de comptabilité, contrôle de gestion et audit. [Accounting, management control and audit encyclopedia], *Economica*, 2009.
11. Colasse, B. (ed.): Les grands auteurs en comptabilité. [The big authors in accounting], *EMS*, 2005.
12. Delvaille, P., Manh, A., Maillet, C., Enjeux et limites de l'application des IFRS aux PME [Issues and limitations of the application of IFRS to SMEs], in „La comptabilité en action. Mélanges en l'honneur du professeur Geneviève Causse."; *L'Harmattan*, 2016, p. 183 – 193.
13. Gelard, G., De l'IASC à l'IASB : un témoignage sur l'évolution structurelle de la normalisation comptable internationale [From IASC to IASB: a testamony to the structural evolution of international accounting standardization], *Revue française de comptabilité,* no. 380, September 2005.
14. Hossfeld, C. & Muller-Lagarde, Y., L'intérêt public européen [The European public good]. *Autorité des normes comptables*, 2018.
15. Jedrzelewski, F., Histoire universelle de la mesure. [Universal history of the measurement], *Ellipses*, 2002.
16. Le Manh-Bena, A., Le processus de normalisation comptable par l'IASB : la cas du résultat. [The Accounting Standardization Process by the IASB: The Case of The Comprehensive Income], Doctorat en science de gestion, *CNAM*, 2009.
17. Richard, J. și Plot, E., La gestion environnementale. [Environmental management], *La Découverte*, 2014.
18. Touchelay, B.: A l'origine du plan comptable français des années 30 aux années 60, la volonté de contrôle d'un État dirigiste [At the origin of the French accounting standards from the 1930s to the 1960s, the desire of a dirigiste state to control it (the economy)], *Comptabilité, contrôle, audit*, no. 3/2005, p. 61 – 88.