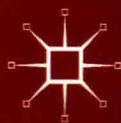


Regulating Capitalism?

The Evolution
of Transnational
Accounting Governance

Jochen Zimmermann
Jörg R. Werner



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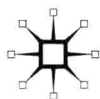
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First published 2013 by
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Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

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ISBN 978-0-230-27984-1

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

Printed and bound by CPI Group (UK) Ltd, Croydon, CR0 4YY

Transformations of the State

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Acknowledgements

The regulation of the capitalist world is becoming increasingly complex and difficult. This volume is the second book in which we try to understand the embeddedness of the state in the world of accounting and how the role of the state changes in this policy field (Zimmerman et al. 2008). We were privileged to have done this under the auspices of the Collaborative Research Centre 'Transformations of the State' at the University of Bremen. We would like to thank our colleagues, and in particular the Centre's speaker Professor Stephan Leibfried, for the congenial research atmosphere, and the Deutsche Forschungsgemeinschaft for its financial support.

We would like to thank in particular a number of people who helped us during the preparation of this book. We discussed our early ideas with Dr Stephan Abée, Dr Ulf Luthardt and Dr Stefan Veith. We were assisted in the preparation of the text by Dr Jan-Hendrik Hammermeister, Dr Tim-Frederik Oehr and Dr Johannes Schymczyk. Their enthusiasm and diligence provided a constant motivation for us to press ahead. We owe them our gratitude not only for their work but also for the *esprit de corps* that they brought to the accounting department at the time of writing this book and beyond.

Jochen Zimmermann
Jörg R. Werner
Bremen and Frankfurt

Abbreviations

AAA	American Accounting Association
AARC (CDN)	Accounting and Auditing Research Committee
ACCA (UK)	Association of Chartered Certified Accountants
AcSB (CDN)	Accounting Standards Board
AcSC (CDN)	Accounting Standards Committee
AcSOC (CDN)	Accounting Standards Oversight Council
AG (DE)	Stock Corporation (<i>Aktiengesellschaft</i>)
AICPA	American Institute of Certified Public Accountants
AIM (UK)	Alternative Investment Market
AISG	Accountants International Study Group
AktG (DE)	Stock Corporation Act (<i>Aktiengesetz</i>) BGBl. I 1965, p. 1089
AMF (FR)	Financial Markets Authority (<i>Autorité des Marchés Financiers</i>)
ANC (FR)	National Standards Authority (<i>Autorité des Normes Comptables</i>)
AnSVG (DE)	Investor Protection Improvement Act (<i>Anlegerschutzverbesserungsgesetz</i>) BGBl. I 2004, p. 2630
APB (US)	Accounting Principles Board
ARAB	Accounting Research Advisory Board
ARC	Accounting Research Committee
ASBJ	Accounting Standards Board of Japan
ASB (UK)	Accounting Standards Board
ASC (UK)	Accounting Standards Committee
ASCG	Accounting Standards Committee of Germany (<i>Deutsches Rechnungslegungs Standards Committee</i>)
BAC	Business Accounting Council of Japan
BADC (JPN)	Business Accounting Deliberation Council
BilMoG (DE)	Accounting Law Modernisation Act (<i>Bilanzrechtsmodernisierungsgesetz</i>) BGBl. I 2009, p. 1102
BiRiLiG (DE)	Accounting Directives Act (<i>Bilanzrichtliniengesetz</i>) BGBl. I 1985, p. 2355
CAC-40 (FR)	leading index of the Paris Stock Exchange
CAP (US)	Committee on Accounting Procedure
CASE (UK)	Committee on Accounting for Smaller Entities
CCAB (UK)	Consultative Committee of Accountancy Bodies
CICA	Canadian Institute of Chartered Accountants
CIPFA (UK)	Chartered Institute of Public Finance and Accountancy

CNC (FR)	National Accounting Council (<i>Conseil National de la Comptabilité</i>)
CNCC (FR)	National Institute of Statutory Auditors (<i>Compagnie Nationale des Commissaires aux Comptes</i>)
COB (FR)	Securities and Exchange Commission (<i>Commission des Opérations de Bourse</i>)
COFRI (JPN)	Corporation Finance Research Institute
CPA (JPN)	Certified Public Accountants
CRC (FR)	Accounting Regulation Committee (<i>Comité de la Réglementation Comptable</i>)
CU (FR)	Emergency Committee (<i>Comité d'urgence</i>)
DACA	Dominion Association of Canadian Accountants
DAI	<i>Deutsches Aktieninstitut</i>
DRS	German Financial Reporting Standards (<i>Deutsche Rechnungslegungs Standards</i>)
DTI (UK)	Department of Trade and Industry
EC	European Commission
ED	Exposure Draft
EEA	European Economic Area
EEC	European Economic Community
EFRAG	European Financial Reporting Advisory Group
EIC	Emerging Issues Committee
EITF	Emerging Issues Task Force
EU	European Union
FAF (US)	Financial Accounting Foundation
FASAC	Financial Accounting Standards Advisory Council
FASB (US)	Financial Accounting Standards Board
FASF (JPN)	Financial Accounting Standards Foundation
FDI	Foreign Direct Investment
FraCourt	French Court
FraGov	French Government
FRC (UK)	Financial Reporting Council
FSAJ	Financial Services Agency of Japan
FTSE 100 (UK)	leading index of the London Stock Exchange
G4	Group of Four National Standard Setting Bodies
GAAP	Generally Accepted Accounting Principles
GASAC	Governmental Accounting Standards Advisory Council
GASB	German Accounting Standards Board (<i>Deutscher Standardisierungsrat</i>)
GDP	Gross Domestic Product
GerCourt	German Court
GerGov	German Government
HDAX (DE)	index of 110 companies with the highest market capitalisation in Germany

HGB (DE)	Commercial Code (<i>Handelsgesetzbuch</i>) RGBl. 1897, p. 219 most recent: BGBl. I 2011 pp. 288, 307
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
ICAEW	Institute of Chartered Accountants of England and Wales
ICBAS (JPN)	Investing Committee on Business Accounting Systems
IDW (DE)	Institute of Auditors (<i>Institut der Wirtschaftsprüfer</i>)
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
ISA	International Standards on Auditing
JapGov	Japanese Government
JFSA	Japanese Financial Services Agency
JICPA	Japanese Institute of Chartered Public Accountants
KapAEG (DE)	Capital Raising Facilitation Act (<i>Kapitalaufnahmeerleichterungsgesetz</i>) BGBl. I 1998, p. 707
KonTraG (DE)	Corporate Sector Supervision and Transparency Act (<i>Gesetz zur Kontrolle und Transparenz im Unternehmensbereich</i>) BGBl. I 1998, p. 786
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
MJDS	Multi Jurisdictional Disclosure System
MNE	Multinational Entity
MOF	Ministry of Finance
MOJ	Ministry of Justice
NAFTA	North American Free Trade Agreement
NASDAQ (US)	National Association of Securities Dealers Automated
Nikkei 225 (JPN)	index of the Tokyo Stock Exchange
NYSE	New York Stock Exchange
OEC (FR)	Institute of Public Accountants (<i>Ordre des Experts Comptables</i>)
OECD	Organisation for Economic Cooperation and Development
OEEC	Organisation for European Economic Cooperation

OTC	Over the Counter
PCG (FR)	National Accounting Code (<i>Plan Comptable Général</i>)
RIC (DE)	Accounting Interpretations Committee (<i>Rechnungslegungs Interpretations Committee</i>)
SA (US)	Securities Act
SAC	Standard Advisory Council
SEA (US)	Securities Exchange Act
SEC (JPN)	Securities and Exchange Commission
SEC (US)	Securities and Exchange Commission
SEL (JPN)	Securities and Exchange Law
SIC	Standing Interpretation Committee
SME	Small and Medium Sized Entities
SOA (US)	Sarbanes-Oxley Act (Pub.L. 107-204, 116 Stat. 745)
S&P 100 (US)	leading index of the New York Stock Exchange
SWP	Strategy Working Party
TNC	Transnational Corporation
TransPuG (DE)	Transparency and Disclosure Act (<i>Transparenz- und Publizitätsgesetz</i>) BGBl. I 2002, p. 2681
TSE	Tokyo Stock Exchange
TSE 60 (CDN)	leading index of the Toronto Stock Exchange
TUG (DE)	Transparency Directive Implementation Act (<i>Transparenzrichtlinien-Umsetzungsgesetz</i>)
UEC	Union Européen des Experts Comptables, Economiques et Financiers
UITF (UK)	Urgent Issues Task Force
UK	United Kingdom
UKGov	UK Government
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USA	United States of America
USGov	US Government
WpHG (DE)	Securities Trading Act (<i>Wertpapierhandelsgesetz</i>) BGBl. I 1998, p. 2708
WPK (DE)	Chamber of Public Accountants (<i>Wirtschaftsprüferkammer</i>)
WPO (DE)	Public Accountant Act (<i>Wirtschaftsprüferordnung</i>)

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Part I

Introduction

Many people believe that financial reporting is a merely technical matter, something discussed among professional circles but of only minor importance for the state, for society or for the economy as a whole. However, a closer look reveals how important financial reporting and its regulation are for the functioning of businesses and markets. Financial accounting makes an important contribution to general welfare, and consequently nation states have often intervened in accounting regulation. Traditionally, regulation has varied from country to country. Continental European countries have tended to rely more strongly on extensive legal and hierarchical regulation than have Anglo-Saxon ones, which have generally demonstrated more collaborative governance modes: i.e., types of regulation in which private actors – most prominently private standard-setters and other professional organisations – have been embedded within regulatory frameworks. Nevertheless, the different solutions have shared one common feature: they have all been rooted in the nation states in which they operated. However, in an increasingly globalised world, these national solutions have become more and more inefficient and ineffective.

As a consequence, a new constellation of accounting regulation has emerged since the 1990s. The most distinctive feature of this new constellation is the presence of a transnational standard-setter that produces financial reporting rules with global outreach: the International Accounting Standards Board (IASB). Many countries require these rules to be applied when supplying information about the financial position of economic entities or, more technically speaking, for consolidated financial reports.¹ This development marks a vast formal convergence of regulation, both in terms of applicable accounting rules and in accounting governance. However, traditional national accounting rules persist in some, mostly continental, European countries, where they remain applicable when preparing financial statements of private (i.e., unlisted) firms and unconsolidated accounts. This hybridisation has hardly been addressed in the literature, leaving two important questions unanswered. First, what are the underlying causes of the observed changes? And second, are these observable changes indicative

2 Introduction

of an overall transformation of the state? Chapter 1 aims at laying down some theoretical foundations that will help us to answer both questions in the course of this book. This explanatory framework is based on evolutionary economics. It argues that the recent changes to accounting systems can be explained as reactions of economic agents to exogenous 'shocks' such as globalisation. This has led to changes in national accounting systems. Bounded rationality suggests that these changes should in general lead to a convergence of accounting systems worldwide, due to mimicking, normative pressure or coercion. In the process of change, existing national institutions matter as they have a bearing on the decisions that are made. Thus, different paths and paces of change are likely to emerge. Empirical evidence taken from studies of six countries helps to validate the outlined case.

Chapter 1, which is setting the scene, is organised as follows: first we summarise the evidence relating to changes in accounting regulation (Section 1.1); then in sections 1.2 and 1.3 we develop a general framework that helps explain why some elements of accounting regulation are becoming more similar while others continue to vary from country to country. We argue that evolutionary economics, in particular, combined with neo-institutional thinking provides a comprehensive framework to explain the observed changes.