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Should Financial Statements Represent Fairly or be Relevant? Considering the IASC/IASB Conceptual Framework

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Abstract

To ask if financial statements should “represent fairly” or be “relevant” gives a political dimension to the trade-off between reliability and relevance, two characteristics of financial reporting that the IASC/IASB Conceptual Framework does not consider to be conflicting. However, depending on the priority we give to these characteristics, the accounting system differs widely. Some concepts from the behavioural sciences help to better understand the underlying implicit and explicit hypotheses of IFRS’s Conceptual Framework and to have a more critical perspective. The answer to the question of the choice between “fair representation” and “relevance” cannot be purely technical due to the fact that the information produced shapes the reality as well as describing it. Therefore, the standards setter has a political responsibility.

Keywords: conceptual framework, IFRS, true and fair view, fair representation, reliability, relevance

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Introduction

The 4th European Directive issued in 1978 introduced the British concept of *true and fair view* into accounting law. It is a concept that has already been the subject of many publications but two new elements have brought the question to the fore once again.

1. The first new element is the appearance of the idea of *fair value*. The concept was not mentioned in the International Accounting Standards Committee (IASB)'s first Conceptual Framework in 1989 though it appeared for the first time in 1982 in the IAS 16 *Property, Plant and Equipment* Standard. Moreover, the expression *fair value* still does not figure in the 2010 version of the International Accounting Standards Board (IASB's) Conceptual Framework. It was, in fact, the extension of this concept to financial instruments (IAS 39 *Financial Instruments: Recognition and Measurement*) that created an uproar and the matter was even the subject of a letter dated 4 July 2003 from the

President of the French Republic, Jacques Chirac, to the President of the European Commission, Romano Prodi (Burlaud & Colasse, 2010, p.171).

2. The second new element was the financial crisis of 2008, which led many researchers (Colasse, 2009a ; Laux & Leuz, 2009, p. 829 and Marteau & Morand, 2009) and politicians (Baert & Yanno, 2009) to draw attention to the pro-cyclical impact of the fair value valuation of financial assets. The public authorities had already made this diagnosis and the European Commission, during a meeting of the Ecofin Committee on 7 October 2008, put pressure on the IASB to authorise companies, and in particular banks, to reclassify their financial instruments in a category where they would no longer be subject to fair value valuation (Burlaud & Colasse, 2011, p. 39). The same observations were made in the United States by the American Bankers Association, Congress and the Securities and Exchange Commission. (Laux & Leuz, 2009, p. 826, 831 & 832).

If political intervention can modify the rules of accountancy in order to manipulate the results of companies to intervene in a crisis, is a true and fair view still possible?

The aim of this article is not to respond to the question of the legitimacy of political intervention or of the legitimacy of the international standards setter in the shape of the IASB, since these questions have already been widely discussed (Hoarau & Teller, 2007, p. 5 & s. and Burlaud & Colasse, 2011, p. 24 & s.). Neither does it aim to discuss the difficulties and consequences of the introduction of fair value into accounts (Jeanjean, in Colasse, 2009c, p. 1025 & s.).

Similarly, we do not intend to criticise here the internal coherence of the IASC/IASB's Conceptual Framework. If we accept the postulate of market efficiency and the fact that financial reporting is first and foremost intended for the investors and that by virtue of the hypothesis of market liquidity the latter can withdraw at any time, then it is logical to introduce holding gains into comprehensive income through the valuation of certain assets at their fair value.

The question we wish to discuss lies elsewhere. Can financial reporting, that we reduce here to the financial statements (balance sheet, profit and loss account and footnotes) both represent fairly and be relevant? The IASB's 2010 Conceptual Framework confirms this, "*The fundamental qualitative characteristics are* relevance *and* faithful **re**presentation." (IASB, 2010, § QC5). We are not certain that these two qualities are always compatible.

We will try to answer the question posed in the title by exploring two hypotheses.

1. The first, adopted by most authors and confirmed by most accounting standards, is that the accounts should "represent fairly" (give a "true and fair view"). This presupposes the existence of a truth, an observable reality situated outside the observer. Is this the case? Explicitly, certain authors contest this when they define accounting as an *artefact* that enables observation mediated by a conceptual system of representation. (Hopwood, 1974; Colasse, 2005, p. 255). Furthermore, reliability should not be confused with conformity. Even if, in general, respect for the standards leads to a true and fair view of the financial position according to certain conventions, these two objectives may nonetheless be conflicting. Although the IASB's Conceptual Framework does not deal

with this possibility, it is envisaged in the 4th European Directive. The true and fair view is an overriding principle.[1]

2. The second hypothesis, which we will explore more fully below, consists in thinking that financial statements have another objective, that of inducing "relevant" behaviour. They constitute a signal (stimulus) that produces a desired **behaviour**, considered opportune, adequate, "relevant", that is to say in conformity with either values – ethical or moral - or with objectives fixed by an authority, for example, the standards setter or a stakeholder, and judged legitimate (Laufer & Burlaud, 1997, p. 1754-1772). Therefore it is of no matter that they represent fairly. For example, the objective of financial statements might simply be to contribute to the transparency of financial flows in order to introduce an ethic into business life and avoid laundry washing. Accruals accounting is, in this case, perhaps unnecessary. However, a possible alternative might be that their objective is to stimulate investment thanks, for example, to the accelerated depreciation of fixed assets, the consequence of which would be to reduce corporate income taxes and the distributable dividend. The implicit or explicit conceptual framework of any set of accounting standards should be to provide an answer to the question posed. This hypothesis led us to explore the possible contribution of behavioural sciences to a discussion of the Conceptual Framework. For the purposes of what follows, we are defining behaviour thus: "behaviour is a set of adaptive reactions, observable objectively, that an organism, generally possessing a nervous system, displays in response to stimuli that are also objectively observable, issuing from the milieu in which it lives".[2] We would add that the stimuli can also come from the organism concerned itself, in other words, have an internal origin. In the context of this article, we should make it clear that we are interested solely in social behaviours, that is to say, highly contextualised behaviours.

We will discover that the answer to the question posed can vary over time (Section 1), that the implicit and explicit hypotheses of the new accounting model, that is to say of the Conceptual Framework of the *International Financial Reporting Standards* (IFRS), are fragile and do not allow us to distinguish clearly between "representing fairly" and "relevant" (Section 2), and conclude with the idea that "relevant" is more important than "fair representation" (Section 3).

1. The evolution of accounting

The role of accounting in the organisation of Society has evolved over time since it reflects the nature of economic exchanges. Accounting was originally practical knowledge and perhaps even "practical knowledge in search of theories"[3] with the codification of good practices then a certain dose of state interventionism that was to result in continental European accounting principles and charts of accounts and European Directives. It was only later, towards the end of the 1970s, that

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[1] See art. 2, § 4 & 5 of the 4th European Directive of 25th July 1978. "The annual accounts shall give a true and fair view of the company's assets, liabilities, financial position and profit or loss." (art. 2 § 3) "Where in exceptional cases the application of a provision of this Directive is incompatible with the obligation laid down in paragraph 3, that provision must be departed from in order to give a true and fair view (...)" (art. 2 § 5)

[2] Translated from Tilquin, 1942, quoted by Auroux (1998). p. 383.

[3] After the title of an article by Colasse (1996): "La comptabilité : un savoir d'action en quête de théories (Accounting: practical knowledge in search of theories)."

the theory became explicit since the standards setters felt the need to justify their choices using theories to give them greater legitimacy through the publication of "conceptual frameworks". The technical choices presented in the standards therefore take on an aura of scientific reasoning.

1.1. Accounting: "knowledge in search of action"

We have schematically adopted a periodization that distinguishes between three periods: 1) from the inventory of the assets (description) to 2) measuring the profit or loss (convention) then to 3) evaluation of the financial situation (diagnosis).[4] Any periodization is questionable. It depends mainly on the choice of a starting-point for the subsequent evolution and is largely a question of the interpretation of this evolution. We have adopted the traces of the most ancient of accounting systems, the Sumerian tablets. These represent inventories of flocks (Degos, 1998, p. 9). They are accounts in physical units, that is to say with no valuation attached. As time went by, with the development of civil law, the idea of the inventory became more precise, leading to the elaboration of the concept of assets and the development of money, which led to valuation. But the logic remained the same. It was a question of describing a set of material goods. The second period adopted, that of the appearance of companies to fit ships engaged in transatlantic trade, led to the laying down of rules for profit-sharing, and therefore to the calculation of income on the basis of conventions that included calculated costs. Lastly, the third period, that of the development of global financial markets and European and international accounting standards, introduced the concepts of true and fair view and fair value. Today, the three stages we chose can be found, as an example, in the three objectives the French Commercial Code has assigned to accounting. Although the first two date back some time, the third objective, true and fair view, was introduced into French accounting law by the 4th European Directive in 1978 leading to a major modification of the French accounting standards in 1982. Previous standards had only two objectives for the financial statements:

- conformity, that is to say conformity to the rules of accounting standards[5] and
- sincerity, that is to say the absence of any intention to deceive.

There was therefore an obligation of means, conformity to the rules and a moral obligation, sincerity, but no obligation regarding results, that is to say to provide the user of the financial statements with a true and fair view of a reality at a risk of having to bypass the rules when they were not adapted to the situation encountered. In other words, the search for the true and fair view was an overriding principle.

Conformity, sincerity and true and fair view apply to three aggregates: the assets, the bottom line and the financial position as Table 1 below shows, taking France as one example.

Table 1: The three ages of accounting and the French Commercial Code

[4] This division into three ages bears no relation to that of Auguste Comte (*Cours de philosophie positive.*Hachette, 1927, p. 3 & s.), who identified the three following "states": theological, metaphysical and positive or that of André Piettre (*Les trois âges de l'économie et de la civilisation occidentale [The three ages of Western economy and civilisation]*. Fayard, 1964, 158 p.) who saw three stages in the economic development of civiliations: the subordinate economy, the independent and dominant economy and lastly, the directed economy ordered by Men.
[5] The conformity to regulations is known, in certain disciplines by the term "veridicity" as opposed to "truth".

Art. L123 – 14 of the French Commercial Code: "Accounts shall be honest and truthful and shall ensure a fair representation…"		
(1)"…of the assets…"	(2) "…of the profit or loss…"	(3)…of the financial position…"[6]
Describe (inventory) the **assets** of an entity to constitute an instrument of **proof** binding to the contracting parties. This conception of the role of accounting, founded on property law as defined by the Civil Code, dates back to Summer. Accounting is a **private matter** that does not need to be standardised and is limited to an exhaustive inventory of the elements that make up the assets and to the recording of transactions relating to these assets. The accounts "give account" of their management. This expression applies, for example, to guardians: "every guardian is accountable for his management when it comes to an end" (Art. 469 of the 1804 Civil Code); and public officials: "Society has the right to require of every public agent an account of his administration" (Art.15 of the Declaration of the Rights of Man and of the Citizen of 1789).	**Calculate** eligibility for income sharing (statement) on the basis of conventions: - dividend - tax - self-financing - employee participation schemes - etc. This conception of the role of accounting appeared with the creation of limited partnership companies (Florence, 15th century) and the development of joint-partnership companies (16th century) (Lemarchand, 1993). It became widespread in France with direct corporate income taxation from 1917. Accounting becomes a **public matter** (public call for savings and tax) that has therefore to be standardised. The standards setter expresses a **consensus** between different stakeholders. Need for a profit and loss account in addition to the balance-sheet, hence double entry bookkeeping. Distinction between the "**true**" and the "false". But the "true" becomes relative since it depends on accounting **conventions** with the appearance of calculated costs (example: depreciation).	Provide **information** useful in expressing a judgement (opinion) on the financial position of an entity to aid **economic decision-taking** (future commitment) by a "wide range of accounts users."[7] The IFRS (the first international accounting standard was published in 1974, accompanying the globalisation of the financial markets) leaving more room for intention (intentional accounting, particularly important for the classification of the elements of a stock portfolio) and forecasting (updating of future cash flows). The information must be **relevant,**[8] that is to say useful to investors taking economic decisions. The internationalisation of the financial markets presupposes global standards. The accent placed on the financial position leads to the development of the balance-sheet and footnotes rather than of the profit and loss account. Distinction between the "**good"** (what is useful to *homo oeconomicus*) and the

[6] The French Commercial Code places "the financial position" before "profit or loss". However, we do not think that the order of the terms is significant of an order of priority.

[7] We have not adopted here the formulation of the Commercial Code or that of the French accounting standards which do not make explicit their conceptual framework, but the formulation of the IFRS conceptual framework (1989), art. 12. Moreover, this text does not use the term "result" but "performance", a much more general term.

[8] Art. 26 to 28 of the IFRS Conceptual Framework (1989).

Distinction between the **"true"** and the "false".		"bad" which does not serve the needs of the rational investor.

The search for a true and fair view involving at one and the same time the assets, profit or loss and the financial position is presented as an objective that poses no particular problem. There can, however, be conflict as can be seen from the example of the calculation of depreciation (Burlaud & Cossu, 1977). One can, for example, identify three ways of calculating depreciation:

- measure the depreciation of the assets;
- distribute the cost of the investment over production;
- hold back part of the cash flow by deducting it from the taxable and/or distributable income in order to reinvest it, thereby bringing into play the depreciation multiplier or Lohmann-Rüchti effect (Lemarchand & Nikitin, in Hoarau et al., 2011, p. 41 & s.).

It can also be seen that our periodisation has description as its starting-point, which favours "fair representation" (1), and moves towards the true and fair view of the financial position (3) which favours relevance and retains what is "relevant" for the taking of economic decisions. Since it is linked to accounting objectives, techniques have obviously evolved too. Therefore the historic cost that "represents fairly" (a transaction involving one element of the assets really took place for a recognised sum) gives way to what are supposed to be market values within a framework of hypothetical transactions (mark-to-model). Nothing could be less "fair". For all that, is it more relevant, useful and therefore "good"? That is the question.

1.2 . Accounting: towards a hypothetico-deductive approach

Jurists have turned the law into an academic discipline with its long history, philosophy, theories and reasoning. *Quid* accounting if it breaks away from the law?

We have, in fact, seen that accounting gradually moved away from a purely legal conception (reference to property law the only definition in the Civil Code) and extended to other branches of the law (company law, criminal law, tax law etc.), finally freeing itself from the law for lack of an international law, in favour of an economic vision founded on a global market economy and in particular a global financial market, ignoring as far as possible governments and inter-governmental organisations.

This evolution in accounting also shows the growing importance of conventions when it moved from one stage to the next, hence the more important role of the standards setter whose task is to provide a framework for these conventions. In leaving the private domain to move towards the public sphere, rules had to be introduced that were the product of a consensus between groups representing different stakeholders. However, a distinction must be made between consensus, compromise and surrender of principle.

- The word "consensus" has been rather freely bandied about so let us adopt the definition given in political sociology. "The idea of consensus designates the explicit or implicit agreement between individuals on the essential values of their company and their willingness to resolve any conflicts likely to arise between them by means of deliberation, with the aim

that what they have in common shall triumph over what divides them and in the respect of procedures that have the approval of each"(translated from Auroux, 1998, p. 435). The "idea of accounting standardisation as a balanced agreement between stakeholders" as practiced by the French Accounting standards setting body (Conseil national de la comptabilité [CNC]), is a good illustration of this search for consensus (Colasse & Pochet, 2009, p. 30).

- Compromise designates an imperfect agreement. "If by solution we mean an answer that completely satisfies all aspects of a problem, the very nature of a political problem is that it is insoluble. (…) If a solution in the strict sense of the term can be found to a problem, then that problem is a technical one. But a political problem can be settled, most often by way of the difficult path of negotiation and compromise. Compromise is this type of resolution or prevention of conflicts in which the parties concerned agree to withdraw or reduce some of their initial demands" (translated from Auroux, 1998, p. 390).
- Lastly, "compromise turns into (…) surrender of principle when one begins to compromise on principles" (translated from Auroux, 1998, p. 390).

We consider that there is more or less a consensus on the objectives declared by the Conceptual Framework (which can run counter to true and fair view?) but compromise on the technical measures relating to the allocation or valuation of certain transactions. This puts "fair representation" or the true and fair view of reality into perspective. Producing accounting law in dribs and drabs as the American and British standards setters and then the IASC have done, results in problems of internal coherence in the end. To remedy this, the Accounting Standards Committee published a first conceptual framework in 1975, *The Corporate Report.* Starting in 1978, the FASB published its *Statements of Financial Accounting Concepts* and taken together, these made up the American conceptual framework[9]. Drawing on these experiences, in 1989, the IASC published its own *Framework for the Preparation and Presentation of Financial Statements* and this became *The Conceptual Framework for Financial Reporting* in 2010. The latter was prepared as part of an agreement signed in October 2004 between the IASB and the FASB with a view to preparing a joint conceptual framework on the basis of those predating their agreement. The work remained unfinished, so much so that the 2010 conceptual framework was composed provisionally of part of the 1989 version.

The FASB's conceptual framework is defined as "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." (FASB, 2010, p. 5).

The IASB's conceptual framework describes the basic underlying concepts of the preparation and presentation of financial statements intended for users outside the entity (IASB, 2010, p.5). It serves mainly as a guide for the IASB in the development of future standards and therefore constitutes a metarule. It does not, however, constitute a standard and cannot deviate from nor justify deviation from a standard. Although the IASB recognises that in a limited number of cases a conflict may exist between the Conceptual Framework and a standard, it is the standard that prevails and the number of cases of conflict will fall over time (IASB, 2010, p.5).

In defining the objectives of accounting standards and the qualitative characteristics required for financial reporting, the conceptual framework contributes to the coherence of standards by

[9] On this subject, see Zeff (1999).

creating a stable constraint for the standards setter to apply to itself. "The Conceptual Framework therefore appears as a sort of accounting theory. It is a deductive approach to the extent that using the first question as a starting-point, the answers to the others can be deduced. (…) Seen in this light, the Conceptual Framework appears as a tool for the standards setter. It constitutes an intellectual instrument intended to guide decisions, a generator of standards (…)" (Chantiri-Chaudemanche & Pochet, in Nikitin & Richard, 2012, p.150).

The IASB's 2010 conceptual framework assigns two principle characteristics to accounts: relevance (IASB, 2010, art. QC 6) and faithful representation (*ibid*., QC 12). Relevant information is that which is useful, that is to say "relevant" to the needs of those who have to take economic decisions and in particular, for the supposedly rational investor within the framework of economic theory. In other words, it is a question of satisfying the needs of those who have the power to appoint or dismiss *ad nutum* the directors and to retain, sell or buy stock (IASC, 1989, art. 14). Faithfulness to a reality, hence the word "image", and not faithfulness to a rule, reflects the truth.

This calls for a great deal of clarification. The object, that is to say the entity, described by the financial statements must obviously be defined, something that the IASB's Conceptual Framework for 2010, as yet unfinished, has still not done. Moreover, who is exercising power and to what end must be defined. In other words, the construction is based on hypotheses that we will detail in the second section.

2. The implicit and explicit hypotheses of IASB’s accounting model.

Preliminary remark: up until 2003, standards were referred to as accounting standards (*International Accounting Standards – IAS).* After this date, the IASB renamed its standards *International Financial Reporting Standards* (IFRS). A distinction was made between *accounting* and *financial reporting,* meaning that the two can be dissociated. Was this a figure of speech intended to highlight the IASB's production of standards by associating it with market finance, supposedly more distinguished than accounting? This was before the 2008 crisis, however… The bases of the standards, whether IAS or IFRS have not changed for all that.

The IFRS are based on **two implicit hypotheses** (Burlaud & Colasse, 2011, p. 33, §2.2.2):
- the efficiency of the markets, which includes the hypothesis of the conformity of the behaviours of the users of financial reporting (the investors) to Expected Utility Theory but is not limited to it;
- the subjection of the directors to the users-investors (agency theory)

and **three explicit hypotheses** (Burlaud & Colasse, 2011, p. 33, §2.2.2):
- the reliability of the view constituted by the accounts;
- the neutrality of financial reporting and
- compatibility between the reliability and relevance of the accounts.

2.1. The implicit hypotheses of IASB’s accounting model

The implicit hypotheses are those that have permitted the construction of an instrument of observation of reality that is operational thanks to a reduction in complexity. Moving from the

general to the particular, three closely interdependent theories are used that are not explicitly mentioned in the conceptual framework: a theory relative to human behaviour, to the functioning of the markets and to the functioning of the company. This led us to tackle Expected Utility and Efficient Market theories separately.

2.1.1. Expected Utility Theory or the theory of rational choices.

Expected Utility Theory constitutes one of the bases of Efficient Markets Theory. It comes from classic economics and is based on a certain number of axioms relating to the attitude of a "rational" individual who has to take decisions in a risky situation. It has been criticised in particular by Daniel Kahneman and Amos Tversky (1979), founders of behavioural finance with their Prospect Theory. They have shown in particular that:

- profits are weighted by their probabilities but we overweight the certain results (certainty effect);
- preferences are not symmetric, that is to say that the pain engendered by a loss is greater than the pleasure procured by gains of the same amount (reflexion effect);
- utility curves are concave and as a result, for example, we often prefer to underwrite an insurance contract even for relatively low risks that we could take without fearing ruin, although mathematically, the hope of gain for the policy-holder is negative if the insurer has calculated the amount of the premium carefully;
- we are more sensitive to variations in income or assets than to their absolute value.

Investors are not therefore necessarily "rational" in terms of classic economics, that is to say they do not display behaviour that conforms to the model of *homo oeconomicus*, which claims to be the archetype of the new global elite. Clichéd anthropomorphic expressions that underline the importance of mimetism in decision-taking bear witness to this: the markets "think" that…, the markets "have confidence" in the policy formulated by such and such Head of State, the markets are "nervous", etc. The market, an invisible being, but capable of intentions, exercises a power without counter-power since it cannot be located (where does the market reside?) and remains anonymous (Who represents the market? Who speaks in its name?) How to attack it? If it is a question of a collective behaviour, who can ensure that a set of individual behaviours obeying a common rationality leads to a collective behaviour that obeys the same rationality?

"Keynes had already drawn attention to the effect of psychology and the role of conventions in the market value of share prices (…) fruit of the mass psychology of a large number of ignorant individuals (…). Those professional investors whose competence and professional judgement enable them to correct the fantasies of ignorant individuals acting according to their own lights, are in fact concerned not with the true value of an investment for a man who acquires it to put in his portfolio, but the value that the market, under the influence of mass psychology, will attribute to it three months or a year later. So for Keynes, share prices can deviate from fundamental values under the effect of mass psychology. He compares the technique of investment centred on short-term anticipation of the traditional basis for valuation to the sort of competitions organised by newspapers where the competitors have to choose the six most handsome faces from amongst a hundred photographs, with the prize going to the person whose preferences are closest to the

average selection of the competitors as a whole. (..) The investor uses his faculties to decide what idea the average opinion will make in advance of his own judgement."[10]

2.1.2. The Efficient Markets hypothesis

Efficient Markets theory, which integrates Expected Utility Theory, presupposes moreover that all the information is free and accessible to all, that the market is atomized, that the behaviour of the players is "rational" in the sense described above and that they are capable of assimilating instantaneously and completely any new information (Fama, 1970). Market efficiency is a useful hypothesis for modelling but has never been validated. It has, moreover, no need to be validated since it has a normative value. Governments, standards setters and securities commissions are moreover invited to work on setting up conditions that favour market efficiency. This does not guarantee that they really are and in any case, shows that it is not "natural" to them. Fama has identified three forms of informational efficiency:

- the weak form postulates that the information the players possess is public and only contains the history of the stock prices already integrated into the prices;
- the semi-strong form is the most commonly accepted and supposes that all the players possess, exclusively and immediately, all the public information, which is far more extensive than just past prices;
- the strong form envisages the existence of private information but this is integrated into the prices (Hoarau & Teller, 2001, p. 112 and Goffin, 2001, p. 121).

Although financial information is partly available free of charge, the cost of having it interpreted is very high, which as a result, excludes many investors. Consequently, accounting is not a "public good" in Ostrom's strict sense of the word since it has traits that are characteristic of "common goods" (Burlaud & Perez, in Nikitin & Richard, 2012, p. 228). In addition, everyone does not receive the information at the same time, confidential or private information exists and financial statements alone, which is nonetheless the only information to be standardised, do not set prices. International events, the vagaries of the climate, the health of a director, the prospect of a big contract, a promising technical innovation, etc. all contribute to prices.
Efficient Markets Theory is associated with Agency Theory. According to the latter, those who possess the resources the company needs and in particular the financial resources, are free to contract with the company or to refuse to entrust their management to the company directors. "*Agency theorists see the firm surrounded by efficient markets (…).*" (Hill & Jones, 1992, p. 134). The two theories do not overlap but are closely linked.

2.1.3. Agency Theory

By placing financial reporting at the service of investors, the IASC/IASB's Conceptual Framework adopts a representation of the entity that conforms to Agency Theory.

According to this theory situated at the crossroads of law, economics and management, the company is a knot of explicit or implicit contracts and not an institution and collective

[10] Hoarau & Teller (2001), p. 116. Analogous reasoning (the desire of each investor is a function of the desire of others) enables André Orléan (2011).

organisation with its own life and a soul. Financial reporting reduces the asymmetry of information between the mandator or principle (the shareholder) and the representative or agent (the manager) to whom the power to act is delegated whilst the power to control is retained in order to ensure the latter's loyalty (Jensen & Meckling, 1976). This power of control is exercised partly through the financial statements to ensure that the profitability objectives have really been met, but also through governance mechanisms that encourage identical objectives between principal and agent, such as stock options, for example.

The company is not a lone player but the place where opportunist players with diverging interests affront and cooperate with each other. The balancing of these interests leads to agency costs in order to reduce moral hazard (non-respect of the set of rules and agreements laid down by the two parties): the cost of surveillance for the principal and the cost of accountability for the representative or agent. These agency costs are just a sub-set of the transaction costs defined by Coase (1937) and then Williamson (1979). Adam Smith had already explained the particular nature of this relationship between owners and managers: "*Since the directors of this sort of company* (public limited companies) *are managing other people's money rather than their own, we can scarcely expect that they pay the same precise, concerned attention as the partners often bring in the handling of their funds*"(Smith, 1991 [original edition 1776], p. 401). Berle and Means (1932) delve deeper into the question of the divergence of interests between those who manage and those who own the company. Jensen and Meckling (1976) go still further and examine all the contracts that exist within the company.

However, the Table below reveals that the power relationships do not necessarily conform to liberal theory and company law that sees the managers as subordinate to the owners of the capital. For example, the dilution of the capital can explain the absence of a relationship between the manager's remuneration and share price movements.

Table 2: Relationship between remuneration of the chief executive officers and share prices (examples from France)

Data from 2002 in millions of euros				
Company	Name of Director	Annual remuneration (evolution compared to 2001)	Stock options attributed	Share price movements: 2002/2001
Vivendi	Messier	5.720 (+11.6%)	0	-70%
Vinci	Zacharias	3.039 (+16%)	750,000	-15%
Total	Desmaret	2.410 (-26.8%)	60,000	-10%
Danone	Riboud	2.400 (+4.3%)	50,000	-5%
Suez	Mestrallet	2.271 (+1.3%)	350,000	-50%
Bouygues	Bouygues	1.994 (+22.1%)	200,000	-30%
AXA	De Castries	1.963 (-2.8%)	800,000	-50%
Lafarge	Collomb	1.789 (+30.9%)	20,000	-33%
Renault	Schweitzer	1.664 (+52.5%)	130,000	+12,5%
Saint Gobain	Beffa	1.640 (-0.6%)	240,000	-35%
Sources: Forbes – Le Monde 23 May 2003				

Jensen & Murphy (1990) also found a very weak link between CEOs' remuneration and the performance of the company.

Agency Theory, centred on the manager/shareholder relationship, developed to include all the stakeholders to produce Hill & Jones's *Stakeholder Agency Theory* (1992). The other stakeholders are the employees, clients, suppliers, creditors, local authorities and more generally, the public. All these stakeholders are linked to the company through explicit or implicit contracts and contribute resources that the company directors manage and have at their disposal to create value. Yet all do not expect the same return. For example, some aim to maximise the stock-market value if the company is quoted and others, such as the employees, seek the guarantee of an income and therefore a job. It follows therefore that financial statements should be capable of giving an account of the many aspects of performance (Christensen, 2010, p. 292). Conceptual frameworks, since their vocation is universalism, have always rejected the idea of accounting pluralism since a single entity only publishes one set of accounts. The IASB's conceptual framework nonetheless recognises the multiplicity of users and the diversity of their needs. However, whilst favouring investors, that is to say the shareholders and creditors (IASB, 2010, art. OB2 & 10), the Conceptual Framework aims to produce information that corresponds to the needs of a maximum of other stakeholders (ibid. OB8) whilst not giving them priority (ibid. OB10). Since it cannot, for comprehensible technical reasons, implement general agency relationships in accordance with *Stakeholder Agency Theory*, the Conceptual Framework falls back on an Agency Theory reduced to the relationships between managers and shareholders.

Moreover, Agency Theory simplifies the complexity of the company excessively by ignoring the psychological and social aspects of a human organisation. We do not intend to tackle the question of the managerial effectiveness of this method of organising power here (Saussois, 2011, p. 61). However, by keeping this model in its conceptual framework, the annual accounts clearly cannot serve the interests of all the stakeholders.

To conclude this discussion of the implicit hypotheses in the accounting model promoted by the IASB, we can see that their validation poses serious problems to say the least. Behavioural Finance demonstrates the limits of Expected Utility Theory since the complete, immediate and free information of the operators is a fiction and Agency Theory presents an over-simplified vision of the company. Moreover, there is an internal contradiction. Since if the markets are efficient, there cannot be, by construction, asymmetry of information. The principal can therefore retain permanent and total control of the agent. There is no longer really any moral hazard since any "misdemeanour" on the part of the agent is immediately detected without having to wait for the latter to provide the information likely to confound him and in particular financial statements describing facts that are on average more than six months old. Consequently, the simultaneous recourse to these two theories cannot be justified.

2.2. The explicit hypotheses of IASB's accounting model

The explicit hypotheses are those that define the required characteristics of the instrument of observation, that is to say its ability to provide reliable, neutral information that contributes to the maximisation of the allocative efficiency of the resources.

2.2.1. The existence of a "true and fair view" or “faithful representation” provided by financial reporting.

This hypothesis presupposes the existence of a reality that is exterior to the observer. The financial position is taken to be an objectively observable reality expressed in the accounts. Hence the expression *true and fair view*, used in British accounting law and adopted by the European Directives and of *faithful representation* in the IFRS Conceptual Framework (IASC, 1989, art. 33 & 46). This underlying hypothesis is already to be found in the FASB Conceptual Framework. “The ontological assumption underpinning the CF is that the relationship between financial accounting and economic reality is a unidirectional, *reflecting or faithfully reproducing* relationship: economic reality exists objectively, intersubjectively, concretely and independently of financial accounting practices; financial accounting *reflects, mirrors, represents, or measures* this pre-existent reality” (Hines, 1991, p. 315). In other words, that is also what Zeff (1999) says, quoting the FASB CF (1980, § 63): “representational faithfulness was also defined as *correspondence or agreement between a measure or description and the phenomenon it purports to represent*.”

This objectivity is thwarted by the fact that the transactions and events accounted for in accounting are those that interest the investors and not necessarily the other stakeholders. In addition, the recourse to value in use or usefulness for impairment tests is also not compatible with objectivity since this value is necessarily subjective. For example, Didier Marteau pointed out that 98% of the valuation of Goldman Sachs assets was mark-to-model and that the approximations of fair value valuation exceeded the bottom line.[11]

2.2.2. The hypothesis of the neutrality of financial reporting

Is *homo oeconomicus*, producer of information, neutral? By this, we understand that he abstains from all value judgements. This is clearly false since he favours the choices that maximise his profits or more generally, his advantages. The hierarchisation of objectives is, after all, the expression of a value judgement. The decision to remain unbiased is also a form of bias. The existence of a demand from the users, expressing the need for accounts to be neutral, has never been demonstrated even though the confirmation of this characteristic legitimises the standard. On the other hand, employers regularly complain of the instability of the standards and would very much like to see consistency in the methods.

Is accounting neutral nonetheless? By this we mean not taking sides in opposing needs such as shareholders anxious to know the company's core value and employees anxious to know that the business will last. According to the IASB, financial reporting serves the needs of the investors (therefore it is not politically neutral) but since the other stakeholders are supposed to have the same needs, it becomes neutral (IASC, 1989, art. 12 & 13)! The answer given by IFRS’s Conceptual Framework amounts to rhetoric (Burlaud & Colasse, 2010, p. 164).

On the question of the qualitative characteristics that the financial statements should have, the Conceptual Framework states that to be reliable, they must above all be neutral, that is to say

[11] Didier Marteau : *Aléa moral, asymétrie d'information et crise financière (Moral hazard, asymmetry of information and financial crisis).* Conference held on 29/3/2012 at Intec (Paris).

exempt from bias (IASB, 2010, art. QC 14). They "are not neutral if by the selection or presentation of information, they influence the making of decision or judgement in order to achieve a predetermined result or outcome" (IASC, 1989, art. 36). According to this definition, the producer of the accounts, the CFO or the CEO of a company must display neutral behaviour. Any possible desire to manipulate the reader's diagnosis of the financial statements is strictly limited by the restrictive nature of the accounting standards. But the neutrality of the producer does not mean that the standards setter is neutral. "Neutral information does not mean information with no purpose or no influence on behaviour" (IASB, 2010, art. QC 14). In actual fact, the bias is clearly towards privileging the needs of investors operating in a global capital market that must be as liquid as possible.

If we place ourselves in the position of the producer of the accounts, can we conceive of and construct a signal without intention? And if we place ourselves in the position of the reader of the financial statements, can we imagine that his interpretation is not influenced by his experience and preferences, by subjective elements, therefore? Can we imagine a neutral reading of the financial statements? Lastly, if we place ourselves in the position of the standards setter, he cannot be politically neutral when he chooses to favour one category of users. “Accounting theories... are the product of the society in which they operate and cannot be regarded... as neutral; they serve specific interests” (Bryer, 2012, p. 512)

2.2.3. The hypothesis of the compatibility between the faithful representation and relevance of the accounts

The compatibility of the two characteristics of faithfulness and relevance is not challenged by the IASB's Conceptual Framework, which links them closely (IASB, 2010, art. QC 5). "Neither a faithful presentation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions" (ibid. art. QC 17). If financial reporting must necessarily possess these two characteristics, which we would agree to be ideal, are there cases of incompatibility?

The Conceptual Framework defines relevance as follows: "Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both" (IASB, 2010, art. QC 7). “Financial information need not be a prediction or forecast to have predictive value.” (ibid. QC 8). It is sufficient for it to help users make their own predictions and in particular predictions concerning financial flows. When the financial statements confirm or negate previous predictions, they enable future predictions to be more precisely formulated.

The Conceptual Framework defines "faithful representation" as being "complete, neutral and free from error." (IASB, 2010, art. QC 12) Of these three characteristics, the one that poses the most problems is neutrality as discussed above. Relevance, by definition, makes an impact on decisions (ibid. art QC 14).

Although faithful representation does not lead *ipso facto* to usefulness, that is to say the relevance of the information (IASB, 2010, art. QC 16), the Conceptual Framework does not envisage conflict between these two qualities (Hoarau, Teller & Walliser, in Hoarau *et al.* 2011, p. 95). But how then are we to explain the political pressures of 2008?

"The application of Standard 39 in its pre-October 2008 form had the effect, given the situation of the financial markets, of obliging banks to record any depreciation that had dramatically amputated their profits or equity and prevented them from respecting the prudential ratios (Basel 1 and Basel 2) to which they were subject. There was a strong risk that some of them, and in particular investment and corporate banks, would go bankrupt[12] and that this would produce a new bearish trend in the markets and complete their destabilisation. At this stage, it has to be said that the search for efficiency led to instability. (…) The amendment, published on 13 October 2008, permitted, which was hitherto forbidden, the reclassification of elements in the "trading assets" and "available-for-sale assets" categories as "loans and receivables issued by the company" thereby avoiding fair value valuation since the reclassification could be applied retroactively as from 1 July 2008. This IAS 39 and IFRS 7 "amendment" adopted on 15 October 2008 by the European Union, was an important one. Its impact can be measured after the fact by reading, for example, the 2008 accounts of the Société Générale bank. The bank had applied the amendment from 1 October 2008 and as a result was able to reclassify in "loans and receivables" 28.6 billion euros' worth of assets assessable at market value, a reclassification that in 2008 enabled it to avoid reducing its net banking income by 1.5 billion euros and allowed it to record a consolidated result of 2.01 billion euros" (Colasse, 2009a). Political pressures therefore led to biases with regard to rules that were supposed to generate a faithful representation or view. However, these biases can have desirable consequences (Christensen, 2010, p. 288).

In conclusion, this discussion of explicit hypotheses demonstrates their weakness. The use of internal valuation models cannot give a true and fair view of an objective reality, neutrality at the service of the nomad stock-market investor is mere rhetoric and the conflict between the faithful representation and relevance of the accounts, which was not anticipated by the IASB, came to light during the 2008 crisis.

To conclude this second section on the implicit and explicit hypotheses of the IASB accounting model, we would observe that these have not been validated but constitute an attempt at modelling that has led to a dramatic reduction in the complexity of a reality and the financial position of a company for which no direct observation is possible. In the third section of this article we explain the position we take regarding the relevance of the accounting model and the utility of the information produced.

3. The financial statements are a stimulus: "relevance" is more important than "fair representation".

We have seen that the financial position of an entity can only be observed with the help of tools capable of modelling reality, that is to say that reducing its complexity and make it intelligible in concrete terms. Yet the IASB model is founded mainly on a debatable representation of behaviours. Moreover, the fidelity to a reality of the financial reporting and political neutrality of the standards setter are also debatable. Yet virtually universal accounting practices are emerging

[12] The term "bankruptcy" is not completely accurate. Bankruptcy is a statement of fact: at the moment the cash-flow does not allow due dates to be honoured. We are in the sphere of "fair representation". On the other hand, the emission of a negative signal can only create a risk and not a fact. The fall in the results of banks could generate concerns as to their future solvability with a risk of the obstruction of the interbank market. The signal was not "relevant". It could create loss of confidence.

from this Conceptual Framework. This paradox is only explicable if we abandon the desire to express "fair representation" to seek to express the "relevant" information.

These apparently technical issues raise a more fundamental question: what is the social or the political responsibility of the standard setter? The FASB has had to mention this debate. “While rejecting the view that, financial accounting standards should be slanted for political reasons or to favour one economic interest or another, the Board recognizes that a standard setting authority must be alert to the economic impact of the standards that it promulgates.”[13] A similar point of view is expressed by Richard Macve: “Standards’ setter major problems are more often political.”[14]

3.1. What is the reality of a "fair representation"?

If a "fair presentation" is a function of hypotheses, can we still call it a "fair presentation"?

In Table 1, which traces the development of accounting, we have said that the "relevant" can exist. Cash accounting, for example, gives the amount of cash available to the nearest cent and we can check this by "cashing-up". The cash balance is real, objective, verifiable and is a relevant information to take some decisions. Similarly, when an owner wanted to make an inventory of a flock he had entrusted to a shepherd, he had to count the animals, which can be done simply and objectively. Although…Can one simply add up calves, cows, pregnant cows, bullocks and bulls, etc.? Should one not take account of their age? Their state of health? So categories have to be created. But this immediately poses boundary problems. When, for example, does a calf become adult? Or a healthy animal, ill? We can only settle these questions by conventions, deciding for example, on an age at which adulthood is reached. We thus create rules, standards that simplify and pacify the relationships between economic agents on condition they are the subject of a consensus.

Starting with this very simple example, we can imagine the difficulty the construction of a "true and fair view" of the financial position of an entity such as a big company represents. It is obviously a wonderful simplification mechanism. Is it conceivable that it could be neutral?

If we accept the fact that the amount of equity and the net result of the financial year are the most important signals provided by the financial statements the following examples show the extent to which these indicators are sensitive to the conventions adopted upstream.

Table 3: Examples of deviation between equity and income in IFRS and in US GAAP (examples from the 2005 financial statements, in millions of euros)

[13] Zeff (1999), p. 110, quoting FASB (1980), § 106
[14] Macve (1997) p. XXII, quoted by Zeff (1999) p. 119

Companies (group accounts)	Difference in amount: Equity in IFRS and US GAAP	The difference represents a % of equity in IFRS of:	Difference in amount: Income in IFRS and US GAAP	The difference represents a % of the income in IFRS of:
Total	32,410	80%	- 676	- 6 %
France Télécom	– 11,710	- 47 %	- 12	Not significant
Suez	4,864	29 %	- 755	- 30%
Alcatel - Lucent	2,485	40%	- 167	- 18%
Axa	2,256	7%	1,059	25%
Vivendi	- 939	- 5%	- 583	- 18%
Sodexho	- 554	25%	- 83	- 25%
Thomson	- 438	- 20%	- 145	25%
Danone	154	3%	- 129	- 9%

Source: VA, 2007, p. 15.

By simply changing the standards, the same company can make its bottom line vary by a billion euros or transform profit into loss. Can we still refer to "true and fair view" therefore?

But the fundamental question is to know whether, in the absence of the ability to represent what is "true", the signal modifies behaviour. Yes, undoubtedly (Christensen, 2010, p. 293). Indeed, when one sees the pressure exercised by the Ecofin Committee on 7 October 2008 on the world standards setter, the IASB, to modify the rules of the game in order to save the banks from chain bankruptcy, one cannot but be convinced. So the reclassification of certain financial assets decided in October 2008 and backdated to 1 July 2008 had the following impact on the financial statements of three banks among many others: an increase in the bottom line (although no new financial transaction had been observed) of:

- 1.5 billion € for the SG as we have already seen;
- 845 million € for Deutsche Bank and
- 310 million € for Natixis (Burlaud & Colasse, 2010, p. 174)

When information is likely to provoke stock-market panic, the rules of the game are changed, the "thermometer" is modified and financial statements are given the objective of producing a "good" signal. As it happens, this was effective since confidence was rapidly restored.

After casting doubt on faithful representation and the political neutrality of financial reporting, comes question-time.

3.2. How can the image create the real?

The relationship between knowledge and action has been the subject of many studies. It lies at the heart of psychologist, biologist, logician and epistemologist Jean Piaget's work (1949) on the construction of intelligence. It is a relationship that can be found in another form and context in

Michel Foucault (1981) with the idea that reality is modified by the observation that Man adapts his behaviour when he becomes aware of the fact that he is being observed or is likely to be. This approach is part of the constructivist movement of which Piaget was a promoter.

To account for is to first enter the data and process it to produce information supposed to give a true and fair view.[15] But this image is not interpreted in the same way by all users since the reader superposes the context in which he finds himself, his experience and his memory onto the image to produce an interpretation, a meaning and a diagnosis that can only be subjective. Two individuals or the same individual placed in two different situations, will have a different interpretation of the financial statements. The producer of the information obviously has no understanding of the context in which the reader is placed. However, depending on the nature of the information he produces, he will nonetheless have an influence on the course of events. Indirectly, the producer of the accounts participates in the transformation of the world and in the creation of the real. This transformation will, in turn, result in a new image. There is therefore an interaction between the image and the real, illustrating, in this particular case, the dialectic relationship that exists between knowledge and action. In other words, Hines expresses the same idea: "there is a bidirectional, interactive relationship between financial accounting ratios and financial distress" (Hines, 1991, p. 324).

Where goods or living beings devoid of consciousness are concerned, the image does not interact with the real. So the fact of measuring, drawing a plan or photographing a building has no impact on the latter since he has no behaviour as defined in our introduction. Showing an animal its picture (mirror, photograph, statue, etc.) generally has no consequences for its behaviour since it is not conscious of being represented. It is quite another matter with certain human behaviours. For example, the CEO who will be judged on his financial performance will anticipate, and depending on the hypotheses adopted in constructing them, try to create, the most flattering image possible of his action. Through the financial statements, he will, in particular, be compared, for example, to his competitors and therefore assessed. The image, here the financial statements, are a signal that either stimulates or inhibits social behaviours. However, the signal makes certain aspects visible but cannot make them all visible. Yet *what you see is what you get*. Voluntarily or not, the signal cannot therefore be neutral as we have seen above at § 2.2. If it is not "fair representation", it remains to be seen whether it is "relevant".

A signal can obviously not be "relevant" in general, "relevant" in itself. It can only be so in relation to an objective desired by a person or group of people. The optimum may be a non-neutral signal, that is to say, one that seeks to manipulate (Christensen, 2010, p. 294). It is the implicit or explicit conceptual framework that defines for whom and why financial statements are produced. We will now list several alternative possibilities showing the relativity of the message, grouping these possibilities into four main categories of objectives or needs:

- to make commercial exchanges possible through confidence;
- to make the agency relationship possible thanks mainly to control;
- to make an economic policy possible through tax-based accounting;
- to make an entity legitimate thanks to economic, social and governance reporting.

[15] See Table in the Appendix.

3.2.4. Making commercial exchanges possible thanks to confidence

Accounting is consubstantially linked to commercial exchange. However, this exchange cannot take place without a minimum of confidence that accounting can contribute to establishing by producing non-falsifiable inventories and ensuring the traceability of the financial flows.

Creditors can, for example, search the accounts for a prudently assessed and exhaustively listed **inventory of the assets** that will give them real guarantees in case of failures.

One might also ask whether the role of the accounts is not simply to **make the financial flows visible and subject to control.** Like the police officer, who by his mere presence, modifies the behaviour of drivers thereby reducing the number of highway code infractions, the accountant contributes greatly to the reduction of delinquency. The "relevant" signal that the accounts give out is that the traceability of the financial flows is a lasting obstacle to the impunity of financial or fiscal delinquency. Do we need, therefore, accounting standards focusing more on flows and financial commitments including the off balance-sheet, or on the needs of the tax department who would then abandon the idea of attributing a value-in-use to the assets?

3.2.2. Making the agency relationship possible through control

Agency Theory, which applies to all cooperation situations (Rojot, 2003, p. 245) but that we only call upon here to deal with the separation of capital ownership and management, is obviously one of the conditions of the investment of savings and consequently, of economic development. Yet this relationship presupposes, besides appropriate governance, tools for supervising the agent in order to:

- take account of his management;
- reveal his expectations;
- assess the durability or reproductive nature of his performance.

Accounts can be the instrument of an ***ex post* control** of the execution of strategic commitments, exercised by the shareholders over the managers who must "give account" or, more generally, by the principal over the agents. Do we not need therefore, accounting standards specific to strategic choices? Can a long-term industrial strategy along the lines of Rhenish capitalism, be monitored with the same accounting standards as a short-term maximisation of share values strategy?

The financial statements can also be **revelatory of the expectations of the managers** even though they only record past events. Indeed, they are established on the basis of the going concern principle. If this proves unrealistic, the accounts must be drawn up in terms of net asset value. In the hypothesis of the continuation of the business, certain calculated costs are based on forecasts. Depreciations, for example, are distributed over the probable time that the assets concerned will be used. The classification of stock into categories (employee participation, investment, etc.) with the consequences this has in terms of valuation and impact on the bottom line, depends on intentions. The determination of a discount rate applicable to future cash-flows in the valuation of certain items on the balance-sheet depends on expectations relating to the value of time and level of risk.

Lastly, one can, for example, call on financial statements to have a **predictive value.** If they give a true and fair view of the financial position at a given time, they enable us to follow past developments, to trace a trend and, in case of degradation, they can induce panic phenomena (self-fulfilling prophecies) whereby the creditors, of which shareholders are just one particular case, behave like passengers on a boat caught up in a storm who all rush to one side for shelter from the wind and cause the vessel to capsize as they so feared it might. On the other hand, however, one can also reproach them for not having a predictive value and consequently, of serving no purpose. By not ringing the alarm bell sufficiently early, we delay awareness of danger and decisions, which had they been taken in time would have allowed the recovery which has since become impossible. A detailed profit and loss account allows us to check the viability of the company's economic model or business paln.

3.2.3. Making an economic policy possible through tax-based accounting

Accounting produces a conventional measure of the bottom line which will serve to divide the added-value between the shareholders (dividend), the State (taxes), the employees (incentive schemes and profit-sharing) and the company itself (investment). What each will receive obviously depends on what the others will take, knowing that the impact on the national economy and on social balance depends on the beneficiary. What is distributed to the employees is not used in the same way as what is distributed to the shareholders, since these two categories do not have the same savings rate. The State can use its supreme authority to dictate the amount of the levy it imposes.[16] More subtly, however, it can also favour one or other of the claimants by taxing, for example, capital revenue at a lower rate than labour revenue, or by taxing the distributed income more heavily than retained earnings. It can even target yet more subtly by favouring investment in the production tool rather than in property, for example.

To the extent that **taxation** is the instrument of an economic policy that can be aimed at the growth of employment, investment, innovation or exports, etc., accounting can then have as its prime objective the measurement of the efforts made by the tax-paying company in the direction of the desired behaviour. Accounting standard are, from this point of view contained in the Tax Law, which is, for example, a possibility for non-public interest entities in the United States. This is also largely, but not totally, the case with company accounts in France.

3.2.4. Making an entity legitimate thanks to economic, social and governance reporting (ESG).

Certain companies reach a size, generate externalities and exercise power such that "the public in general (and not only their clients) becomes aware of the fact that it is the object of the management of these organisations" (Laufer & Burlaud, 1981, p. 52). This therefore poses the question of the legitimacy of this power. The question of the political role of companies is not new. In the 15th century, the banker Fugger, used his fortune to get Charles V elected Emperor of the Holy Roman Empire of Germany. The colonisation of Asia and Africa by European nations was based on big companies such as the *Compagnie des Indes*. ITT played an active role in Chile

[16] These levies are, however, "modulated" by tax fraud that Eric Alt, quoting the Minister, Valérie Pécresse, evaluates at 30 or 50 billion euros a year in France. [See Eric Alt & Irène Luc (2011) : *L'esprit de Corruption (The Spirit of Corruption).* Ed. Le bord de l'eau, 2011, 180 p.]

in the overthrow of Salvador Alliende's Socialist government by General Pinochet. We might also mention the political interventions of the big oil and mining companies. Lastly, the current crisis has demonstrated the fantastic power of ratings agencies. Their power is also their weakness because of the political, environmental and social risks (Laufer, 1993). As a result, they too must account to Society if they want to legitimise and therefore maintain their power.

Since the 1990s, the demand for reporting to be extended beyond the financial statements is becoming institutionalised. In France, the Act of 15 May 2001 on the new economic regulations created "an obligation for listed companies to produce social and environmental reporting" (Capron & Quairel-Lanoizelée, in Nikitin & Richard, 2012, p. 163). The 12 July 2010 Act supporting the national commitment to the environment, known as Grenelle 2, has extended this obligation (ibid. p. 164). The European Directive on the modernisation and updating of accounting standards (2003/51/EC) stipulates that: "To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters."(art. 46b) These requirements come up against the weakness of the instrumentation and lack of consensus to construct it. There is no lack of projects, however.

In 1997, the Global Reporting Initiative (GRI) was created in partnership with the United Nations Program for the Environment (UNPE). This was to implement the promotion of sustainable development whilst ensuring a three-way balance between the economic, environmental and social or human aspects. "GRI guidelines organise sustainability reporting in terms of economic, environmental and social performance (also known as the triple bottom line). This structure has been chosen because it reflects what is currently the most widely accepted approach to defining sustainability."[17]

A new standards setter was created in 2010: the International Integrated Reporting Council (IIRC). It defines its sphere of competence as follows: "Integrated Reporting is a new approach to corporate reporting that demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, Integrated Reporting can help business take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing."[18]

As we have seen both on an institutional level and as regards tools, ESG reporting has not been stabilised. However, a certain number of observations can henceforth be made:

- the accounting standardisation model exercises a strong appeal with the setting up of standard setting bodies defining the information that must be produced and in what format in order to ensure the consistency of quantification and comparability methods and to guarantee their neutrality (in the sense of absence of manipulation);

[17] GRI (2002) : *Sustainability Reporting Guidelines.* Version 2, quoted by Depoers & Richard in Nikitin & Richard (2012), p. 181 – 182.

[18] See website http://www.theiirc.org/

- the objectives are clearly wider with the desire to give account of several aspects of management to the benefit of very many stakeholders and not just current and potential investors;
- the question of the link between social and environmental reporting and financial reporting has not been resolved. Should the information produced overlap or be produced independently? By whom and how should it be audited?

But the main idea, whether it is a question of ESG reporting or the financial statements is that to make visible is to constrain and that information produces behaviour.

In conclusion to this third section, we see that "the choice of an accounting technique is merely the reflection of far more fundamental choices that need to be made explicit, although this is rarely done" (Burlaud, 1979, p. 20). The IASC/IASB's Conceptual Framework has partially responded to this critique by identifying the stakeholder it intended to privilege. However, we have shown that there was another way of tackling the question. Instead of asking for whom the information is intended, one can ask with what aim and to what end the information is being published. Several stakeholders can have a common objective. Moreover, certain stakeholders are not homogenous categories. For example, the investors may be small savers or non-professional investors, institutional investors who themselves may have different profiles, portfolio managers who are sometimes judged on their daily performances or great industrial dynasties (Peugeot, Michelin, Quandt, etc.) managing their assets with a horizon of several generations. It is far from certain that they all have the same needs with regard to financial information. Lastly, if financial statements are a tool at the service of a public policy, this supposes that the latter is supported by a State or an inter-state organisation that also intervenes in the accounting standards setting process.

Conclusion

Many of the questions raised, without claiming to be an exhaustive list, remain unanswered and represent avenues for further research. They can be organised by first of all placing ourselves in the situation of the political power that must manage the preparation of the conceptual framework by the standards setter then, by placing ourselves in the position of the person reading the accounts.

The political authority must ask questions on the "right behaviour" and the potential pro-cyclical effects induced by the accounting standards. This is what the European Union has not done, "sub-contracting" responsibility for defining accounting standards to the IASB, "subject to further examination", however.

- What is the "right behaviour" that the financial statements should induce? A conceptual framework is therefore a political act for which the technicians of the discipline cannot legitimately take responsibility. To whom should they account for their decisions? This also raises the question of knowing whether we can have the same conceptual framework for providing relevant information for stakeholders when it is a question of private companies, organisations involved in the social economy and public organisations that levy a tax, and perhaps, issue their money? Should we be questioning the coming together of the *International Public Sector Accounting Standards* (IPSAS) and the IFRS?

- How to avoid the signal producing chain reactions, panics or surges, pro-cyclical behaviours and leading to self-fulfilling prophecies? Would the abandoning of fair value for a return to historic cost allow us to reduce volatility?

The standards setter, in the dialogue he has with users, in particular during the publication of Exposure Drafts, should question the simplicity of the message and whether or not it is comprehensible as well as the learning effects it can induce.

- What is the link between credibility and the simplicity or clarity of the message? Of course, the accounts can only be credible if they are comprehensible. Understandability is, moreover, one of the characteristics required by the Conceptual Framework (IASC, 1989, art. 25). But many voices are now denouncing the complexity of the standards and the loss of legitimacy of financial statements.[19] Can we imagine a return to a detailed profit and loss account that would correspond to the needs of the various stakeholders? How far can the mechanism of simplification of the signal go whilst still allowing the financial statements to make sense? The most extreme example is that of the ratings agencies who reduce information on the insolvency risk of a company, even of a country and therefore of its policy, to a single rating.
- Does the stimulus of financial reporting always act on behaviour in the same way over time? Is there a familiarity effect? A learning effect?

IASB's Conceptual Framework presupposes that we can faithfully represent "economic phenomena" (IASB, 2010, QC12) to allow existing and potential investors to take economic decisions involving the purchase, sale or retention of stock (ibid. OB2). Previous studies have often dealt with extending it to take in the needs of other stakeholders. This is the partnership approach of accounting standardisation (Colasse, 2012, p. 66). The debate we would like to open concerns the relationship between standard and decision or behaviour. More than ever, therefore, we must favour the "relevant" over "fair representation". We should focus “on the effect of accounting reports on the distribution of income, wealth and power” (Bryer, 2012, p. 512).

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[19] See the conference on accounting research organised by the Autorité des Normes Comptables (ANC), France's national standards setter, on 16/12/2011.

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Appendix

How accounting allows us to transform, in stages, data into information and information into knowledge.

Table 4: The process of transforming data into knowledge

The stages of accounting operations	**The actions** (bound by a standard)	**The outcome of the accounting operations**
1/ Entry	**List** the events **Measure,** that is to say express in monetary units (valuation). **Enter** the operations	Collected **data** Ensures the traceability of the financial and physical flows. Standardises them. Exhaustiveness of the set of transactions and inventory of the assets.
2/ Processing	**Classify** the data **Memorise** **Summarise, produce a true and fair view.**	Reduce the complexity of abundance by transforming the data into **information** (example: amount of the wage bill, annual turnover, etc.).
3/ Interpretation	**Analyse** the information (example: calculation of ratios) **Compare (**example: Central Balance Sheet Office) **Diagnose** (example: identify strengths and weaknesses).	Transform the information into **knowledge** (production of meaning by reducing the complexity of meaning; example: knowledge of profitability, solvency, etc.) with the introduction of categories, rate (ratings agencies, score functions), arrive at a decision (role of experience and categorisation).

Vitae

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Highlights

- We explain how conceptual frameworks are moving towards a hypothetico-deductive approach.
- We discuss the explicit and implicit hypothesis of IASB's conceptual framework.
- We consider financial statements as stimuli borrowing this concept from the behavioural sciences.
- We conclude that "relevance" of disclosed financial statements is more important than "fair representation"

Summary

Introduction 1
1. The evolution of accounting 3
1.1. Accounting: "knowledge in search of action" 4
1.2 . Accounting: towards a hypothetico-deductive approach 6
2. The implicit and explicit hypotheses of IASB's accounting model. 8
2.1. The implicit hypotheses of IASB's accounting model 8
2.1.1. Expected Utility Theory or the theory of rational choices. 9
2.1.2. The Efficient Markets hypothesis 10
2.1.3. Agency Theory 10
2.2. The explicit hypotheses of IASB's accounting model 12
2.2.1. The existence of a "true and fair view" or "faithful representation" provided by financial reporting. 13
2.2.2. The hypothesis of the neutrality of financial reporting 13
2.2.3. The hypothesis of the compatibility between the faithful representation and relevance of the accounts 14
3. The financial statements are a stimulus: "relevance" is more important than "fair representation". 15
3.1. What is the reality of a "fair representation"? 16
3.2. How can the image create the real? 17
3.2.4. Making commercial exchanges possible thanks to confidence 19
3.2.2. Making the agency relationship possible through control 19
3.2.3. Making an economic policy possible through tax-based accounting 20
3.2.4. Making an entity legitimate thanks to economic, social and governance reporting (ESG). 20
Conclusion 22
Bibliography .... **Erreur ! Signet non défini.**
Appendix 26
Vitae 27
Highlights 27