Can the conceptual framework be all things to all (wo)men?

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Un cadre conceptuel comptable unique pour tous : mythe ou réalité ?

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Abstract

This paper explores the significant changes which have taken place in recent years, and continue to take place, in relation to the role of, and desirable characteristics of, a conceptual framework (CF). More precisely, we address the following three questions. 1) Why were conceptual frameworks created, or not created? 2) What is the role of conceptual frameworks today? and 3) What is the answer to our title question?

While exploring the origins of the search of CF at the beginning of the twentieth century and adopting a multi-national (as well as international) approach, we discuss the origins, role and possible rationales for the economics-based CFs of the IASB and other bodies with a strong Anglo-Saxon influence. This analysis leads us to partially reject the commonly held view that public-sector regulators have, and need, no conceptual framework. More precisely, our analysis on CF-based standard-setting points out the inherent contradictions in trying to produce a single properly coherent set of notions and practices which is applied in significantly different contexts and for significantly different purposes.

Keywords: Conceptual framework; private vs. public standard-setting; IASB; Roman vs. Common law.

Résumé

Dans ce papier, nous discutons du rôle et des caractéristiques d'un cadre conceptuel comptable objet d'un débat récurrent depuis de nombreuses années. Plus précisément, nous posons les questions suivantes : 1) Pourquoi les cadres conceptuels comptables ont ou n'ont pas émergé ? 2) Quel est le rôle des cadres conceptuels aujourd'hui ? 3) Quelle est la réponse au titre de notre papier ? Dans un premier temps, nous analysons, à la lumière de l'histoire des cadres conceptuels comptables au 20ème siècle, les raisons ayant incité l'IASB ainsi que d'autres normalisateurs anglo-saxons à développer un cadre conceptuel fondé sur une approche économique. Cette analyse nous amène à rejeter en partie l'idée communément admise selon laquelle les normalisateurs comptables publics n'ont pas de cadre conceptuel et n'en n'ont pas besoin. Finalement, nous suggérons que l'approche traditionnellement suivie pour développer un cadre conceptuel se heurte à une contradiction : comment, en effet, développer une base unique de concepts et de pratiques destinée à être appliquée dans des contextes sensiblement différents et pour servir des besoins divers ?

Mots-clés : Cadre conceptuel; normalisateurs privés versus normalisateur public; IASB; Droit romain versus Common Law.

Introduction

This paper explores the significant changes which have taken place in recent years, and continue to take place, in relation to the role of, and desirable characteristics of, a conceptual framework (CF). This issue is topical and the role of CFs is, and will remain, important both in research terms and in terms of practical developments in the accounting regulatory world. The paper explores the origins of the search for some kind of conceptual framework some eight decades ago, and follows the saga up to the present day. We take a multi-national (as well as international) approach, exploring the origins, role and possible rationales for the economics-based CFs of the International Accounting Standards Board (IASB) and other bodies with a strong Anglo-Saxon influence, but also considering, and partially rejecting, the commonly held view that public-sector regulators have, and need, no conceptual framework.

Our analysis explores and takes into account the inherent contradictions in trying to produce a properly coherent set of notions and practices relating to a social science which is applied in significantly different contexts and for significantly different purposes. In essence we seek to address three questions.

1) Why were CFs created, or not created?

2) What is the role of CFs today?

3) What is the answer to our title question?

The paper proceeds as follows. Section 1 explores the history and development of what might be termed the popular idea of a CF, that of the IASB and other Anglo-Saxon-influenced regulatory bodies. Section 2 is the main body of the paper, and investigates the various suggested rationales for developing and operating a CF, why CFs as generally understood are not felt necessary in some jurisdictions, a juxtaposition strongly related to the public sector/private sector divide, and whether such jurisdictions really have no CF, or have a type of CF which is so different as to be unrecognisable as fulfilling a similar function. Section 3 considers the desirable content of a CF, noting that for its existence to be justified it must assist financial reporting to better meet its objectives in providing a useful service to stakeholders. This leads to our conclusions, which are based on the significant differences between the needs of various stakeholders and contexts.

1. Why did conceptual frameworks for accounting emerge?

The idea of an explicit conceptual framework for accounting first came out in the United States but would be followed by other national standard setters and by the International Accounting Standards Committee (IASC).

1.1. The emergence of a conceptual framework for accounting in the United States

The search for a conceptual framework emerges in the US accounting literature in the 1920s with the work of Paton and Canning (Zeff 1999)[1].

In 1936, the American Accounting Association (AAA) published its "Tentative Statement for Accounting Principles Affecting Corporate Reports", which can be regarded as the first institutional attempt to build a CF for accounting (Zeff 1999). From 1936 to 1966, the AAA issued several other statements on accounting principles (Hendriksen and Van Breda, 1991) including two documents of major importance. In 1940, the AAA issued a study written by Paton and Littleton (1940) which can be regarded as a response to the monograph written by

Sanders et al. and published by the American Institute of Certified Public Accountants (AICPA) in 1938[2]. Paton and Littleton (1940) intended to present a framework of accounting theory. Their study is particularly noteworthy for the development of the matching concept. The last statement issued by the AAA in 1966, known as "ASOBAT" (i.e. A Statement of Basic Accounting Theory), promoted for the first time a user-oriented accounting theory which would be of great influence on the recommendations of the Trueblood Report (AICPA 1973).

The AICPA really took part into the process in the 1960s as a response to many attacks on the quality of financial reporting launched by professional accountants (Gore 1992:10) and to the increasingly controversial accounting issues which had been debated between the SEC, the AIA (i.e. American Accounting Institute, the AICPA's predecessor) and the Committee on Accounting Procedures (CAP) (Zeff 1999). Being afraid of losing any control on the standard-setting process, the AICPA set up a special conference in December 1970 that gathered representatives of 22 major accounting firms. During this conference, different options were considered to solve the crisis in the standard-setting process of accounting in the United States among which the following (Gore 1992: 21): cease to set accounting standards, let the government take over the setting of standards, let the SEC take over the setting of standards, form a new standard setting body, set up one or several advisory committees. It was finally decided to build up two study groups, the Wheat study group and the Trueblood study group. The first study group published the Wheat Report (AICPA 1972) which recommended the establishment of the Financial Accounting Standards Board (FASB), while the second study group issued the Trueblood Report, devoted to the objectives of financial statements and which would be the main basis for the FASB CF. Indeed, as underlined by Gore (1992:25):

> "One of the first tasks the FASB had to deal with was the report produced by the second of the two study groups".

Hence, it seems that the FASB had no choice but getting involved in a CF project, as confirmed by Sprouse (1988), vice-chairman of the FASB from 1975 to 1985. According to him, the board was encouraged to develop a CF first because of the existence of the Trueblood report and second because of the need for concepts to deal with the six technical projects on its initial agenda. A CF for accounting could be seen as a solution to the failures of standard setting by the AICPA from the 1930s. The AICPA was under criticism because of its rejection of a single uniform system of accounting which had led to many options that reduced the perceived quality of financial reporting. A lack of consistent objectives and principles had made it difficult to impose accounting solutions which could be accepted by everyone. A CF was therefore crucial to justify standards and make them acceptable. Hines (1989:81) underlines that:

> "a major reason stated by the FASB for undertaking its CF project was to provide a coherent conceptual core that would enable the setting of theoretically grounded and consistent rather than arbitrary and ad hoc standards".

The CF project of the FASB has certainly been one of the longest and most expensive research programs in the history of accounting (Gore 1992:1), but for many academics and accountants, it has been a failure. Indeed, the usefulness of the FASB CF was already questioned in the 1980's. Many researchers have pointed out the incompleteness, the inconsistency, the circular reasoning and non-operationality of the American Framework (Dopuch and Sundern 1980; Solomons 1986; Gerboth 1987; Hines 1989). Standards promulgated prior to the conclusion of the Framework had not been revised and as such were not consistent. This raises the problem of an ex-post framework. But even for new standards, the FASB CF has not provided sufficient theoretical grounding to achieve the consistency and comparability objectives[3]. Mozes (2003) explains how the vagueness of the FASB CF and its level of abstraction enabled the SEC to oppose the FASB's proposals about accounting for employee stock options in 1993.

Despite these criticisms, the FASB CF has been soon imitated by other national standard setters and by the International Accounting Standards Committee (IASC).

1.2. The expansion of CF for accounting: the case of the IASC

While the CF project was on the initial agenda of the FASB, the IASC only adopted a CF 16 years after its creation. A comparison of both chronologies is useful to understand how CFs have emerged.

In this respect, Cairns (2001) explains how the IASC could proceed during such a long period without any explicit CF and why it finally decided to develop one in November 1986. IAS 1, issued in 1974, included three bases of what would be the CF of the IASC in 1989: the application of IAS to publish financial statements of business enterprises, the focus on a wide range of users and the decision-usefulness concept for the objectives of financial statements. At that time, the IASC was mainly trying to harmonise existing national standards which had certainly been developed with different conceptions of the objectives of financial statements. Indeed, the absence of worldwide accepted objectives of financial statements didn't appear as an obstacle to producing standards. Moreover, the IASC wanted to see how the FASB would develop its CF before getting involved in a CF project (Camfferman and Zeff 2007).

However, during the 1980's, the question of the objectives of financial statements became more crucial. Camfferman and Zeff (2007) report that during a meeting with the OECD in 1979, the IASC was asked if it had a CF project on its agenda. IASC members started to realize that the lack of a CF would certainly be a problem for the legitimacy of its standards. A steering committee for this project was appointed in 1982. It was first decided that the proposals of the committee would be integrated into IAS 1. At the same time, the IASC was working on “building block” projects concerning the objectives of financial statements, equity, assets, liabilities and expenses. As underlined by Cairns (2001:5) several members of the IASC’s board “question whether the objectives and building block documents should take the form of IASs or some other form of statement”. In a conference on standard setting for financial reporting, sponsored by the AAA and KMG (the predecessor of KPMG) and held in August 1986, several speakers advocated the necessity of a CF for standard setters. Finally, in November 1986, the Organisation and Planning Committee (OPC) of the IASC decided to develop a CF for financial reporting which would stand apart from the standards. The steering committee in charge of the CF project did not want to give the impression that it was too much influenced by the American CF (Camfferman and Zeff 2007:261), so it included elements coming from different accounting traditions, like the true and fair view or the stewardship objective. Despite this attempt to produce something different, the IASC’s CF issued in 1989 stemmed from the FASB CF even if not exactly the same.

Two main explanations to the emergence of CFs can be deduced from the examples of the FASB and the IASC. In the first place, the accounting profession has had a key role in this emergence. In the American case, the constitution of two study groups which gave birth to the FASB and to a CF was obviously a survival strategy of the AICPA which was reluctant to let the SEC, or the government, take over the standard setting process. This would explain why explicit CFs have not emerged in countries where the accounting regulation is under State control as discussed in the next section of this paper. In the second place, institutional pressures exerted on the IASC can explain its decision to undertake a CF project. During the 1980’s a CF had become a major issue within the accounting community. Without an explicit CF, it would certainly have been difficult for the IASC to produce standards which were to be accepted by the accounting community. It must be added that the Anglo-American domination on the IASC at that time was certainly of major importance in the development of a CF. The attendants at the 1986 OPC meeting all came from Anglo-American countries, except two representatives from France and Nigeria and all of them supported the idea of a CF for the IAS (Camfferman and Zeff 2007:259). CF projects were undertaken at the same time in three countries with an Anglo-American accounting tradition (Australia, Canada and the United Kingdom).

Having in mind the historical roots of CFs for accounting, we now question the need for a CF.

2. The need for a CF: tradeoff between politics and practicalities?

Accounting standards internal consistency and practicalities generally give in the first place a rational ground for the need of CFs when structuring accounting standardization (Archer 1992; Power 1993). However, a deeper inquiry into CF-based standard-setting approaches also provides evidence of technical failures and shortcomings (Dopuch and Sunder 1980) and tends to outline the major role played by political and institutional aspects while designing a

CF (Peasnell 1982; Hines 1989; Power 1993; Scott 2011). In this section, we argue that this tradeoff between politics and practicalities may also be driven by the standard-setter's environment, particularly the degree of representativeness of the various user groups into the standard setter's working groups, and by its nature itself (i.e. private vs. public regulators).

2.1. Why private accounting standard-setters need a CF?

While studying the motives of the call of a CF under privately regulated standard-setting, history tells us that CF is not necessarily intended to have operating effects but is rather crucial, from a political standing point, since private standard-setters may reach through this means a major consensus towards the accounting standardization process. Indeed, according to various authors including Power (1993: 47), a CF plays "a critical role in the maintenance of professional power" and is particularly essential to a private standard-setter when its legitimacy is questioned by the accounting standardization stakeholders (Peasnell 1982) or when the credibility of financial reporting standards are in doubt (Solomons 1986).

As an example, Gerboth (1973:479) underlines the crucial political issues of standard-setting in the case of the Accounting Principles Board (APB) in the United States (US):

> "When a decision-making process depends for its success on public confidence, the critical issues are not technical; they are political […]. Technical competence will be presumed and must be present, but an accounting rule-making body will not succeed on its technical competence but rather on its political competence."

Taking lessons from its predecessor's unfortunate experiences, the Financial Accounting Standards' Board (FASB) invested in a seven-year costly CF project contributing though to its institutional success (Bratton 2007). The twofold original objectives of this project were (Archer 1992: 206):

> "[…] to develop a basis in accounting theory for standards of financial accounting and reporting; and to develop a kind of constitution which would provide political legitimacy for the FASB's standard setting".

While examining the technical and institutional conditions under which accounting principles (contained in a CF) meet the objective of company financial reporting quality improvement, Peasnell (1982: 254) asserts that:

> "A more likely explanation for the FASB's professed faith in its CF programme is that, given its obvious lack of power (or powerful friends), it perceives a need to show that its heart and mind are in the right place: to demonstrate that it is trying by logical means to develop accounting standards based on principles of general appeal."

Besides, reliance on a CF appears to be even more essential when the accounting profession is in charge of the standard-setting process. In this respect, Hines (1989) states that CF projects have been created under contexts in which the accounting profession wanted to legitimate its authority and its standards. She asserts that these projects still exist, even if their technical failures have been proved, because they are (Hines 1989: 89):

> “a strategic manoeuvre for providing legitimacy to standard setting boards and the accounting profession during periods of competition or threatened government competition.”

Similarly, Miller (1985) acknowledges that a CF may bring more legitimacy to a standard-setter since it gives clearance to the Board’s communication and messages about the objectives of financial reporting aimed to standards’ users. Nevertheless, he points out that, in the case of the FASB, a CF cannot be irremediably linked to the standard-setter’s viability. It just allows the board to “operate more efficiently if some key terms and issues can be defined and identified” (Miller 1985: 66).

This latter development would contribute to explain why such CF-based accounting standardizations do not exist in countries where standard-setting is organized around and/or by a local governmental agency. Indeed, national accounting CFs have been first developed in the United Kingdom (UK), the US, Canada and Australia where standard setting has pretty much been delegated to the accounting profession. On the contrary, CF has not been formally used for standard-setting in France[4], Germany or Japan where accounting rules are largely determined by government legislation (Hines 1989).

By providing a critical review of the Statement on Objectives of Financial Reporting and Elements of Financial Statements issued by the FASB in 1977, Dopuch and Sunder (1980) point out the inefficiency of this CF based on three technical illustrations (deferred credits, treatment of costs of exploration in the oil and gas industry and reports on current values of assets and liabilities). Subsequently, they strongly question the reasons of its existence. Similarly to Hines (1989), they conclude that the CF-seeking is a way for the public accounting profession, when being under criticisms, to maintain its control over the standard-setting process.

Peasnell (1982) complements this view by providing evidence that a CF is even more crucial when both responsibility and power of developing standards are delegated to the same private body, as with the Accounting Standards Committee (ASC) in the UK during the 80’s. By power, Peasnell (1982) refers to the power of making the final decision on standards. CF thus appears to be the only way to show that standards are developing in a fair, logical and highly professional manner. Unlike the British ASC/B, the FASB is under the authority of a governmental agency, namely the SEC, which maintains a control over the final decisions made by the standard-setter and gives credibility to the FASB standards amongst the financial community (mostly, investors and market intermediaries) (Bratton 2007). The International Accounting Standards Board (IASB) is not accountable to any agency and is in fact in the same situation as the ASC/B. The drawback of this institutional independence is that the IASB’s political legitimacy is weak which has been much discussed in the recent literature (Burlaud and Colasse 2011; Richardson and Eberlein 2011).

Burlaud and Colasse (2011) assert that the IASB has tried to overcome its lack of political legitimacy by building a procedural and a substantial legitimacy[5]. This latter would rely on its CF defined as a "charter intended to give its standards a quasi-scientific content".

Debating about the success of the strategy of the IASB is out of the scope of this paper. But, it is clear that the CF is not only a technical tool for the standard setter but is also a way of preserving its independence or pretending it. Indeed, with consistent principles, the standard setter is supposed to be better armed to promote its standards and to avoid lobbying pressure. Hence, political legitimacy is at stake for private accounting standard-setting bodies. The posited absence of explicit CFs in the case of public/state regulators seems to support this. However, in the next section we question the existence of an implicit CF for public regulators.

2.2. Do public regulators have an implicit CF?

Unlike private-based standard setting process, regulation systems of financial reporting and accounting standards led by governmental agencies do not explicitly give emphasis on any CF, i.e. a meta-accounting standard providing theoretical grounds in order to make newly created accounting standards coherent between one another. This observation leads to two potential key questions: (1) why public regulators do not need any explicit CF to guide their standard setting work? and (2) if not true (if they need one), what possible CF is implicitly used by public regulators during their standard setting process?

When regulation is organized by public institutions like in most of the European Union (EU)-based non-English speaking countries (e.g. France, Germany, Spain, and Italy), financial reporting and accounting standard setting is not structured around a CF. Three reasons could explain it. First, authors like Archer (1992) and Bratton (2007) maintain that the use of CF may be due to the governance structure characterizing private regulators. Indeed, such organizations are generally puzzled by internal and external conflicting interests and then suffer from a lack of legitimacy while issuing standards aiming to appeal to a broad audience and defending public interest. In some cultures, public institutions are regarded as not raising such suspicions, they do not have to ostensibly exhibit their internal administrative procedures to outsiders and subsequently do not need to explicitly call for a CF during their standard setting processes in order to control for lobbying pressure and legitimacy questioning (see Landis, 1938 quoted in Bratton 2007). This view is similar to the one expressed by Archer (1992) when quoting Ravetz (1971: 360): he assumes that a CF is "a body of accepted knowledge whose function is not to provide a basis for further advance, but to offer comfort and reassurance to some body of believers". The first explanation comes from the need of clear institutional communication to external standard-setting stakeholders as suggested by Miller (1985). In other cultures, public institutions are regarded with suspicion, or indeed with contempt[6].

Another explanation could rely on the intrinsic nature of accounting standards generally issued by public entities. It has been noted that governmental institutions are used to proposing rules-based standards while opposed to the principles-based standards approach (e.g. Schipper 2003; Maines et al. 2003)[7]. As a result, such governmental entities might not find it relevant to give credits to primarily defined principles and objectives that may impede their process of standardization and lead to inconsistent principles in contradiction with newly issued rules. Principles leave room for professional judgment, expertise or even disagreement whereas rules are merely enforced.

A third reason when trying to justify the absence of a CF under public regulation systems would be that governmental institutions do not fear to undermine their legitimacy when providing detailed standards which are "likely to be incomplete or even obsolete by the time they are published" (Maines et al. 2003: 75). The more general rule-making process under which they issue accounting standards may allow them to keep most of the professional lobbies' criticisms away from their concerns. On the contrary, private regulators tend to ease their relationships with the different professional bodies (auditors, private companies, stock exchange regulators etc.) while providing principles emphasizing on professional judgment and then not restraining these bodies' economic activities. This latter explanation could also imply that professional bodies are aware of the general rule-making process followed by a public regulator and consider it as a proper CF.

Indeed, as discussed previously, public regulators generally do not base their standard setting process on an explicit CF. However, it is noteworthy that public regulators act according to a more general rule-making process, encompassing administrative procedures and rules, laws and even a country's constitution. To some extent, this general pattern appears to be equivalent to an implicit CF. This CF adopts more political and legally-based views rather than economic-oriented perspectives since it is made to organize a standard-setting process through various principles and rules and / or various stakeholders.

As an illustration, in France, no explicit CF is used to organize the standard setting process. In the same streamline of thoughts provided by our first explanation, Colasse (2000) argues that this absence of an explicit CF is mostly due to the functioning of the former public standard setter, le Conseil National de la Comptabilité (CNC)[8]. Indeed, he underlines that since its very origin, the CNC is made to reach consensus by appointing amongst its members representatives of the different professional bodies and associations (accountants, auditors, companies, tax administration, labor unions etc.). Colasse and Standish (2000: 5) perhaps put this suggestion in a rather more cynical way, referring to 'the Versailles syndrome', whereby a succession of Louis controlled the nobility by 'a kind of houseparty at the court of Versailles'. According to Colasse and Standish (1998), in the 1990s, the number of the CNC committee members was ranging from 83 up to 103 allowing the representation of various professional bodies, associations and institutions. Thus, following this standard-setting design, the final decisions and the upcoming published standards do not generate negative reactions or particular hostilities from the various stakeholders. Besides, he adds that the major accounting principles and definitions are enforced by legal means (code de commerce, Plan Comptable Général etc.) concluding that an explicit CF would be too repetitive and counterproductive in such a setting.

As a result, the CF of a public standard setter seems to implicitly exist and drive all the governmental institution's procedures that aim to issue accounting and financial reporting standards, spanning from the constitution of the working / experts group that will be devoted to issue a new standard (e.g. rules for the representation of the professional bodies) to the nature of the accounting standard itself (e.g. its scope, interaction with the tax system, its boundaries in terms of the definition of accounting items when those are already tackled by other standards).

From this point of view, the very first question addressed in this section – "why public regulators do not need any CF to guide their standard setting work?" – can be rephrased as "why do private regulators find it necessary to systematically make their CF explicit and disclose it to other stakeholders as a prominent accounting standard"?

2.3. Is a CF really necessary to implement standards produced by a private regulator: the case of EU?

Identity economics theory shows that economic agents "follow norms much of the time because they want to do so. They internalize the norms and adhere to them" in order to make them integrate in a specific social category (Akerlof and Kranton, 2010: 33). Replacing this theory into the context of private vs. public standard setting institutions, private regulators may in fact reproduce the implicit scheme followed by public standard authorities in order to get incorporated into the same social category as public standard setters. Indeed, this social category is known to be characterized by certain values of public interest / general welfare, neutrality and objectivity, often discussed by private regulators' CF. These professional values are depicted by Gerboth (1987). According to this view, CF would be made to give credit to private regulators and support the view that they behave according to the general interest welfare (this point is merely assumed when regulators are public). As a consequence, under private regulation, a CF mainly follows a socio-economic purpose whose objective is to convince public authorities and to a larger extent the various standard-setting stakeholders (professional bodies, private companies, practitioners, academics, etc.) that private regulators act impartially with no conflict of interest at all and are able to mimic the environment in which public regulators commonly intervene (according to a supreme law, following administrative, neutral and formal rules).

When, prior to 2005, most of the existing IAS were adopted at the EU level for the preparation of the financial statements of listed companies, the CF of the IASB published in July 1989 was not included in this endorsement. At this time the EU Internal Market Commissioner, Frits Bolkestein declared (IP/03/1297) that:

"[…] endorsing most of the existing International Accounting Standards and publishing them in the EU's official languages, will help the 7000 or so listed EU companies affected to get ready for 2005, when their consolidated accounts will have to be in line with IAS. That will put an end to the current Tower of Babel in financial reporting, improve competition and transparency and make the free movement of capital much easier."

It is noteworthy that the IASB CF is not mentioned. It therefore appears that while the IASB CF is important for the practicalities of the IFRS at the IASB level, it was not considered by the EU commission on the same playing level, in other words, useful to implement the international accounting standards. Obviously the EU Commission considered that the IASB CF was not useful (enough) for listed companies' stakeholders.

A possible explanation of this "IASB CF abandonment" EU policy is the distinction made between economic and legal basis while designing a CF. As a matter of fact, there is a long tradition in much of 'Continental Europe', where the legal system is based on Roman Law, rather than the Common Law of the Anglo-Saxon world, that accounting, and therefore financial reporting, is and should be based on a legal framework and way of thinking. An archetypal country (not the same as typical country) is France, where a famous book was published (Garnier 1947) with the title 'La comptabilité: l'algèbre du droit','accounting: the algebra of law'). It would be tangential to develop this issue in detail here. In the specific context of IASB, the issue is not one of Common Law v. Roman Law. It is one of user needs. Given the now explicit focus of IASB on 'investors, lenders and other creditors', the international context, and the fact that the relevant financial statements are the consolidated accounts, the need for an emphasis on the economic position necessarily and automatically follows. Groups are not legal entities, do not pay dividends, and do not pay tax. Investors have a need for economic information related to actual or potential finance provision, across national boundaries (and legal systems). Differently said, for the stated focused users of IASB financial reporting, there is both a positive need for an economic emphasis; and only a small need for a legal emphasis (this is exactly the inverse position from that which is traditionally followed by the EU countries). We do not for one second imply that there are not important and frequent purposes and situations where a legal foundation and emphasis is fundamental. But we certainly argue that, for the declared purposes of IFRS, it is generally unnecessary and unhelpful.

More broadly considered, the decision not to adopt the CF within the EU is puzzling. The EU tends to support the IASB in its emphasis on principles rather than rules (the British being in favour of principles much more than the Americans are), and the IASB statements that their CF should be used in the application/interpretation of specific standards (see 'Purpose and status' in the CF Introduction, IASB 2010, and also IAS 8, IASB 2003, § 10 and 11) logically necessitate the usage of the CF in the 'proper' application of the EU-endorsed standards.

A further consideration relates to the teleological principle which is fundamental to Roman law systems, but unknown in, and indeed positively alien to, common law. Briefly, the 'telos' of a law is its purpose, and the purpose is explicitly to be considered in applying/interpreting the law itself whenever there is any ambiguity[9]. A familiar example is the 'Preamble' to the Fourth Directive, whose purpose is incomprehensible to the British legal system (European Commission 1978). Briefly, the point is that the Roman law system expects to consider extraneous material in the application/interpretation of laws, and of course this is exactly what the CF is in relation to the IFRS standards themselves. Again, acceptance of the CF as part of the operation of the body of the standards is logically implied. A more cynical consideration perhaps explaining the absence of the acceptance of the CF relates to the clear emphasis in the IASB CF on the provision of information for investors and other suppliers of finance, to the implied exclusion of other users in the 1989 version (IASC 1989), and the explicit exclusion of other users in the 2010 version (IASB 2010, § OB 10), as discussed in more detail in our concluding section. The Commission may not have wished to clearly state in an EU legal text that investors are the major recipient of company reporting, given the very different traditions in continental Europe, e.g. relating to different financing structures, relationship to taxation and state control needs, which are now so well known in the literature.

Informal discussion with colleagues connected with the French regulatory process suggested several possible explanations for the decision not to adopt the IASB CF as part of the 'EU endorsed IFRS':

- it may be, or may have at the time been, inconsistent with the European Directives;
- the CF is not useful because it is only a tool for the IASB, i.e. the regulator, and is not supposed to be used by stakeholders;
- the EU doesn't need any CF, as there are legal directives and regulations.

These propositions are speculative. The first suggestion may be technically correct, but ignores the flexibility in interpretation given by the teleological principle, discussed above. In the IASB’s own view, the second is obviously simply wrong. Indeed, in the statement of ‘the purpose of the CF' the IASB underlines that (IASB 2010):

> “The purpose of the CF is to: (…)
> (d) to assist preparers of financial statements in applying IFRSs and in dealing with topics that have yet to form the subject of an IFRS;
> (e) to assist auditors in forming an opinion on whether financial statements comply with IFRSs;
> (f) to assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with IFRSs (…)”.

These three points were already asserted in the pre-2010 version of the IASB CF.

The third proposition is more interesting. It seems to relate to the attitude to the detailed wording of the standards themselves, and perhaps also to the issue of legitimacy which we discussed earlier. Arguably, this suggestion is directly consistent with Roman law rather than Common law (see footnote 8). As already stated before, we regard theories of the state as outside our scope. But taken together these three propositions certainly demonstrate either a fundamental lack of understanding of the philosophy and modus operandi of IFRS, or an explicit intention not to apply the detailed standards within the EU in the manner which the IASB makes it absolutely clear it intends, and indeed requires.

Ultimately, all these suggestions are hypothetical and the omission of the CF in the EU process of IAS / IFRS adoption remains unexplained, thus underlining that the role and the need of an accounting CF is shaped by the institutional environment in which it is intended to be used. In the next section, we go one step further and show that unlike the need for a CF, the objectives of a CF are not driven by its environmental tenets and may imply helpful inputs for financial statement preparers.

3. The objectives of a CF

Dealing with the objectives of a CF implies first defining what is or what should be a CF for accounting. The very broad definition proposed by Miller et al. (1994:88) appears to be a good starting point. They describe a CF as "a collection of broad rules, guidelines, accepted truths and other basic ideas". In order to go further, a brief summary of the different theoretical approaches for CFs for accounting is necessary. Then we will consider the practical implications by discussing the contents of a CF.

3.1. CFs from a theoretical perspective

CFs can be considered from different theoretical approaches: the classical approach, the decision-usefulness approach and the information economics based approach. Under the classical approach (Gore 1992:30), a CF can fulfill three different objectives (Miller and al. 1994): description of existing practice, prescription of future practice and definition of commonly used terms. The first two purposes cannot be served together and both of them have advantages and disadvantages. The bottom-up approach leads to practical concepts that are easily applied in the real life. However, it assumes that the most widespread practice is the best accounting solution and it does not facilitate the emergence of questions about why this practice exists. The top-down approach, as it does not assume what is currently done is right, allows the improvement of current practise. It makes it possible to cover future accounting issues. Nevertheless, the main disadvantage of this approach lies in the level of abstraction in the concepts used, that makes their implementation difficult. Therefore, a clear choice between the descriptive and the prescriptive approaches has to be made when developing a CF.

From a decision-usefulness perspective, usefulness is a basic objective of financial accounting. Hence a CF should contribute to the decision-usefulness objective. However, there is not a consensus on this decision-usefulness objective among researchers. According to Ijiri (1975) a decision-usefulness based CF implies a one-way relationship, from preparers to users of the accounts, while there is also a two-way relationship between preparers and users. Indeed, preparers are accountable to all the users of accounting information. Fulfilling the decision-usefulness objective and the accountability together seems difficult (Ijiri 1975, Gjesdal 1981, Macve 2010). However, the ASOBAT and the Trueblood report assume the decision-usefulness approach which constitutes the basis for the current FASB's and IASB's frameworks.

Finally, under the information economics basis, accounting information is a commodity like any other in the economy, under the constraints of the market. In such a context, a CF is supposed to enable accounting information to be competitive.

3.2. What should be the content of a CF?

Existing CFs are not clearly embedded in a single theoretical approach. For instance, the FASB CF comes from the two first theoretical approaches. In 1976, while it was developing its first CF, the FASB followed a classical approach as it proposed to define it in a Discussion Memorandum as a constitution on which standards would be based much as laws of the land derive from the US constitution (Hendriksen and Van Breda, 1991: 122). Two years later, the SFAC No 1, (FASB 1978) explicitly referred to the decision-usefulness objective. It is worth noting that, while the Trueblood report promoted a broad view of the users community, the FASB limited its attention to investors and creditors without really justifying its position (Solomons 1986). As stated by Gore (1992:33), the FASB "intended to produce a normative deductive CF of the decision-usefulness type".

The definition proposed by the FASB in its last SFAC n°8, issued in September 2010, as a result of the first phase of the joint project it undertook with the IASB in 2004, is more pragmatic than the 1976 statement and specifies that the CF is (FASB 2010):

> "a coherent system of interrelated objectives and fundamental concepts that prescribes the nature, function, and limits of financial accounting and reporting and that is expected to lead to consistent guidance. It is intended to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of unbiased financial and related information".

The IASB just mentions that "This CF sets out the concepts that underlie the preparation and presentation of financial statements for external users" in its 2010 CF (IASB 2010: Introduction), but it provides detailed information about the purpose of the CF, as quoted in section 2.3. Even if the proposed definitions are not exactly the same, the FASB and the IASB seem to agree that a CF pursues two main objectives: (1) to assist standard setters when developing a standard and (2) to be useful for practitioners (Christensen 2010).

If there is a consensus on the broad goals of a CF, it is less the case when it comes to more precise objectives. Indeed, some assert that a CF has to set broad principles without trying to give precise definitions or specific measurement requirements. But others purport that on the contrary a CF cannot stay at a very general level if it is to be useful.

According to Christiansen (2010: 292):

> "there is not a generally best accounting system across firms (…). The optimal system is unique to each relationship and the accounting system has to compromise among the users and the producers. A choice has to reflect the preferences of the stakeholders of the firms and it has to balance the possible uses of the accounting system".

Because of the various needs for financial reporting, a CF should not detail the qualitative characteristics of financial statements as it is unsuccessful in providing assistance to make the balance between some attributes. For example, there is an inevitable need for a trade-off between relevance and faithful representation (or reliability, in the 1989 IASB's Framework), as already discussed in the literature (Entwistle and Philipps 2003; Johnson 2005) and the current IASB framework is not helpful in doing it. In the same way, a CF should not define main accounting items like asset or liability which should be described in the different standards. Providing precise definitions would make it difficult to use the CF at an international level. Christiansen (2010) affirms that flexibility of the accounting system contributes to its success as an information system. Making it more restrictive would reduce the competitive advantage of financial reporting as an information system. A CF should help the standard setter keeping in mind the global objective of financial reporting when producing standards. Hence, the CF should only contain the overall goal of financial reporting.

Christiansen's position is seducing as it eliminates the debate on the priority users and on the detailed contents of a CF. Such a CF would enable the drafting of standards easily applicable for every major company around the world (Macve, 2010). However the usefulness of such a CF can be questioned. As seen before, the FASB CF has been criticized for its vagueness, its level of abstraction which makes it difficult to apply and leads to inconsistent standards. The IASB CF is under criticisms for the same reasons. For example, the confusing definition of the concept of profit[10] has led to inconsistent accounting solutions, as some transactions are recorded in net income whereas others are recorded in Other Comprehensive Income, and as such bypass net income and can be recycled or not, depending on the cases.

A further consideration relating to the degree of vagueness/precision of a desirable CF concerns the extent to which different user groups and different user needs do (or do not) imply fundamental differences in the necessary conceptual basis. It can be argued, persuasively in our view, that there are different 'realities' on which to report, requiring different "fair presentations". The philosophical arguments are beyond our scope (see Alexander and Archer (2003) for an attempted exposition), but the point is well put in Baert and Yanno (2009) (our translation):

> "Indeed, a single natural economic reality does not exist. As in quantum physics, the characteristics of an object vary depending on the point of view, and there are as many

> “true and fair views” relevant to an enterprise as there are users of the accounts. The IFRS standards only give one particular economic reality that which satisfies the information needs of individual investors, but nobody can say that the other users of the accounts will find their requirements there”.

Arguably, the logical implication of this is that there might need to be several different CFs, for different users ('economic realities'). Or alternatively, that a single CF needs to be at a very high level of abstraction, and therefore extremely vague. This seems very relevant to our title: 'all things to all (wo)men', in that if different (wo)men are significantly different users, then a single CF cannot be the same thing for/to all of them.

However, others will agree the opposite view of Boyle (2010) who purports that a ‘properly and carefully developed’ CF provides a “sound basis” for the drafting of standards that lowers the politicisation of the accounting standard setting process. Indeed, a robust CF makes the decisions of a standard setter more defensible and reduces the use of self-interest strategies from constituents.

From this discussion, it is obvious that there is no consensus on the contents of a CF for accounting. The broad approach, supported by Christiansen (2010), could be preferable in the case of an international CF that is to be implemented in different countries. By staying at a general level, it avoids inconsistencies with national laws. The more specific approach could be more efficient in a national context where all economic transactions are made under the same law.

Conclusion

By way of a brief summary and conclusion, we address the three questions posed in the introduction.

1) Why were CFs created, or not created?

2) What is the role of CFs today?

3) What is the answer to our title question?

Regarding the first question, there seem to be two broad reasons. The first relates to the validity of accounting as a discipline, and the point can be put several different ways. Any valid and self-respecting discipline needs an established 'way of thinking', and a CF seeks to provide this. This does not imply the creation of theory purely for the sake of theory. An agreed way of thinking, with coherent basic assumptions and definitions, can materially assist in the creation and operation of consistent practices. Given the existence of a wide variety of alternatives regarding accounting measurement and reporting practices, coherence and consistency are needed in the accounting treatment of different specific issues. A CF should provide the parameters within which such coherence and consistency can be achieved.

The second important historical reason for the creation of CFs seems to relate to legitimacy issues. The starting point for this consideration is the need of private sector regulators, consisting primarily of 'experts' from the Profession broadly defined, to be granted the legitimacy to create regulations and practices which may have the effect of affecting income and wealth distributions between different groups within society. In some sense, 'society' needs to accept the validity of the regulations and practices. The creation of a logical and publicly exposed rationale which can be used to justify a specific regulatory proposal is likely to increase the perceived acceptability of that proposal, and more generally over time the perceived legitimacy of the regulatory body in issuing such proposals.

An extension of this second reason leads to the issue of why some traditions have no CF. To be more rigorous, the question is not necessarily: do they have no CF? It is perhaps: do they have a CF which is so different in nature from the economically-based CF of the FASB and IASB as not to be recognised as a CF to Anglo-Saxon eyes? It is often suggested that the state needs no CF or other legitimating factor, since the state automatically possesses its own legitimacy, as discussed in section 2.2. It is also often suggested that this idea is dangerous, if not absurd. We suggest that a more likely explanation for the current major differences is that all states and regulatory bodies have some form of CF. But it may be absolutely fundmentally different from an IASB/FASB type framework. It may be legal/political, and very little to do with economics. It may be state/executive driven and very little to do with informing or empowering the people. But it may still be, to quote our own words two paragraphs above, 'an agreed way of thinking, with coherent basic assumptions and definitions'. This analysis is fully consistent with the proposition, which we develop further below, that there can be a series of 'agreed ways of thinking' which are entirely coherent within themselves, but which are very different, perhaps totally incompatible, with each other.

This leads on to our second question: what is the role of CFs today? The IASB, at least publically, has no doubts, listing seven specific 'purposes' in the introduction to its CF. These may be encapsulated as the CF being useful to standard-setters, preparers and users, as partly illustrated in section 2.3. All these proposed advantages make complete sense. However, given that we, and more importantly the IASB, support these advantages, why does the development and revision of the CF have such a low priority, as made very clear by looking at the current work programme on the IASB's website, in the recent and on-going work of the IASB (and FASB)? It is easy to argue that the current operational problem, whatever it happens to be, must be the immediate priority for IASB or IFRIC time and input. But the point remains that the better the CF, the fewer 'current operational problems' there should be, and the easier they should be to resolve. The September 2012 meeting of IASB suggested early signs of an increase in priority, coupled with a simplification of the revision process; we shall see.

One rational explanation for this reticence would be that everybody knows that it is in the nature of the accounting function that any CF will inevitably be something of a compromise between conflicting 'concepts'. In other words, there is no finite solution, and therefore, perhaps, little point in giving priority to trying, or pretending, to find one. If strict agreement can only be over someone's metaphorical dead body, it is perhaps better not to push too hard towards strict agreement. We have already suggested a similar argument in relation to the decision by the EU not to adopt the IASB CF at all.

But the argument relating to legitimacy very much remains. We have illustrated at some length how the search for legitimacy was widely regarded as an important factor in the early development of CFs. Is legitimacy now less important? Or is legitimacy being sought along different routes? It is possible to suggest that the search for legitimacy by private-sector standard-setters is less of a problem to them as they gain in political support. For example, EU endorsed IFRS have legal status within the EU following Regulation 1606/2002. One significant change is the much increased emphasis and focus in recent years on 'due process', briefly defined as the process of ensuring a formal consultation process of stakeholders. This is designed to increase perceived legitimacy through greater involvement. The Versailles syndrome again comes to mind. Perhaps the CF, from a legitimacy perspective, is less important, in relative if not in absolute, terms than was the case previously.

We can link the discussion of the role of CFs today to our third question, related directly to our title. The link is through the consideration of users and user needs, a point hinted at several times earlier in the paper. A coherent CF, given that we are in the realms of social science not pure science, is one that links together in a coherent manner the inputs into the system, the design and operation of the system, and the outputs and usage of the system. Humans and human needs are involved. We are receptive to the implications of the Baert and Yanno (2009) quotation given near the end of section 3.2, and to the existence of different 'realities'. To be more concrete, the needs of different types of user of financial information are different, sometimes to the extent of being seriously incompatible. For example, investors need a focus on the (relatively uncertain) future. Tax authorities need a focus on the (relatively certain) past. A reporting framework and set of concepts which is coherent with the needs of (existing and potential) investors is intuitively likely to be materially different from a reporting framework which is coherent with the needs of tax authorities (and taxpayers).

This argument is fully consistent with the changes made in the IASB CF in 2010. The Board now states (IASB 2010, § OB 2):

> “the objective of general purpose financial reporting (GPFR) is to provide financial information about the reporting entity which is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity”,

and continues (IASB 2010, § OB 10):

"other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find GPFRs useful. However those reports are not primarily directed to these other groups".

So the IASB CF is now, explicitly, not designed to be useful, not designed to be relevant, not designed to give a fair presentation of the 'particular economic reality' (Baert and Yanno as already quoted), of many potential and actual users of financial reporting. We emphasize that this is absolutely not a criticism of the IASB. Indeed the reverse. It is a recognition that they cannot be 'all things to all (wo)men'. It is a simple recognition that there needs to be a number of coherent CFs to provide representations of the different economic realities which exist in the real world.

So our conclusion is clear. A CF which is reasonably internally coherent, and which will lead to satisfied 'customers', has to inter-act with the needs and 'realities' of those customers. So any particular CF cannot be 'all things to all (wo)men'.

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[1] *Accounting Theory* published by Paton in 1922 is an expansion of his doctoral dissertation. In his doctoral dissertation, *The Economics of Accountancy* (1929), Canning develops a conceptual framework for asset valuation and measurement.

[2] Sanders et al. (1938) intended to provide guidance to the SEC on the best accounting practices but their study was considered as a defense of accepted practices rather than an attempt to develop accounting theory (Schroeder et al., 2008).

[3] Gerboth (1987) explains how the ambiguous definition of the term "liability" in the FASB's Framework led to an endless debate when the FASB undertook a project about accounting for pensions.

[4] In France, the accounting profession body (i.e. l'Ordre des experts comptables) issued in 1990 a project of a CF that has never been achieved since it was deemed incompatible with the main accounting standard setter's internal functioning (Colasse, 2000).

[5] According to Burlaud and Colasse (2011), procedural legitimacy refers to the impartiality of the members of the Board. It is supposed to be guaranteed by the process of nomination of the members of the Board and by the due process of the IASB which should give each constituent the opportunity to give its opinions on the Board's proposals.

[6] A detailed analysis of theories of the state is outside our scope in this paper. There is a large relevant literature - see for example Schaar (1981) and Beetham (1991). Cassese (1986) can be quoted to briefly highlight the

strength of differences, ranging from "An 'Organ of the State' is tantamount to 'an organ of the law' (page 122), to 'In Great Britain, it has been said, the state is an illegitimate historical concept' (page 123). These opposing philosophical attitudes can have significant effects.

[7] In some countries, the institutional principles-based standard approach is coupled with a rules-based approach provided by professionals and academics like in Germany.

[8] The CNC became l'Autorité des Normes Comptables (ANC) in 2009.

[9] For a fuller recent discussion in a financial reporting context see Alexander and Eberhartinger (2010).

[10] "Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to measurement of profit are income and expenses" (IASB, 2010, § 89).