

The Anglo-Saxon Conceptual Framework

Françoise Pierrot – ERFI – ISEM – UM1

THE ANGLO-SAXON CONCEPTUAL FRAMEWORK

PIERROT Françoise
Research Center ERFI - ISEM – Université Montpellier 1

CS 19519- Rue Vendémiaire
Espace Richter Bât B
34960 Montpellier cedex 2

francoise.pierrot@univ-montp1.fr

The European Union adopted the International Accounting Standards IAS / IFRS in 2002 to answer the need of a common accounting language resulting from the globalization of commercial and financial exchanges. This new regulation, which only listed companies in France are subject to, pertains to an accounting model different from the previous one. This corresponds to a transition from a Continental to an Anglo-Saxon accounting model, which feature is to be based on a conceptual framework. This framework compiles the principles and defines the objectives and qualitative characteristics of accounting information.

This paper intends to go back to the origin of this framework, its qualities, its drawbacks, its current evolution, in order to consider which role it may play in the preparation of the French listed companies financial reporting. Therefore, the first part of the paper is dedicated to the history of the conceptual framework genesis, rooted in the US. Then conceptual frameworks of countries which followed the example of the United-States are envisaged. In the second part, the reach and the limits of the conceptual frameworks are described through a review of the existing literature on the subject, before presenting the current convergence project, undertaken by both the IASB and FASB.

Key words

Conceptual framework - IAS/IFRS – Financial reporting – Accounting model.

INTRODUCTION

Werner Sombart has famously defended the idea of a link between economy and the double entry accounting evolution (Lemarchand, Nikitin, 2000). “Elle (la comptabilité) est une condition sine qua non de l’existence du capitalisme” asserted the latter (Richard, 2005). During the first half of the XXth century, the growth of firm size as a consequence of the diversification of their activities, led to the separation of ownership from control (Berle, Means, 1932). In this situation, developing a reporting system enabled managers to debrief their shareholders about the stewardship and firm performance.

During the last quarter of the XXth century the development of capitalism has been marked by worldwide exchanges and financial globalization (Harribey, 2001).

The European Union had to face this situation in order to help the expansion of its European Economic Area, which came into force in 1994 and was presented as the first worldwide area of free trade: free circulation of people, goods, capital and services. In order to be successful, this ambitious project required some specific elements such as a new currency called “Euro”, a pan-European exchange called “Euronext”. The last step of the process was the adoption, in 2002, of the International Accounting Standards (IAS, called International Financial Reporting Standards (IFRS) since 2001). Effectively, a pan-European set of standards was necessary, on the one hand to allow understandability and comparability of financial statements beyond borders, help investors to make their economic decisions and, consequently, to promote the development of financial trades¹.

Since 2005 in France, public companies have had to comply with those standards, at least concerning consolidated accounts. This normalization presents some specific characteristics regarding the rules previously in force (7th directive). These latter come from cultural and historical dissimilar roots (Anderson, Davidson, 1987; Touchelay, 2005).

The IAS/IFRS are said to be part of what is known as the “Anglo-Saxon” accounting model, as opposed to the “Continental” accounting model, which French and European Accounting standards belong to.

¹“Pour un meilleur gouvernement des entreprises cotées” D. Bouton. Conférence de presse du groupe de travail MEDEF/AFEP-AGREF, 23 septembre 2002.

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French listed companies have been constrained to apply these standards. This adoption gave rise to animated reactions within the economical area². Some authors reacted as well and expressed their fear to see these standards emphasize the expansion of financial capitalism. They argued that this phenomenon was susceptible to seriously endanger our economical system, by developing the investors' short-term strategy harmful to financial investments (Aglietta, Rebérioux, 2004).

This fear is justified by the belonging of the IAS/IFRS to the Anglo-Saxon accounting model, lauding stockholders primacy. The IAS/IFRS specificities are quite different from the ones of the previously applied accounting model. Among those particular characteristics, the private status of the standardization organization is to be underlined. Moreover, these standards are principles-based. These principles are gathered within a conceptual framework introducing the IAS/IFRS. It is called "Framework for the Preparation and Presentation of Financial Statements". The latter is said to play an important part in the differentiation made between the Anglo-Saxon and Continental European accounting (Walton, 2007).

This framework was published in 1989. It aims at helping standards-setters to develop new standards, but also financial statements preparers, auditors and users to apply and understand the IAS/IFRS. It "sets out the concepts that underlie the preparation and presentation of financial statements for external users" (IASB, Framework §1). It is not a standard but a means to set standards (Colasse 2000).

This framework compiles the fundamental principles of the International standardization: decision usefulness information, primacy of investors, concepts of capital and capital maintenance, measurement conventions, and many others.

These specific elements correspond to a different accounting logic from the model known as "continental". The conceptual framework and the fundamental principles proposed are an example of some of the differences justifying partly Nobes³ (1983) dichotomous presentation of accounting models.

The mark of the Anglo-Saxon accounting culture within the conceptual framework, leads to question the influence it may have on French listed companies financial reporting.

² « Plaidoyer pour de futures règles comptables, très contestées », Le Monde du 31 octobre 2003, A. Michel.

³ At this time, this latter dissociated the « Macro-Uniform Government-driven Tax-dominated» from the "Micro-fair-judgmental commercially-driven" approach.

For a better understanding of the role played by this document, as well as the range of the concepts it presents, it seems interesting to go back to its origin. Then, other Anglo-Saxon countries conceptual frameworks are studied and their principal parts described (Part 1).

Then, a review of the main criticism expressed towards it - its legitimacy and lack of understandability - will enable to put into perspective the role it is supposed to play regarding the standardization process as well as the financial reporting process. This second part will end with the presentation of the convergence project, undertaken by the FASB and the IASB in order to achieve qualitative converging standards (Part 2).

1 From the American Root to the Anglo-Saxon Development

Various scientific fields are based on a conceptual framework, that is to say a document to be referred to, determining beforehand the main terms and objectives of the field in question.

The concept of framework, “cadre” in French, which Italian roots «quadro» means «square», is defined within the Académie Française dictionary as follows: «limits within which an activity is carried on». A conceptual framework recovers all the concepts, definitions and goals which delimit the operating field and the object of the study. A conceptual framework may also be considered as a referring theoretical framework, which confers a scientific justification to the practical applications of the field in question.

The conceptual framework is rooted in the American accounting normalization history (Colasse, 2000). The historical origin will be presented before introducing other Anglo-Saxon countries conceptual framework. Then, the development will focus on the common content of all those documents.

1.1 The United-States of America as a pioneer

The link between the conceptual framework and the history of the American normalization is tight (Colasse, 2000). Some authors agree to say that the American accounting regulation really began with the Security Exchange Commission (SEC) creation in 1933, further to the 1929 crisis. Before this event, companies’ accounts were not complying with a clearly settled and uniform regulation.

It has been a long way since the «Tentative Statement of Accounting Principles Underlying Financial Statements» publication in the Accounting Review in 1936. At that time the Review edited an extract of the “Statement of Objectives” published by the American Accounting Association and presented as an experimental form for most of the accounting

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problems' principles. For approximately 50 years, several attempts to formulate what Paton and Littleton called "a coherent, coordinated, consistent body of doctrine" have been presented. Then, in 1976, the American conceptual framework was published (Solomons, 1986).

In 1959, the Accounting Principles Board was created in order to answer the profession growing need for standards development. This organization has not been able to answer the accountants' expectation, especially regarding the conceptual framework development topic.

The Trueblood committee has then been created to remedy this situation and more particularly to study the objectives of financial statements.

The mission resulting report focused on the need for conceptual foundations, in order to help users of financial statements (Flesher, Miranti, Previts, 1996). In 1973, the APB was replaced by the Financial Accounting Standards Board (FASB), which immediately considered the problem and decided to work on the development of an accounting conceptual framework⁴. The numerous works undertaken afterwards led to the adoption of the « Statements of Financial Accounting Concepts » (SFAC) in 1978.

Nevertheless, as soon as 1975, the United Kingdom Accounting Standards Board (ASB) presented a conceptual framework project called "the Corporate Report" that was abandoned later (Colasse, 2000). The Americans were the first to adopt a conceptual framework after the Trueblood commission work. Such a document compiles all principles and concepts forming the accounting standards roots, but also the necessary tools to reach the established goals (Colasse, 2006).

Two main intentions can be allocated to the conceptual framework: being a guide for standards-setters in their work of normalization, in order to maintain consistency between successive standards, but also helping others to better understand the financial reporting process (Heath, 1988).

Other standards boards later imitated the FASB by adopting an accounting conceptual framework on the same base as the American's. That was the case for: the Australian Accounting Standards Board (AASB) in Australia, whose first 1985 version was implemented up to 1995, the Conseil des Normes Comptables (CNC) in Canada in 1988, the International Accounting Standards Board (IASB) in 1989⁵, the Institute of Chartered Accountants of New

⁴ Source: Introduction of the Financial Accounting Concepts, 2003/2004 edition.

⁵ IASC at this time. C stands for Committee

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Zealand (ICANZ) in 1993, and then the United-Kingdom Accounting Standards Board in 1995. (Cf. chart hereafter).

Chart 1 Conceptual Frameworks

Countries	Etats-Unis	Australie	Canada	International	Nouvelle-Zélande	Royaume-Uni
Standards Board	FASB	AASB	CNC	IASB	ICANZ	ASB
Date of first issue	1978	1985	1988	1989	1993	1999
Title Of the Document	Statements of Accounting Concepts	Statements of Accounting Concepts	Fondements conceptuels des états financiers	Framework for the Preparation and Presentation of Financial Statements	Statement of Concepts for General Purpose Financial Reporting	Statement of Principles for Financial Reporting

Some of these frameworks have been revised since their first issue, and more recently since the adoption of the International Accounting Standards.

Now that the history of the first conceptual framework has been presented, the common contents of the frameworks mentioned above are going to be detailed.

1.2 Contents of Conceptual Frameworks

The principal of the accounting conceptual framework is rooted within the Chamber's normative theory (1955). This prescriptive theory has been developed on the basis of observations and experiences. The work he had undertaken at that time intended to improve accounting practices and so, complete the quality of the resulting information (Gaffikin, 2003).

The accounting conceptual framework consists of a corpus of principles and definitions, on which preparers and users of financial statements find themselves to prepare and analyze qualitative documents. It can be considered as a kind of « nomenclature » of financial reporting terms that refines communication between various actors (Heath, 1988).

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The conceptual framework may be compared to a vector of transition from a vernacular to a common accounting language.

Analyzing its contents seems necessary to improve the understandability of the role it may play. It is organized as follows: introduction (users and their needs), the objective of financial statements, qualitative characteristics of financial statements, the elements, recognition and measurement of the elements of financial statements, concept of capital and capital maintenance (See the synthetic chart 2).

Since the adoption of the IAS/IFRS, the AASB and the IACNZ have chosen the IASB's conceptual framework that they have adapted to their specific needs, that is why their conceptual frameworks are not cited within the following chart.

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Chart 2 Elements of the conceptual frameworks

Countries	FASB	IASB	CNC Canada	ASB
Objective of Financial Statements	<i>To provide information useful in making economic decisions⁶</i>			
Main qualitative characteristics of Information	Understandability, Relevance, Reliability, Comparability (Depending on the country a hierarchy is proposed)			
Users of Financial Statements	Investors, Employees, Lenders, Suppliers and other trade Creditors, Customers, Governments and their agencies, Public.			
Most important Users	<i>Investors</i> as they provide risk capital to the entity. Information that meets their needs will also meet most of the needs of other users...			
	FASB	IASB	CNC Canada	ASB
Elements of Financial Statements	Definitions, recognition of the elements (assets, liabilities...)			
Concepts of Capital	<i>Financial Capital</i>	<i>Physical Capital Vs Financial Capital</i>	<i>Not explicitly cited</i>	<i>Financial Capital</i>
Measurement Basis	Historical Cost, Current cost, Net Realizable Value, Present Value of Future Cash Flows	Historical Cost, Current Cost, Realizable Value, Present Value	Historical or Replacing cost, Realizable Value, Present Value	Historical Cost, Current Value : Replacement Cost, Net Realizable Value, Value in use

⁶ Bold and italic types are for the elements specific of the Anglo-Saxon accounting approach and that make the difference with the Continental accounting model previously in use in France.

1.2.1 The Objectives of Financial Statements

The conceptual framework specifies that the objective of financial statements is to provide information about the financial situation, performance and changes in financial position, useful for investors in making economic decisions (IASB, Framework §12). The usefulness of information is also stated within the conceptual frameworks of some English-Speaking countries (CNCC, Chapitre 1000 §15; ASB, Framework Chapitre 1 Principles; FASB, Con1 §32).

The way the conceptual framework considers the objective of financial statements greatly differs from the previous French conception. Indeed the PCG rather conceives the utility of accounting information in technical terms than in term of users needs (Standish, 1997). The “micro-fair-judgmental commercially-driven” approach of Anglo-Saxon accounting systems may justify this point of view. The accounting information is aimed at helping investors to assess the company’s future performance in order to make the best investments choices.

The decision usefulness theory of information has been defended by Staubus since 50’s and developed afterward. The latter began winning converts in the 70’s, thanks to the support of the Trueblood Group which declared: “the basic objective of financial statements is to provide information useful for making financial decisions”; this position could not be with no consequences on the direction given to financial reporting.

Actually, the International standards allow financial statements preparers to make accounting choices, thanks to the various given possibilities (different measurement conventions for example). Demaria and Dufour (2007) state that preparers have to come to a decision regarding the options included within the IAS/IFRS. The “option standards” propose whether a benchmark treatment or an allowed alternative treatment.

Aiming at providing investors with decision usefulness information is considered as a precious help to make the choice of a method (Staubus, 1999).

This point of view might appear ideological and quite far from the function dedicated to financial statements in France: rendering only accounts. Moreover, this reporting has been greatly influenced by the tax system since 1917 (Richard, 2004).

1.2.2 The Main Qualitative Characteristics of Accounting Information

The qualitative characteristics of accounting information are described as the qualities required to make such information useful to users and especially to investors (IASB,

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Framework § 24 ; CNCC, Chapitre 1000 §18 ; ASB, Framework Chapter 3 ; FASB, Con2 §1).

ON 19 July 2002 European regulation instituted an adoption process for the International Accounting standards IAS/IFRS. This process is based on the analysis of the European interest, the standards compatibility with the European accounting directives, and the respect of criteria such as: “understandability, relevance, reliability and comparability”. These qualities are demanded for financial information useful in making economic decisions and to evaluate the stewardship of managers (European regulation, article 3.2).

The four main qualities pointed within the conceptual framework are the same as the ones stated in the European regulation. They are detailed hereunder.

1.2.2.1 Understandability

Information must be readily understandable by users supposed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence (IASB, Framework § 25; CNCC, Chapitre 1000 §19; ASB, Framework Chapitre 3; FASB, Con2 §40).

The FASB’s conceptual framework focuses on understandability and considers it as an indispensable preliminary condition for good quality financial statements; a non understandable information will not be relevant, nor reliable, nor comparable (Cf. appendix 1). Boards from the other English-Speaking countries do not propose any hierarchy for the four qualitative characteristics. However the ASB presents a chart where fourth are on the same level (Cf. appendix 2).

1.2.2.2 Relevance

Information is relevant if it helps investors to make their economic decisions (IASB, Framework § 26; CNCC, Chapitre 1000 § 20; ASB, Framework Chapitre 3 § 3.2; FASB, Con2 § 47).

1.2.2.3 Reliability

Information is reliable when it is free of material errors and bias and when users can rely on it knowing it gives a faithful representation of what it is supposed to represent (IASB, Framework § 31; CNCC, Chapitre 1000 § 2 ; ASB, Framework Chapitre 3 § 3.7; FASB, Con2 § 58.59).

1.2.2.4 Comparability

No precise definition is given in the IASB conceptual framework. This latter only states users must be able to compare financial statements of different entities as well as those of the same entity through time (IASB, Framework § 39). That means that comparability should be analyzed at both levels: time and space. This position is the same in other conceptual frameworks (CNCC, Chapitre 1000 § 22; ASB, Framework Chapitre 3 § 3.21; FASB, Con2 § 111).

1.2.3 Users

All the stakeholders are stated as potential users of financial statements: investors, employees, lenders, suppliers, customers, and governments, public (IASB, Framework § 9; CNCC, Chapitre 1000 § 09; ASB, Framework Chapitre 1 § 1.1; FASB, Con1 § 24).

However, the usefulness of information for economic decision making, together with the assertion that the information satisfying the needs of risk capital providers will also fulfil most of the other users' needs (IASB, section 10), places investors in a privileged position as key contacts. How can this choice be explained?

Some authors agree to say that the conceptual framework implicitly subscribes to the agency theory (principal-agent theory) developed by Jensen and Meckling in the 70's (Colasse, 2006, Richard 2004, Aglietta Rebérioux 2004). Managers (agents) would be mandated to manage the company and make understandable, relevant, reliable and comparable accounts to stockholders (principals), considering their information needs are the most important. According to Colasse, this position can be justified by two arguments he argues and then questions: profit maximization and risk (Colasse, 2006).

This liberal view of the economy is widespread through Anglo-Saxon countries and more particularly in the United-States. In 1999, the OECD issued the "OECD Principles of Corporate Governance" advocating the benefits of managing a company fundamentally for the interest of stockholders (Lazonick, Sullivan, 2000). According to Jensen, stockholder value maximization can be justified by its root taking in 200 years of research in economy and finance. Aglietta and Rebérioux (2004) put forward that stockholder value cannot be considered as scientifically well-founded, and cannot be seen as a theoretical founded model. These are ideological differences of opinion, which explain the vigour of debates dealing with International standards. Such differences will not be developed in this paper.

The prevailing position investors are being given within the conceptual framework as key financial reporting addressees, underlines the particular importance of the company financial performance.

1.2.4 Elements and Recognition of the Elements of Financial Reporting

The divisions of the conceptual framework aim at specifying the various elements appearing in financial statements as well as conditions taken into account for their recognition. The selected criteria are the concept of control (substance over form) as well as the future economic benefits they will bring to the company.

These concepts are quite new for French companies, used to recognize the elements of financial reporting according to the property rights. Since 2002, a mission has been undertaken by both French accounting regulation boards, the CNC⁷ and CRC⁸. The objective of this work is the convergence of the National Accounting Standards (NAS) towards the various definitions proposed by the conceptual framework. This is the solution to limit the existing differences between French accounting regulation for social accounts and the IAS/IFRS only used for consolidated accounts.

According to Hoarau (2003), the middle term decisive influence of the International regulation on the whole accounting French regulation was predictable. The CNC had soon considered the difficulty in maintaining a double accounting regulation in France, for some economical and practical reasons.

1.2.5 The Concept of Capital and Capital Maintenance

The conceptual framework presents two concepts of capital depending on the objective of the providers of risk capital, the investors (IASB, Framework § 102.103): physical capital or financial capital, without advocating any primacy for one over the other.

This situation is particular to the IASB. Actually, in the other cited conceptual frameworks, as long as the concept of capital is explicitly stated, only the financial concept appears (ASB, Framework chapter 6 § 39; FASB, Con 5 § 47).

Under the financial concept of capital, such as invested money or invested purchasing power, capital is presented as net assets or equity of the entity. This is the concept retained when investors intend to maintain and increase their purchasing power.

⁷ Conseil National de la Comptabilité. (Accounting National Council, personal translation).

⁸ Comité de Réglementation Comptable. (Accounting Regulation Committee, personal translation).

Its maintenance is achieved when the financial amount of net assets at the end of the period is at least as high as at the opening (distribution to and contribution from owners excluded).

Profit corresponds to the increase of the financial amount of net assets occurred along the period. Holding gains conceptually are compared to profit.

The increase in the value of assets when capital is maintained is part of the company's performance (Lacroix, Giordano, 2004).

Under the physical concepts of capital, such as operation capability, capital is presented as the productive capacity of the firm. In this case, changes in assets and liabilities value are compared to changes in measurement of productive capability and not to profit. Therefore they are treated as capital maintenance adjustments that are part of equity and not as profit. They do not participate in the performance of the firm.

It becomes clear that, depending on the retained concept of capital, the concept of profit is not considered in the same manner. This situation can make the required qualities of understandability and comparability difficult to reach. Opposing both concepts of capital is equivalent to oppose what is more commonly named return on capital to return of capital (IASB, Framework §105; ASB, Framework chapter 6 § 39; FASB, Con6, § 71).

The other cited conceptual frameworks only retain the financial concept of capital and, consequently the return on capital. Finding an agreement on a sole concept of capital (the financial one) is one of the numerous objectives the FASB and IASB conceptual framework convergence project will try to reach (Bullen, Crook, 2005). This can be considered as an important point to agree upon because of the direct link (IASB, Framework §105) existing between the concept of capital and the definition of profit and so of performance.

1.2.6 Measurement bases

The conceptual framework states the following various measurement bases (IASB, Framework §100): historical cost, current cost, realisable value and present value.

- ❖ Historical cost: amount of paid cash or cash equivalent or fair value at the time of the acquisition.
- ❖ Current cost: amount to be paid to acquire the same asset or equivalent by the time of measurement.
- ❖ Realisable value: amount that could be obtained from the selling of the asset by the time of measurement.
- ❖ Present value: discounted present value of the future net inflows that the item is expected to generate.

These various measurement bases are common to the different conceptual frameworks. The opportunity is given to companies to assess the elements of financial statements by using another convention than the historical cost. Users of financial statements need to be informed about the “fair value” in order to be able to make economic decisions.

The “fair value” is only stated within the ASB and CNCC frameworks (ASB, Framework Chapitre 6 § 23; CNCC, Chapitre 1000 § 53). Fair value is proposed as an alternative measurement basis for cases where no amount of cash is involved.

Fair value is only quoted in the set of standards of the other regulation boards and may correspond to any chosen measurement, depending on the economic situation at the measurement period. However, “fair value” is commonly understood as an alternative measurement basis to historical cost.

Describing the contents of the IASB conceptual framework at the same time as the other Anglo-Saxon frames has allowed to underline some specific points of the Anglo-Saxon accounting model. Those elements might lead French companies to consider differently the elaboration of the accounting information reporting. Nevertheless, it seems necessary to go deeper and investigate the impact and limits of the accounting conceptual framework, in order to weigh its capability to influence the normalization process, as well as the way preparers of financial statements may be influenced by its contents.

2 A Criticized Conceptual Framework under Reform

The IASB conceptual framework was issued in 1989 and has never revised although revisions had been planned. In fact, its obsolescence is problematic and some gaps need to be filled (Street, Mac Gregor, 2007). The situation is quite the same for the FASB conceptual framework which has never been revised, SFAC⁹ 7 excepted.

The lack of revision is one of the numerous criticism expressed. Both FASB and IASB are aware of this situation and have undertaken a common project of revision and convergence in order to issue a common complete and consistent framework.

⁹ Statement of Financial Accounting Concept.

2.1 Impact and Criticism

Trying to present the impact and limits of the IASB conceptual framework essentially consists in studying the facts related to the one of the FASB and that for several reasons. On the one hand the SFAC is the first and then oldest one, so the one that has been the most criticized within the literature. On the other the SFAC was a model for the IASB when it issued its own framework. Richard considers this latter as a replica of the American version.

2.1.1 The Impact

In 1976, by the time of the presentation of the project, the FASB introduced the conceptual framework as basis solution, a constitution, a guide for its works (Solomons, 1986). Since then a lot has been written about the conceptual framework, more particularly in the United-States, the country where the project was born. In 1985, Miller described the conceptual framework as playing 3 main roles: describe existing practices, prescribe future practices, define key terms and determine fundamental questions (Miller, 1985). In 1988, Heath assigned at least 2 main objectives to the conceptual framework: be a guide for standard-setters (developmental role), and help others to better understand the financial reporting process (educational role). Both roles are clearly stated in the introduction of the American conceptual framework and particularly detailed within the one of the IASB.

The conceptual framework determines the accounting standardization underlying principles as well as the objective of financial statement. It is useful to standard-setters in the course of the normalization process, but is also used as a landmark by professionals (preparers and users of financial statements). Walton introduced it as the first element upon which the IASB standardization process is hinging (Walton, 2003). Whatever comment can be made without being based on the framework, is said to be destined to failure.

Without any previously defined framework of reference, standards could be founded on individual concepts that every member of the standardization board would have personally developed (Anthony, 1987). This author considers the regular changes occurring in the composition of the board as as many possible changes in principles that could make consistency of the standards difficult to reach.

It is the same problem for preparers and users of financial statements. Preparers may encounter some cases that are still untreated within the standards. In this case, they have to refer to the conceptual framework in order to choose an appropriate solution. That means a solution in accordance with the pre defined principles.

Auditors base their opinion on the conceptual framework when they have accounts to audit. Preparers also lean on this document in order to make their opinion on the accounting information provided within financial statements (Bullen, Crook, 2005). The conceptual framework can be seen as the Ariadne's thread to be followed in order not to get lost in the intricacies of the use and understanding of the accounting language. However, the impact of the conceptual framework may vary according to the country.

The United-Kingdom ASB considers that the role of the conceptual framework is to give an image of the fundamental qualities of financial statements. Nevertheless some other factors have to be taken into account when elaborating new standards. Actually, the conceptual framework can not be the only tool. The ASB also precise that, although prominent, the objective of providing information useful in making economic decision must be put in perspective. Investors do not make their investment decisions by only reading financial statements (Lennard, Loweth, 2005).

Differently analyzed depending on the country, the usefulness of the conceptual framework is widely admitted within professional and academic community. The consecutive adoption of such a document by various countries that followed the United-States between 1985 and 1999 can be interpreted as a proof.

Since then some other countries, such as Germany or Japan, have undertaken to develop their own conceptual framework (Bullen, Crook, 2005). Yet, this important element of the Anglo-Saxon accounting normalization has been sharply criticized since its first publication.

2.2 The Criticism

The FASB's conceptual framework, the oldest one, has been the most criticized one. However, most part of the critics could be addressed to the other conceptual frameworks.

The form of the document, its legitimacy as well as its inconsistencies are the main subjects of the critics. On the one hand, the principal reproach linked to its form is the lack of readability. The conceptual framework is said to be too long and too detailed (Anthony, 1987. Heath, 1988). On the other hand, the content is accused to remain at a too high level of abstraction when explaining the concepts. The lack of concrete examples is pointed out. The last remark focuses on the pedantic tone of the discussion (Heath, 1988).

This lack of readability leads to wonder how the conceptual framework can perform its educational role. That is of as much concern to preparers and users of financial statements that it is for accounting students.

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Some authors question its legitimacy at 2 levels: the origin of the concepts and ideas stated within the document on the one hand and, on the other hand, the intrinsic inconsistencies but also those noted between the framework and some standards.

Accountancy is related to social sciences but, as soon as 1984, Seidler asserted that there was no conceptual framework in the field of social sciences. He also added that developing one was the proof of the FASB's ignorance and pride (Seidler, 1984).

Actually, conceptual frameworks essentially exist within the field of physical sciences for which they are the result of the observation of the reality. According to Dean and Clarke (2003), those seeking a conceptual framework for accounting seemed constrained to create, invent or define when what was observable was not of their liking (Dean, Clarke, 2003).

They come to the conclusion that the fundamentals in social sciences are "cerebral ruminations".

Is the conceptual framework only a tool designed by the standards-setters to reassure the main actors of the market? May the conceptual framework for physical sciences be considered as the only legitimate?

These questions bring to mind the narrow link between accounting and economics, as well as of some ideologies influencing the accounting standardization designed by private organizations.

As stated above, the legitimacy of the conceptual framework is discussed because of its fundamentals, but also because of some pointed inconsistencies. Booth (2003) asserts that some of the definitions stated within the FASB's conceptual framework are absurd or meaningless. He illustrates his remarks by focusing on the importance of the concept of control when defining and recognizing an asset. But, he points out that goodwill is recorded as an asset when the entity is not capable to control the whole factors generating this goodwill (Booth, 2003).

Some other inconsistencies are highlighted by Newberry (2003). She wonders how the conceptual framework can be so authoritative or lead to conceptually robust standards while being so inconsistent. This argument is based upon the standard-setters' choice to define the profit linked to the theory of the increase of investor's wealth, and the lack of choice in terms of measurement basis. She argues that it is absurd to maintain the historical cost measurement basis when a financial concept of capital is chosen (Newberry, 2003).

This analysis is quite similar to the one proposed by Lacroix and Giordano (2004) about the duality of concepts of capital stated in the IASB's conceptual framework. Both concepts,

physical and financial refer to 2 different financial accounting theories: the transaction theory versus the value theory. On their opinion, this duality might be a source of inconsistency (Lacroix, Giordano, 2004).

Once recognized that the conceptual framework is founded on diverging theories, the question of its role can be raised. The metaphor proposed by Page and Spira (1999) perfectly shows the problem. They explain that the conceptual framework may be envisaged whether as a Meccano set (construction toy) or as an underwear. More clearly, in the line with the first metaphor, the conceptual framework is a rigid reference frame. The different parts come from the same set and are aimed to build a sole structure, each part strengthening the others. Leaving the metaphor and going back to the accounting field this means the various components of the conceptual framework must be drawn from the same financial accounting theory (Newberry, 2003). This conception corresponds to the one the FASB initially retained but, considering the economical and political forces to be dealt with, observers quickly understood it could not be that way (Heath, 1988).

On the other hand, Page and Spira suggest the metaphor of the underwear, possibly mismatched and that may improve the image of the body, because of the flexible nature of the material used. In this case, the framework is presented as containing the body of the accounting practices and contributing to give a suitable and respectable image of the financial reports, financial statements and accounting profession (Page, Spira, 1999). Viewing the framework as underwear enables standard-setters to wipe out the necessary coherence of its theoretical foundations. Then it becomes acceptable to keep some elements founded on different accounting theories. This offers a relative flexibility to financial statements preparers when interpreting the proposed concepts.

The impacts and limits of the conceptual framework are variously considered according to the protagonists. Opinions differ about its legitimacy, its consistency and then, about its ability to reach the goals standard-setters initially determined. However, conceptual frameworks do exist and develop. A convergence project between the FASB and IASB's conceptual frameworks has been undertaken. The objectives and the progress report will be presented in the following part.

2.3 Un Project of Reform

The conceptual framework has been criticized owing to its form, legitimacy, consistency but also its obsolescence. Although the 4th paragraph of the IASB's framework allows a revision from time to time, its content has remained unchanged since 1989. Over the years, many

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changes occurred within the IFRS while the conceptual framework did not undergo any transformation.

Many countries all around the world have adopted the International standards. Some of them – already owning their proper conceptual framework- had to make it evolve in order to match the new standards. It is not the case of the United-States even if they have proved their will to come closer to International standards. Making their conceptual framework converge is a way to reach this purpose.

Although keeping their own accounting standards, the FASB and the IASB came to an agreement in 2002 in Norwalk. They acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-boarder financial reporting¹⁰. In February 2006, both boards signed a new draft agreement specifying the main subjects to be treated in order to reach their common objective. This draft stipulates that such works can only be envisaged jointly with those undertaken for the convergence of their respective conceptual frameworks. Actually, the goal is to design a common, complete and consistent conceptual framework, which will allow the development of new internationally harmonized principles-based standards. In order to do so, it seems necessary to revise the existing concepts and to take into account the economical changes that have occurred since the elaboration of conceptual frameworks. The project is composed of 8 phases:

Phase A: Objectives and qualitative characteristics	Phase E: Presentation and disclosure
Phase B: Elements and recognition	Phase F: Purpose and status
Phase C: Measurement	Phase G: Application to not-for-profit entities
Phase D: Reporting entity	Phase H: Remaining Issues

On July 6 2006, each boards published a new document corresponding to the phase A of the project (IASB Discussion Paper and FASB Preliminary Views). This stage deals with the objective and qualitative characteristics of financial information. The deadline for commentaries on this text has been over since November 3 2006.

The boards have received 179 commentaries letters, most of them coming from investors and analysts (18 %), financial statements preparers (16 %), professional institutions (15 %) and

¹⁰ Memorandum of understanding “The Norwalk Agreement “.

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standard-setters boards (12 %). A majority of respondents have approved the whole project and acknowledged the important role played by the conceptual framework within the normalization process quality. Nonetheless, some of them have expressed their regret to see the status (mandatory or not) of the conceptual framework, only treated in the F phase of the project. In fact, they find it uneasy to comment a discussion paper without beforehand knowing the induced level of constraint.

Thus the IASB's conceptual framework is undergoing major changes. France means to take part actively in these mutations through the ad hoc working group established by the "Conseil National de la Comptabilité". The results of their work have been published and taken into account for the elaboration of the discussion paper issued by the "Pro-active Accounting Activities in Europe" (PAAinE)

The PAAinE has been created by the European Financial Reporting Advisory Group (EFRAG) in order to bouncily participate in the evolution of the International accounting standardization. The discussion paper the PAAinE issued about the convergence project deals with some particular points sparking the debate: role of the conceptual framework, addressees of information, etc... The objective of the PAAinE is to anticipate the work of the IASB and react to the board's future proposals (Bracchi, 2006¹¹).

The European Union wishes to contribute to the reform of the IASB's conceptual framework because the IAS was adopted in 2002 with no consideration for the conceptual framework¹². "Better late than never" according to the saying...

When considering groups of respondents, it seems obvious that the European Union as well as the standard-setters of the other member countries have realized the importance of the role the conceptual framework is susceptible to play within the development and interpretation of accounting standards. Their active participation in the IASB and FASB convergence works appears to be compulsory and inescapable.

¹¹ Remark made at the conference organized par the "Académie des Sciences et Techniques Comptables et Financières", at the Ministry of Finance June 20 2006. The subject was "IFRS and governance". Record is available on the Academy's website.

¹² Colasse compared this attitude to the one of a person who buys a car with no consideration for the nature of the engine (petrol or diesel)... ¹² Remark made at the conference organized par the "Académie des Sciences et Techniques Comptables et Financières", at the Ministry of Finance June 20 2006. The subject was "IFRS and governance". Record is available on the Academy's website.

CONCLUSION

Since 2002, a lot has been written about the adoption of the IAS/IFRS by the European Union in professional and academic papers. Some of the academics have also expressed their fear regarding what has been presented as a revolution under an Anglo-Saxon liberal ideological influence. This turn of the accounting practices has led them to dread some harmful consequences on companies governance and more widely on the economics (Capron, Chiapello, Mangenot, Richard, 2005; Aglietta, Rebérioux, 2004).

However, few people took interest in the IAS/IFRS conceptual framework until the FASB and IASB undertook their converging project in order to develop a common conceptual framework. Indeed, the European Union has adopted the IAS/IFRS, but not the conceptual framework, while the latter compiles the foundations of accounting standards. Considering the expecting stakes of those concepts on the financial reporting of French and European listed companies, it has appeared interesting to go deeper in the content and review the role it is supposed to play as well as the criticism it has received.

The narrow link stated between the United-States accounting history and the IASB's conceptual framework, facilitates the understability of the underlying logic of the presented concepts. It also allows a better apprehension of the fear expressed by some actors of the European economy regarding the adoption of the International accounting standards.

The accounting systems categorization proposed by Nobes (1983, 1998) has clearly demonstrated the existence of some differences within these systems, such differences leading to some contrast in financial reporting. The use of new accounting standards belonging to the Anglo-Saxon accounting model, which is regularly opposed to the European model or "Continental", may be compared with a change of accounting culture. The possible consequences of this transformation on the companies' governance alarm the IAS/IFRS opponents. Indeed, as it is specified in the report of the CNC working group, establishing the objectives and users of financial reporting corresponds to implicitly choose a governance model. It is like showing who holds the power in the company (Colasse, 2006).

The objectives of the authors of the first conceptual framework, as well as the concepts the document compiles, contribute to the idea that such a document may play an important role in the development of accounting standards, the preparation and use of financial statements.

However, the numerous criticisms addressed since its publication, especially concerning its inconsistencies, lead to doubt its ability to achieve its mission.

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All these elements, connected to the induced change of accounting culture, lead to question on the impact of the conceptual framework on the French listed companies financial reporting, and more particularly on the reporting of their performance.

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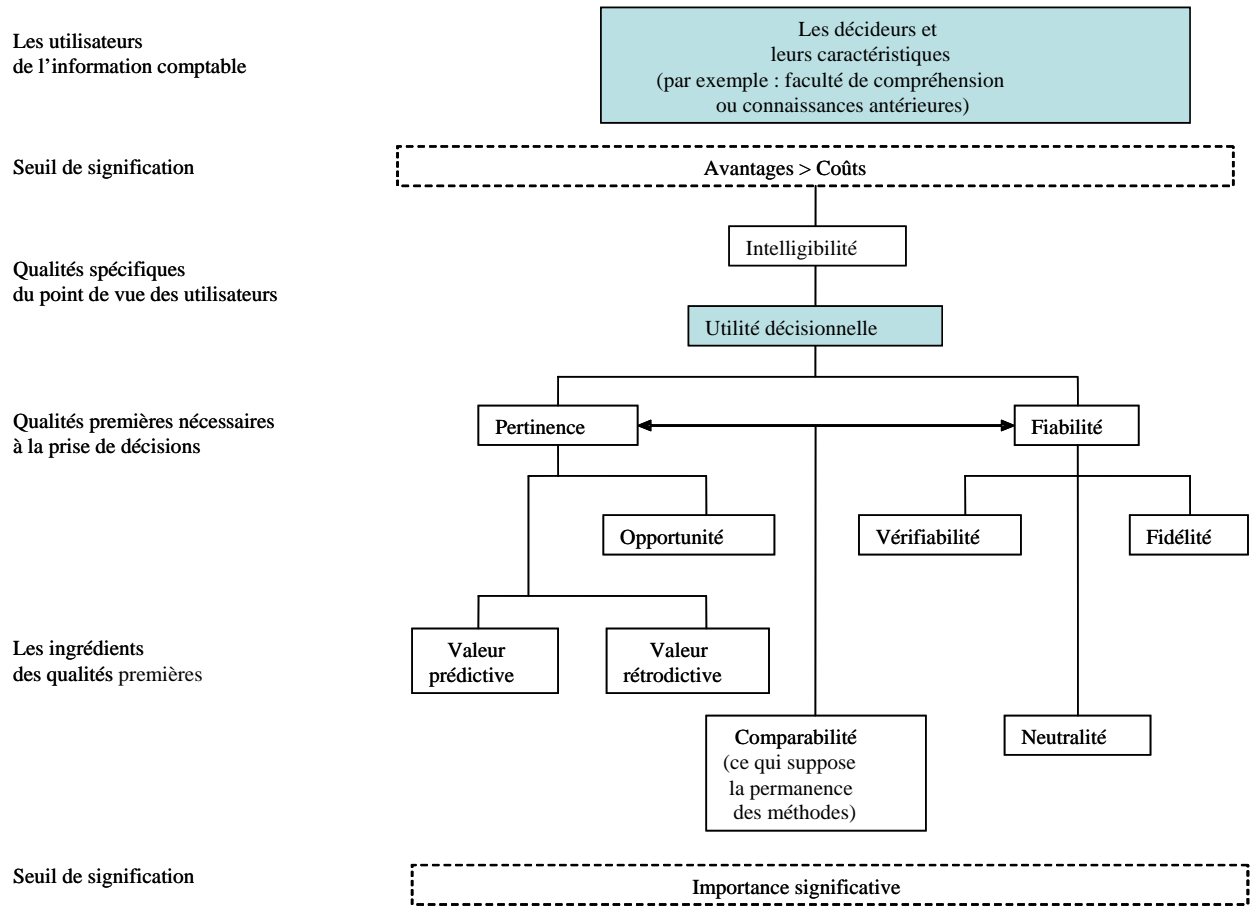
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ANNEXE 1 Hiérarchie des qualités de l'information (FASB)



ANNEXE 2 Hiérarchie des qualités de l'information (ASB)

