On the Myth of “Anglo-Saxon” Financial Accounting

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Abstract: The term “Anglo-Saxon accounting” (ASA) is used by a number of academic writers on the subject of International Accounting to refer to an approach to financial accounting and reporting that is supposedly common to the UK and Ireland, the USA and other English-speaking countries including Canada, Australia, and New Zealand. While most of the writers we cite as using this term are continental Europeans, they also include an Englishman, J. Flower. The term is typically used to imply not just similar conceptual and technical approaches, but also a hegemonic alliance in the international politics of accounting regulation.

This article seeks to establish that ASA in this sense is a myth. We do this first by critically examining four putative commonalities that are frequently attributed to the UK and USA approaches to financial accounting and that form the basis of the myth, and second by indicating the unfeasibility of such a hegemonic alliance within the IASC. A myth may have some factual foundations, but belief in it rests also on bases that are non-factual. So it is with ASA. In particular, analysis of the terms “true and fair view” (TFV) and “fair presentation (FP) in accordance with generally accepted accounting principles (GAAP)” shows that, far from their possessing a semantic equivalence that constitutes a commonality between UK and US financial reporting, their interpretation indicates a profound difference between the UK and US approaches. What UK and US financial reporting have historically shared is a micro- and capital market orientation that lends itself to international accounting regulation in a context of global capital markets. But with such an orientation now being generally accepted internationally, the differences between UK and US financial reporting are taking on an increased significance that this article seeks to highlight.

The concept of “Anglo-Saxon” or Anglo-American accounting (hereafter ASA) has a long tradition and is very much “alive and kicking” as a recent article by Flower (1997) demonstrates.

In broad terms, there are two groupings of countries that dominate financial reporting at the international level: the European Union, through its Directives, and the Anglo Americans, with the IASC as their chosen instrument. The European Commission is seeking a grand realignment of the powers that determine the rules
governing financial reporting. It is attempting to detach the IASC from its long-standing alliance with the Anglo-Americans and to bring it over to the side of the Europeans. Instead of, as in the past, the IASC and the Anglo-Americans presenting a united front, against the European Union, the future may be quite different: the IASC and the European Union combining together against the Anglo-Americans.

Flower then gives an analysis of the membership of the IASC Board that suggests that something like an “Anglo-American” accounting hegemony exists in the IASC.

The conclusions to be drawn from this analysis of the IASC’s membership is that the Anglo-Americans, whilst not commanding a majority on the board, should be capable of dominating the IASC’s agenda and output, by acting as a united block, in the face of the very diverse approach of the other members.

In this context, what are we to make of a news item in Accountancy (1997) that, under the headline “SEC Miffed at UK Victory” included the following?

IAS1, Presentation of Financial Statements, was approved but not without the usual argument over the true and fair override which has been left in the standard. Essentially the US, Canada and Australia do not believe in it but the UK and most European countries do. The SEC’s Mike Sutton made his disapproval of the final standard clear at the meeting, though he had already written to the IASC to say that the true and fair override was unacceptable to SEC staff. “Are you prepared to sign off accounts that you know are wrong?” Sir David [Tweedie] asked the US. “They said yes because that’s what the rules say, and we were just rolling around on the floor at this stage—it’s bizarre what the US does.”

This article critically examines the notion that there is an “Anglo-Saxon” approach to financial accounting, together with related ideas regarding the existence of an Anglo-American accounting hegemony. Our argument, as our title suggests, is that these notions constitute a myth, in the sense that they reflect a certain historical truth regarding both the origins of the accounting professions in the English-speaking countries and certain important shared ideas and institutional characteristics, but fail to take account of fundamental differences in both thought and, even more, practice.

The key point we wish to make about myths is not that they are false, as they may not be in obvious contradiction to reality and indeed may be at least partially true. Rather, our argument is that their truth-value is of little importance compared to their symbolic or metaphorical value (Archer, 1993).

Although the basis of our argument is attitudinal and philosophical, we also explore the political implications of our hypothesis in terms of the IASC scenario that Flower posits. Our analysis suggests that the political realities are more complex than might at first appear.

The rest of this article is structured as follows. The next section explores the historical origins of the notion of ASA and gives examples of references to it that indicate belief in
ASA. The next section discusses four hypotheses that could be taken to support the validity of the ASA, i.e.,

1. The relationship between “the true and fair view” (TFV) and “fair presentation” (FP).
2. The propensity to develop “conceptual frameworks” (CF) for financial accounting and reporting.
3. Common law versus codified law.

The article then sets out a number of reasons why these putative supporting hypotheses do not in fact support belief in ASA.

The next section considers the implications of our analysis regarding the “politics” of the IASC and the future development of financial reporting at the “big generally accepted accounting principles (GAAP)” level. Finally we conclude that ASA is indeed a myth and discuss the implications of this conclusion, with particular reference to the position of UK accounting standard setting on the world scene.

ANGLO-SAXON ACCOUNTING

If asked to define ASA, a useful starting point may be found in the classification work of Nobes, Mueller, and others in the 1960s and 1970s. This work predates any effects of enacting the European Union’s (EU) Fourth or Seventh Directives across Europe, and it also predates any practical effects from the foundation of the IASC in 1973. The well-known Nobes (1983) classification is shown as Fig. 1.

Thus, ASA is micro-orientated and judgmental, reflecting business practice and professional rules. Some of the detailed “similarities” between the UK and the US are described and critically analyzed below. At this point, we should emphasize the fundamental nature of the “classes” level. The UK and the US are the (historically) most significant of those countries where accounting is essentially capital market-driven, with a focus on the needs of the investor as an “accountee” (Ijiri, 1975). This has led to an emphasis on consolidated financial statements, as opposed to legal entity financial statements that tend to be dominated by tax rules and legal rules relating to dividend-paying capacity.

This similarity between the UK and the US is no doubt grounded in the long shared history of the two countries (Churchill, 1957). This started with colonization and the implanting of a common law-based legal system, and (following independence) continued with emigration, investment, trade links and, last but not least, similarity of language, notwithstanding the dictum attributed to George Bernard Shaw (Oxford, 1992) that England and America are two countries divided by a common language.

Mueller (1967) suggested that four patterns of development were discernible. These he labeled as follows.

1. Accounting within a macro-economic framework
2. The micro-economic approach
Figure 1. Groupings of Some Major Countries (Source: Nobes, 1983).

Note:
- This is an abbreviated term for corporate financial reporting.
- These terms, while borrowed from biology, should be interpreted merely as loose labels.
- The terms at these and other branching points are merely labels to be used as shorthand to try to capture some of the attributes of the members of the accounting systems below them. This classification has been prepared by a UK researcher and may contain usage of terms that will mislead those from other cultures.
3. Accounting as an independent discipline
4. Uniform accounting

The UK and the US are included in the third “independent discipline” pattern, which Mueller characterized as follows:

Systems of this sort have developed independently of governments or economic theories. Accounting has developed in business, has faced problems when they arrived, and has adopted solutions which worked. Theory is held in little regard and turned to only in emergencies or used ex post facto in an attempt to justify practical conclusions. Expressions such as “generally accepted accounting principles” are typical. Mueller recognized the accounting systems of the United Kingdom and the United States as examples.

It is important not to underestimate the strength and importance of this shared history and parallel development. In terms of a general emphasis on the investor and the needs of capital markets, and an increasing emphasis on openness and transparency, the UK and the US show a long-standing and significant similarity. Nevertheless, for the reasons that we discuss below, this similarity lacks explanatory power for today’s developments and, even more significantly, lacks explanatory or predictive power for tomorrow’s.

A different way of investigating the perception of ASA is to look at sources from outside that tradition. A few brief quotations from textbooks and writings outwith the AS region can give the general flavor.

The first one is worthy of a little reflection (Seckler, 1998).

With the adoption of the three EC Directives, the most important Anglo-Saxon accounting principles were implemented into German accounting law.

In questa prospettiva, il presente lavoro è rivolto ad approfondire I filoni teorici che sono riconducibili alla tradizione anglosassone del’orientation postulate, e in particolare le teorie dell’entità e della proprietà (Zambon, 1996).

... dans le contexte culturel et institutionnel Anglo-Saxon, le seul cadre comptable de la pratique a longtemps été limité à des applications de ces principes généaux (Boussard, 1997).

Mais il faut reconnaître que cet effort de rationalisation des grands choix qui déterminent les règles concrètes n’est pas facile. Nous suivrons donc la voie «historique» et culturelle en présentant d’abord le cadre des principes généaux puis les approches qui sont venues les compléter, les situer ou les préciser: l’image fidèle et les cadres conceptuels, d’inspiration Anglo-Saxonne (Eglem et al., 1995).

There are many individual differences between German and Anglo-American accounting methods (Ordelheide and Pfaff, 1994).

These quotations indicate that, at least in Continental Europe, there is a belief that ASA principles, traditions, or concepts are an influential reality on the international accounting
scene. This does not imply, however, that the term “Anglo-Saxon” is necessarily being used with precisely the same meaning by the writers just quoted or other users of the term.

One possible influence that may partly explain the type of thinking exemplified above is the tendency up until the end of the 1960s for partners in major international practices in continental Europe to consist largely of UK, US, or Canadian “ex-pats.” The first French partner in the Paris office of PW was not appointed until 1969 (Pollard, 1975). However, the major international practices have been instrumental in disseminating concepts, and techniques such as consolidation methods, deferred tax accounting, substance over form, and others typically thought of as “Anglo-Saxon.”

**SUPPORTING HYPOTHESES**

**The Relationship between the “True and Fair View” and “Fair Presentation”**

The view that TFV and FP are, if not identical, at least very similar “Anglo-Saxon” concepts, has been put forward by no less an authority than the IASC (1989) (the heading is as in the original document):

*True and Fair View/Fair Presentation.* Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an enterprise. Although this Framework does not deal directly with such concepts, the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.

This clearly treats conveying a TFV, and presenting fairly, as interchangeable concepts relating to the supposed qualitative characteristics of financial statement information.

**The Propensity to Develop “Conceptual Frameworks” for Financial Accounting and Reporting**

The notion of ASA is given credibility by virtue of the efforts made, not just in the USA and the UK, but in other English-speaking countries such as Australia and Canada, to develop and promulgate a CF that is supposed to provide theoretical support for the standard-setting process (Archer, 1993). There are reasons for thinking that private-sector accounting standard-setting bodies feel the need for a CF in order to convey legitimacy on their regulatory activities. As Dopuch & Sunder (1980) put it in relation to the USA:

Being largely an offspring of the accounting profession, the FASB has (as did the APB) little defense against the criticism that it does not have legitimate authority to make decisions which affect wealth transfers among members of the society .... [A] conceptual framework is needed to provide the rationalization for its choices.

Thus, the notion of ASA seems to be linked to the role of a CF in the context of private-sector accounting standard setting in the English-speaking countries. This view may be reinforced by the fact that the IASC itself has developed and promulgated its own CF
(IASC, 1989), which owes a great deal to the FASB’s CF (FASB, 1978, 1980a, b, 1985). As the quotations from Flower (1997) and Eglem et al. (1995), given above, suggest, the IASC’s promulgation of a CF is seen by a number of commentators (especially Continental Europeans) as evidence that the IASC has been “captured by the Anglo-Saxons.”

**Common Law Versus Codified Law**

The use of private-sector accounting standard-setting bodies has also been linked to the existence of common law-based legal systems. The latter tend not to provide for the development of sets of accounting rules by statute. Common law-based legal systems, as well as private-sector accounting standard setters, are found in most English-speaking countries (see Fig. 1). Thus, the nature of the legal system is seen as part of the nexus of characteristics that constitute the “Anglo-Saxon” approach to financial accounting and reporting.

**Private- Versus Public-Sector Accounting Regulation**

Enough has been said above to indicate how the use of private-sector accounting standard-setting bodies is seen as constitutive of ASA. One might add that the use of such bodies is also perceived to be linked to the role and status of the accounting and auditing profession in the respective countries, with particular regard to the profession’s perceived capacity for a form of self-regulation that goes beyond the domain of professional ethics to include a major role in accounting standard setting (Archer, 1993).

**APPRAISAL OF THE SUPPORTING HYPOTHESES**

In the following subsections, we show that none of the four supporting hypotheses withstands detailed examination. First, analysis shows that US FP and UK TFV are far from being semantically equivalent, as is sometimes assumed. There is no US equivalent of the UK interpretation of TFV as an overriding requirement. Second, the shared propensity to develop CF can be shown to be part of, and evidence for, the mythical nature of ASA. Third, the notion of a kinship in accounting thought following from similarities in legal systems is undermined by important counterexamples. Finally, we show that the US system of accounting regulation is significantly more “public sector” in nature than the UK system.

**True and Fair View/Fair Presentation**

The TFV in the UK was clearly established as an over-riding requirement in the 1947 Companies Act and then into the 1948 consolidating act. It is now expressed in section 226 of the 1985 Act, a section inserted as an amendment by the 1989 Act. Auditors are given a corresponding duty to report on this requirement, stating whether in their opinion (note the subjectivity implied by this phrase) the accounts have been properly prepared in accordance with the Acts, and whether in their opinion a TFV is given. It should be noted
carefully that in section 226, subsections (2) and (3) are separate requirements. Since both must explicitly be attempted, it follows that they are independent and that either one could be achieved without the other. In particular:

1. complying with all detailed requirements of the Acts does not necessarily lead to a TFV
2. where such a conflict arises, it is the true and fair requirement which is the more important.

The meaning of TFV is obviously of crucial importance. From a legal point of view, UK courts have placed considerable reliance on expert witnesses in developing accounting case law. The expert witnesses as to the meaning of TFV would likely be composed in large measure of pillars of the accounting profession. In this sense, it might therefore be said that TFV means whatever the pillars of the accounting profession officially declare it to mean.

Successive UK governments have taken the position, at least up to the Companies Act 1989, that the precise definition of what is necessary in order to give a proper impression of the financial results and position of a business is a technical accounting matter and should therefore be left to the accounting profession. Parliament would lay out guidelines, and would establish certain minimum requirements (especially regarding disclosure), but would leave the “fine tuning” to the accounting profession, either through published recommendation or by general practice.

In general, therefore, a firm of auditors could safely attest that in their opinion a TFV was given, provided that they had done what any other firm of accountants would have done, and that the financial statements met criteria that any other firm of accountants would also have found to be acceptable. It is clear that this approach leaves open the possibility of the precise meaning of a TFV being different at different times. The “normal” view becomes by definition the “acceptable” view. Far from preventing change, this actually facilitates it as attitudes and opinions gradually evolve within the profession. Case law provides a vehicle for propelling change from time to time.

The Companies Act 1989 seems to have modified the situation in the UK, insofar as it gives some explicit recognition to the private-sector Accounting Standards Board. Following the Dearing Report (Dearing, 1988), the ASB replaced the former Accounting Standards Committee, which was an emanation of the six UK and Irish professional accounting bodies represented in the Consultative Committee of Accounting Bodies and lacked any statutory recognition. Formally, at least, the ASB is not under the control of the accounting profession, for reasons given below.

Following the UK implementation of the EU Fourth Directive in 1981, UK accounting law presents the interesting characteristic of containing a general rule (the obligation to give a TFV) that may require a specific rule to be overridden. A relevant example concerns depreciation, now required by UK statute law (subject to the override). Prior to this implementation in the Companies Act 1981, there was no statutory requirement in the UK for fixed assets to be depreciated. But the requirement to do so was an uncontested rule of good accounting practice, as may be seen from professional publications and textbooks. In other words, the requirement to depreciate fixed assets with a finite useful life was generally a necessary condition for giving a TFV. But if a TFV, prior to 1981, required that depreciation not be provided, no specific legal rule needed to be over-ridden, as no specific
rule existed. It is this aspect that changed when the legal detail (relative to UK experience) of the EU Fourth Directive was enacted into the UK law.

The introduction of accounting standards into the UK accounting regulatory system has created the need to try and clarify the precise relationship between the standards and the law in general and the TFV requirement in particular. Expert legal counsel has twice been given on this question, in 1983 and again, following the changes introduced in the 1989 Companies Act, in 1993. The essence of the argument of the later report, by Mary Arden QC (1993), is that the changes:

Increase the likelihood, to which the earlier joint opinions referred, that the courts will hold that in general compliance with accounting standards is necessary to meet the true and fair requirement.

The issue is a very complicated one, and the logic of counsel’s argument is sometimes suspect (Alexander, 1999). The views expressed in that opinion have not been tested in any court.

The usage of the TFV override in the UK is illustrated in Fig. 2, which summarizes investigations carried out in 1993 and 1997 (Company Reporting, 1997). Most, but by no means all, of the cases involved departure from company law but not departure from accounting standards.

We have explored TFV in rather more detail in Alexander (1999) and Alexander and Archer (1998a, b).

With regard to the view that TFV in the UK and FP in the US are, or are close to being, semantically equivalent, the views of Zeff (1993) are highly pertinent (although German colleagues, at least, would quarrel with the statement that TFV is, in fact, used as an override throughout the EU):

In the European setting, “TFV” is used as an “override,” which means that it is intended to be the governing criterion by which financial statements are to be judged. In the US, however, the governing criterion is conformity with GAAP. “Present fairly” is defined by reference to conformity with GAAP, and there is no authoritative literature in the US in which “present fairly” is explained or defined. In the US, therefore, “present fairly” is not in itself the governing criterion by which financial statements are judged by the organized accounting profession and by the Securities and Exchange Commission (SEC).

It must be noted the US requirement is “to present fairly in accordance with GAAP,” not to present fairly in accordance with promulgated GAAP. It is therefore, hypothetically, possible for FP as required by non-promulgated GAAP to override an explicit rule set out in promulgated GAAP. However, SAS 69 (AICPA 1992) is at great pains to minimize the possibility of this happening in practice.

It is clear from both the general tenor and the specific content of SAS 69 that departure from promulgated GAAP, where such GAAP exists, is extremely unlikely. Zeff (private correspondence, 1993) has commented:

While it is true that rule 203 of the AICPA Code of Professional Conduct provides that there may be circumstances in which the auditor could believe that adherence to promulgated GAAP would make the financial statement misleading, experienced US
Auditors tell me they cannot recall ever seeing "rule 203 exceptions," especially in the financial statements of companies subject to the Securities and Exchange Commission, which would comprehend almost all publicly traded companies.

Rule 203 does not necessarily imply an override in the UK sense of a TFO. Rather, rule 203 states that compliance with GAAP may not always be sufficient. Furthermore, there is no requirement that any US standard-setting body should use the FP criterion as an influence inputting into the creation of its detailed recommendations. Indeed, the whole point is that FP is not a criterion in this sense at all. Again to quote Zeff (private correspondence, 1993):

As a matter of fact, acting at the suggestion of the 1978 Cohen Commission on Auditors' Responsibilities, the US Auditing Standards Board actually proposed in 1980
that the term “fairness” be deleted from the opinion paragraph of the audit report! “Fairness” is not in US legislation; it is no more than an amorphous standard of quality invoked by the AICPA.

In summary, Zeff (1995) argues that, while “jurists, financial journalists, members of Congress, and other lay commentators” may see “present fairly” as an “essential quality,” it is in fact:

A term that was developed in the private sector but which seems not to be invoked in professional or regulatory circles. Today, discussions within the major accounting firms, and between the firms or corporations and the SEC’s accounting staff over the propriety of accounting or disclosure practices revolve about the question, “is it GAAP?”

Zeff’s view is consistent with that expressed by Van Hulle (1997). Describing the discussions at the IASC Board meeting that finalized IAS1 (revised) (the same discussions commented on in the Accountancy 1997 news item already quoted), he wrote the following:

... Canada and the United States came out strongly against the override. [They] were not in favor of the override because they feared abuses ... The representative of the SEC argued that—although there is an override test in the auditing standards in the US—no registrant with the SEC had ever applied the override in its financial statements (emphases added).

David Tweedie, even allowing for his admitted tendency to roll around on the floor, seems an unlikely bedfellow—in any sense—with the SEC.

**The Propensity to Develop “Conceptual Frameworks” for Financial Accounting and Reporting**

This propensity is undeniably a shared feature of UK and US approaches to accounting, as well as that in other English-speaking countries. In our view, the nature of CFs is such that they are a part of the myth of ASA; more precisely, the shared myth that the accounting profession has a self-regulatory capacity that extends to its playing a major role in accounting standard setting. As Archer (1993) put it:

Ideologically speaking ... so far as self-regulation is concerned, appearance may be more important than reality. Thus, it may be acceptable for the FASB to be, in the final analysis, the SEC’s catspaw, provided the final analysis is generally avoided. From this perspective, the CF might be seen as a partially effective effort to sustain a cherished myth of self-regulation; a myth which, for much of the time, is not in obvious contradiction to reality.

The fact that the CF’s role is more ideological than practical may be seen from the following. In the first place, the ASB’s CF, the **Statement of Principles**, is still in draft stage and has aroused considerable controversy (Archer, 1997). Moreover, the influence of the thinking in it on the drafting of FRSs seems to be very variable. For example, FRS 10,
Accounting for Goodwill and Other Intangibles (ASB, 1997), requires acquired goodwill to be reported on the balance sheet like an asset, even though it does not conform to the criteria for recognition of an asset given in the Statement of Principles. As for the FASB’s CF, it proved incapable of preventing the recognition of dry oil wells as assets under SFAS 25. Similar failures occurred in connection with SFAS 87 on pension fund accounting, which specifically states in the text of the standard that it does not follow the CF (Archer, 1993), and the recent furor over the “dirty surplus” treatment of the cost of stock option compensation plans (where Congressional interference forced the FASB to back down from requiring a treatment that it and others considered to follow from the CF) (Zeff. 1997).

We contend, therefore, that the shared predilection for CFs is indicative of a “common approach” largely in the mythological sense, which supports our thesis that the belief in ASA is belief in a myth.

Common Law Versus Codified Law

The proposition that ASA is fostered by a shared common law tradition in English-speaking countries hardly withstands the observation that the country most often bracketed with the UK and Ireland in its approach to the TFV is The Netherlands (Parker and Nobes, 1994), a country that has a codified system of law. If it is sometimes contended that the common law tradition coupled with private-sector standard setting leads to a more flexible and responsive system for accounting regulation, it is at least as easy to find counterexamples to this proposition as it is to find supporting evidence. The US, which has a common law legal system increasingly has a very detailed and rigidly prescriptive set of financial accounting standards. This seems to have little to do with the nature of the US legal system, and a great deal to do with the litigious nature of US citizens. By contrast, Germany (like Continental Europe in general) has a codified law system, but the use made of statute law to promulgate accounting rules leaves considerable scope for flexibility. A large part of German basic accounting principles, namely the Grundsätze ordnungsmäßiger Buchführung, are not part of the codified law. Consequently, there exists in Germany a “market for interpretations” (Ordelheide and Pfaff, 1994), in which senior professionals and academics contribute their views in commentaries, journal articles and expert opinions.

Rhenman (1973) proposed a “principle of equifinality,” according to which similar ends could be reached by disparate means. It seems to us that either flexibility or rigidity of a system of accounting rule making may be achieved under either a common law-based legal system or a codified law system. This is further evidence of the mythical nature of the belief in ASA.

How “Private-Sector” Is US Regulation?

It is interesting to look at this issue as discussed in some standard US textbooks. The situation as we perceive it is succinctly given by Horngren et al. (1996).
The US Congress has designated the Securities and Exchange Commission (SEC) as holding the ultimate responsibility for authorizing the generally accepted accounting principles for companies whose stock is held by the general investing public. However, the SEC has *informally delegated* much rule-making power to the FASB. This public sector–private sector authority relationship can be sketched as follows:

Congress

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SEC

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FASB

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issues pronouncements on various accounting issues. These pronouncements govern the preparation of typical financial statements.

Reconsider the three-tiered structure above. Note that Congress can overrule both the SEC and the FASB, and the SEC can overrule the FASB. Such undermining of the FASB occurs rarely, but pressure is exerted on all three tiers by corporations if they think an impending pronouncement is “wrong.” Hence, the setting of accounting principles is a complex process involving heavy interactions among the affected parties; public regulators (Congress and the SEC), private regulators (FASB), companies, the public profession, representatives of investors, and other interested groups (emphasis added).

Belkaoui (1985) gives a similar outline, and concludes as follows:

In other words, the SEC endorses the FASB with some reservations, in that it has not delegated any of its authority or given up any right to reject, modify, or supersede FASB pronouncements through its own rule-making procedures.

The overall position in the US that emerges is quite clear, namely that the public-sector SEC is the source of authority, whether or not there is some informal delegation of this to the FASB. What, then, are we to make of the following news item in Accountancy (1998)?

**Standards upset in US.** If legislation proposed in the US last month goes through, it would change the way that accounting standards have been set there for the past 25 years. The proposals were immediately attacked by the Financial Accounting Standards Board which called them a “direct broadside” against what it says is the world’s best accounting
standards-setting system. At present, FASB pronouncements effectively have the force ofSEC regulations even though the SEC does not formally review them. Mr Baker contended that while other SEC rules could be challenged in the courts, the FASB is, to all intents and purposes, “exempt from legal challenge.” Within 24 hours of these proposals, FASB chairman Ed Jenkins had delivered letters to every member of Congress urging them not to support the new legislation. In the letter, he argued that it would “remove accounting standard-setting from the public sector and put it squarely in the hands of the federal government,” thereby removing the benefits of independent standard-setting.

The word “public” in the last sentence, would appear to mean “private.” Freud lives on! Congressman Baker’s misgivings about the private-sector FASB being, unlike the publicly accountable SEC, “exempt from legal challenge,” recall the remarks of Dopuch & Sunder (1980) mentioned above about the FASB’s problem of legitimacy. This indicates the potentially precarious, as well as ambiguous, nature of the FASB’s status as a private-sector standard setter.

The UK structure surrounding the creation of accounting standards is shown in Fig. 3 (Coopers & Lybrand, 1997). Some of the nuances of the working out in practice of this structure have already been touched on above in our consideration of the TFV requirement. But the general conclusion seems clear, i.e., that the US system is significantly more “public sector” than the UK system. In particular, the principal enforcement agency in the US is a body set up by Act of
Congress with statutory powers to impose penalties (the SEC), while in the UK it is a private-sector body closely associated with the accounting profession that needs to turn either to the government or to the courts if companies refuse to do its bidding. It has to be said that we are unaware of any instances of this happening.

**THE POLITICS OF THE IASC**

The formal position can be briefly stated. The IASC Board contains 16 voting members, as listed below (each “member” has two representatives plus up to two technical advisers, but only one vote), as of January 1999.

- Australia
- Canada
- France
- Germany
- India
- Japan
- Malaysia
- Mexico
- Netherlands
- Nordic Federation of Public Accountants
- South Africa
- UK
- USA
- International Council of Investment Associations
- International Association of Financial Executives Institutes
- Federation of Swiss Industrial Holding Companies

To approve a new Standard requires a 75 percent majority, so it is perfectly obvious that no standard acceptable only to “Anglo-Saxons,” however defined, would or could be issued.

The first matter to consider is the question of whether the broad general historical thrust of Nobes’ (1983) Micro/fair/judgmental strand is set to dominate the Framework and Standards of IASC. In the terms used by Flower (1997), will the “Anglo-Americans” dominate the “EU” in this fundamental respect?

The answer might appear to be yes, for the very simple reason that this has already happened—indeed happened by, at the latest, the publication of the IASC Framework in 1989 (IASC, 1989). The direct cause of this outcome can only have been majority voting from a broad spectrum of voting board members over many years. The underlying causes were the evolution of global markets and the resulting acceptance by the IASC’s members of an approach to accounting standard setting that is oriented towards the assumed information needs of the international investor community. The investor-oriented approach historically associated with the English-speaking countries provided a more relevant basis for this than the so-called macro-uniform approaches with their links to tax systems and state involvement in economic planning. An individualistic micro-approach is much easier to internationalize than a statist macro-approach!
It is noteworthy that the IASC reports in Insight (IASC, 1999) that 29 of the 30 enterprises making up the German DAX share index are either already (1998) publishing financial statements under IAS or US GAAP, or have decided to change by the year 2000. In the light of this, can anyone seriously expect the German vote on IASC decisions to go in favor of secretive, creditor-focused commercial code accounting?

But what of future detailed developments? Are the “victors” (to use Flower-type hegemonic terminology) likely to descend into internecine warfare? And if they do, what expectations might arise regarding possible developments and their effects?

We believe that the logical conclusion from our earlier analysis is that such internecine warfare is inevitable. Indeed, it is clearly already happening. The “Accountancy” quotation given on our second page surely makes this abundantly clear. If anything, to use Flower’s simplistic phraseology, the future in our view is that the IASC and the EU, explicitly including the UK, will combine against the Americans, unless the Americans accept the IASC Standards for registration purposes, as influenced, but not determined, by themselves.

But such simplistic phraseology is not really helpful. Particular issues will continue to be decided in particular circumstances. The authors are not privileged with access to the inner workings of IASC, but three anecdotes may suffice to reveal what we believe to be typical of its decision-making process.

1. In the debate on IAS 1 (revised), the two UK delegates argued “passionately” (to quote one of them in private conversation) on opposite sides of the TFO argument, yet the UK, of course, eventually cast a single vote.

2. In a private discussion with an IASC representative concerning the likely outcome of the vote on IAS 1 (revised), it was stated that the vote of the Nordic Federation is unpredictable, as it “depends on who turns up.”

3. The twistings and turnings of the LIFO debate are complicated. LIFO is widely used in the USA and the Society of North American Analysts favored its retention. The US delegation on IASC nevertheless supported the majority view and voted for the deletion of LIFO. However, four countries, i.e., Germany, Italy, Japan, and Korea voted for its retention, and so it remains permitted today. Raffournier (1998) bizarrely interprets this as another example of dastardly Anglo-Saxon influence. Cairns (1999) sets the record straight.

None of the above anecdotes is remotely consistent with grand conspiracy theories of any kind. We therefore conclude that

1. such alliances as do exist tend to be shifting and ad hoc,
2. UK and US attitudes and policies are often on different sides, and this position seems set to continue.

CONCLUSIONS

We believe that we have produced enough evidence in this article to demonstrate that the belief in an Anglo-Saxon or Anglo-American approach to financial accounting and its regulation is of a mythical nature. The one characteristic that is common to the US and the
UK (and to other English-speaking countries), as well as to The Netherlands, is an expressed concern for the quality of accounting information from the perspective of capital market actors. Even in this respect, however, we wonder whether the emphasis on “measurement” rather than “disclosure” standards is genuinely reflective of the needs of financial analysts and other knowledgeable users with a capital market orientation in a context of informationally efficient capital markets (Beaver, 1989).

A myth may still form an effective basis for a coalition provided that the myth is sustained. This requires that the parties desire this situation. In this article we argue not only that ASA is a myth, but also that there are reasons for believing that it may not be sustainable, or indeed necessary, in the future.

The recent criticisms expressed by the Chairman of the UK ASB of what he sees as the increasingly rule-bound approach of the US accounting regulators motivated us to ask whether the myth of Anglo-American accounting might not be about to explode, and, if it did, whether there would be any significant implications for UK accounting regulation. Those criticisms may have been partly motivated by the desire not to see the UK government introduce an SEC-type stock exchange regulator with powers over financial reporting. Depending on one’s view about the desirability of a UK SEC, one may therefore feel that the ASB’s distancing itself from the US regulators is a shrewd and praiseworthy move. We take no position on this issue. The thrust of our article is that such a distancing would be much more the explosion of a myth than a substantive parting of previously close associates; for the closeness was in many ways itself a myth.

Our analysis throws considerable light on current and likely future “political” developments. We argue that (A) in broad philosophical terms the essentially nineteenth century Anglo-Saxon attitude triumphed internationally years ago and (B) as regards future detailed standards and regulations, any notion of an Anglo-Saxon conspiracy or even of any cooperation beyond convenient ad hocery is demonstrated to be without foundation. At neither level does the notion of Anglo-Saxon cooperation have any predictive or future explanatory power.

Much more may be at stake in the negotiations between the IASC, the SEC, and the International Organization of Securities Commissions (IOSCO), regarding the future role of IASs as an internationally recognized basis for meeting stock exchange listing requirements, including the US stock exchanges. The future of accounting standard setting at the national level (except at the level of “little GAAP”) may be in question.

NOTE

The text of this paper is up-to-date as of the time of acceptance in late 1999.

REFERENCES


