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BOOK REVIEWS

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WILLIAM H. BEAVER, MARIA CORREIA, and MAUREEN F. MCNICHOLS, *Financial Statement Analysis and the Prediction of Financial Distress*, Foundations and Trends® in Accounting (Hanover, MA: now Publishers Inc., 2011, ISBN: 978-1-60198-424-1, vol. 5, no. 2, pp. x, 79).

There is no doubt that predicting and managing corporate financial distress have become increasingly important parts of doing business and making investing and lending decisions, not only in the U.S., but also throughout the world. Altman and Hotchkiss (2006) note that, as businesses and bankruptcy laws have both become more complicated, the need for professionals with specialized skills has grown as has the demand for academic research into the prediction of financial distress. *Financial Statement Analysis and the Prediction of Financial Distress*, by William Beaver, Maria Correia, and Maureen McNichols (hereafter, BCM), provides an exceptionally well-written overview of the three main aspects of the academic financial distress prediction literature: the dependent and explanatory variables that different researchers have used, the statistical methods they have used, and the way in which they model financial distress. Although the monograph is written so that practitioners, students, instructors, and researchers will all find it very useful, it concludes with suggestions for future research and thus promises to be used by scholars for years to come. I also believe that some of the ideas in the monograph can be extended and used to shape research designs in the growing areas of fraud prediction and litigation risk estimation.

The monograph begins with a discussion of the somewhat ill-defined concept of financial distress and its frequently used counterpart, insolvency. This is a good discussion to have at the beginning, because the way in which empirical prediction models are structured and used depends on exactly what the researcher is trying to predict. BCM follow this discussion with an intuitive explanation of likelihood ratios and loss ratios and their interpretation. The discussion of loss ratios is particularly well-written and provides a clear picture of the complexity of a lender's decision-making process and how output from a prediction model can affect not only the decision to lend but also the structure of the loan itself.

BCM then begin their discussion of the role of financial statement analysis in bankruptcy prediction. They outline some of the limitations of accounting information (e.g., much of it is backward looking and not timely) and then provide a brief overview of early univariate analysis and the evolution of financial distress prediction models that rely on financial statement ratios, starting with the Index of Credit Strength introduced by Wall and Dunning in 1928. BCM note that this "model" never gained popularity, largely because of Wall and Dunning's arbitrary assignment of weights to the eight included ratios. Despite this, accounting-based models have continued to be developed without an explicit theory to guide their design, although BCM note that a number of researchers have used out-of-sample testing, in part to provide indirect evidence on the stability of the weights that their empirical models produced. BCM then describe and contrast the methodologies used in the currently most well-known, early financial-statement-based prediction models: the multiple regression approach and univariate analysis in Beaver (1965, 1966), the multiple discriminant analysis in Altman (1968), and the conditional logit analysis in Ohlson (1980). They then discuss the advantages of hazard analysis, a technique that Shumway (2001) introduced into the literature a decade ago. The section ends with helpful discussion and graphical descriptions of key financial statement ratios and what we have learned about their relation to financial distress through these models.

One of the early, and enduring, criticisms of financial-statement-based prediction models is that stock price and other market-based measures summarize a more comprehensive set of information than accounting ratios and therefore should be at least as useful in predicting financial distress. Further, academic research in finance (BCM mention Merton [1974] and Black and Scholes [1973]) provides a framework for estimating the probability of distress from the market prices of securities. In the next section of the monograph, BCM describe some of the market-based variables that have been used in prior research, but also note that, although using market-based variables is intuitively appealing, it is "nontrivial" to extract a useful probability of bankruptcy or distress from these measures, particularly in the light of the evidence that prices are not semi-strong efficient as once believed.

In order to compare and contrast the usefulness of accounting-based versus market-based prediction models, BCM next assess the predictive ability of an accounting-based model, a market-based model, and a model that contains both accounting- and market-based variables. The choice of accounting variables was guided by recent research, as was the decision to used hazard analysis as the estimation technique for this comparison. In this part of the monograph, the reader learns more about the "nuts and bolts" of current state-of-the-art prediction models: the variables to include, how those variables are measured, and how the models compare, drawing on the analysis in recent work by BCM and a published paper, Beaver et al. (2005). The careful and clear comparisons in this section are likely to be useful to a broad range of readers, but will certainly be helpful to researchers who are interested in how the various models perform in a relative sense and how methodological choices affect their performance.

Before providing directions for future research, BCM end their overview of the different prediction models by describing a number of issues that affect financial distress prediction, some of which are particularly interesting and deserve a closer look. For example, does the exercise of discretion both within and outside of generally accepted accounting principles affect the relative usefulness of accounting-based versus market--based measures? Similarly, does the presence of unrecognized intangibles affect predictive ability? BCM pose these questions as well as others but do not stop with raising the questions. They also summarize currently available evidence on the effect of certain accounting characteristics on the models' performance and then move on to other alternative research design issues.

BCM end the monograph with a number of suggestions for future research, many of which are likely to move the bankruptcy prediction literature in accounting forward and have an impact on other related research streams. For example, how do financial ratios based on IFRS affect the predictive ability of the popular models? How do bankruptcy prediction models perform relative to auditors' going concern judgments in the post-SOX environment? I found this section of the monograph to be particularly thought-provoking.

Overall, BCM have produced a valuable resource for anyone looking to learn more about the prediction of financial distress and its evolution. Their monograph is written in a way that makes it accessible to a broad range of readers, from doctoral students and researchers who are interested in the evolution of prediction models as well as the current state of the art to regulators and practitioners who wish to learn more about forecasting financial distress in corporations. It is likely to be a resource that many of us will rely on for years to come.

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TIM BÜTHE and WALTER MATTLI, *The New Global Rulers: The Privatization of Regulation in the World Economy* (Princeton, NJ: Princeton University Press, 2011, ISBN 978-0-691-14479-5, pp. xvii, 301).

What drives global standard setting? Who are the new global rulers, and what constitutes their power? Can individuals or firms affected by global rules influence the process of global rule-making and effectively articulate their interest? Under what circumstances does global rule-making reflect the needs of domestic constituents? Tim Büthe and Walter Mattli, two political scientists, pose these questions in their monograph, which broaches the issue of global rule-making in a broad sense. However, their research concentrates particularly on two issues: accounting standard setting by the International Accounting Standards Board (IASB) and product standard setting by the International Organization for Standardization and the International Electrotechnical Commission (ISO/IEC).

IASB and ISO/IEC rule-making share a very similar characteristic. They are executed by what the authors call delegated, private focal institutions. Such institutions are regulators that have neither governmental status nor international competitors, due to an exclusive standard-setting authority. Rule-making is, in other words, focused on single, privately organized regulators. Also, the processes of setting rules or standards are very similar. It is common to justify this kind of regulation because of the nature of the respective standards. Those rules regulate rather technical issues and therefore require specific expertise. It is claimed that such standards could be effectively provided only by privately organized authorities. However, the authors claim, and empirically support, that the processes of setting the standards are far from being just "technical." Their research evidence shows that these processes are as political as they are in other areas of regulation.

It is not the aim of the authors to criticize this inherent political nature of global standard setting by private focal institutions. They do not intend to pose legitimacy concerns or to evaluate the efficacy of the processes and the way global ruling is delegated. Rather, the objective of their research is to provide a theoretical framework for this specific way of global rule-making in order to explain how it works and to identify the critical factors for successfully influencing the process of standards development.

The authors test their framework with a large set of empirical data collected from two multi-country, multi-industry business surveys in Europe and in the U.S., supplemented by a large number of interviews.

They therefore provide the most comprehensive and systematic empirical evaluation of global standard setting so far.

The book has nine chapters and three appendices. Chapter 1 describes the rise of private regulation in the world economy and provides a short overview of the research done by the authors. Chapter 2 places standard setting by private focal institutions into context and describes a typology of global regulation, thereby identifying four principal types of rule-making: competing standard setting by public bodies, competing standard setting by private institutions, non-market-based focal rule-making, and market-based focal rule-making. The authors make clear that both IASB and ISO/IEC standard setting belong to the last category.

In the third chapter, the authors introduce what they call the concept of institutional complementarity. The key idea of the concept is that successful and timely influence of market-based focal rule-making crucially depends on how the institutional structure of domestic standard setting complies with the international one. The more the domestic structure is focused on a single standard setter that has established processes that are organized similarly to the focal international institution, the more likely that domestic constituents ("stakeholders") will exert a successful influence. A focal domestic institution that clearly represents the broad opinion of a country's individuals affected by the international standards will be perceived as the key domestic "player" by the global ruler. When new international standards are to be developed by means of an international due process, the opinion of such an institution will be regarded as highly relevant and uncontested by domestic constituents. The authors characterize such a domestic system as hierarchical with a peak-level national standard-setting body and ascribe high institutional complementarity with the global ruler to the domestic system.

However, domestic systems could also be characterized as rather fragmented, with different institutions responsible for domestic standards and representing different constituents. All of the institutions could take part in the international due process. In that case, the global ruler could be confronted with contested national opinions on the international standard that has to be developed. In such a domestic system, which the authors characterize as non-hierarchical with low institutional complementarity, it is less likely that domestic constituents affected by international standards will successfully influence the international standard setting process.

The authors identify two factors that seem to be tied to institutional complementarity: (1) early access to information and therefore an early participation in the process itself, and (2) effective representation of domestic interests by a strong and uncontested "voice," endowed with sufficient economic resources and structured similarly, as well as providing expertise akin to the global ruler. Indeed, the way that domestic institutions are organized governs whether conflicts between constituents are projected to the international level. For competing domestic institutions, early information could be regarded as exclusive *vis-à-vis* contestants. Institutions might keep this information solely to serve their specific constituents and therefore impede quick information dissemination within the country. If information comes late, then it is difficult to take part in the due process at an early stage. The authors claim, and they prove with anecdotal evidence, that as soon as the global ruler decides on the key principles of a standard—e.g., if an accounting standard reaches the status of an exposure draft—it is difficult, if not impossible, to revise such fundamental decisions. Eventually, a strong domestic standard setter is often regarded as a partner in planning projects, agenda-setting, or even standards development due to the limited recourses of global rulers.

One might claim that such a dichotomy of domestic regulation seems too crude to characterize the variety of regulation systems worldwide. However, the authors concentrate their empirical research in later chapters in such a way as to confirm that this categorization is suitable to describe what constitutes power in global ruling.

In Chapters 4 and 5, the authors describe how their model fits international accounting standard setting, while Chapters 6 and 7 cover global regulation of product markets.

Chapters 4 and 6 start with a brief description of the history of global accounting governance and global market governance through product standards, respectively. In each of the chapters, characterizations of the standard-setting processes follow, indicating the respective importance of early and uncontested participation of national responsible institutions. Though brief, the descriptions are interesting because they show the similarity of global-ruling processes by privately organized focal institutions.

Extremely perceptive are the authors' following characterizations of domestic systems. In accounting regulation, the U.S. domestic system fits tightly to the model of a hierarchical structure, with high complementarity to the standard-setting process of the IASB. The FASB is indeed a strong focal domestic institution, with resources and technical expertise that are the envy of other domestic standard setters. The IASB and FASB work closely together when new standards are to be developed, a fact institutionalized through the Norwalk Agreement, which aims to converge the IFRS and U.S. GAAP. Opposed to that are nearly all of the European systems. Even the British system, whose financial markets are similarly structured to those in the U.S., is rather non-hierarchical, having a sharp fragmentation of institutions competing for members and status, and different accounting philosophies and priorities, reflecting different constituents. Accounting stakeholders in the U.K. seem to approach the IASB individually or through six different professional bodies and not with "one" voice.

The authors also briefly describe the German and the French systems, which differ even more from the U.S. system. Although the harmonization of accounting has been on the European agenda for decades, its institutionalization is far from being a fact. As the authors show, a transnational accounting standard-setting structure does not really exist in Europe. Fragmentation in Europe instead leads to the European endorsement mechanism for newly released IFRS. Compared to the FASB, Europe remains divided on accounting issues. European institutions like the European Financial Reporting Advisory Group (EFRAG) are contested by national standard setters; so Europeans have difficulty in speaking with one voice. Institutional complementarity in Europe is, in other words, low compared to that in the U.S.

Interestingly, the story is reversed for product standard setting. The description of the European and the U.S. systems in Chapter 6 shows a high fragmentation of domestic product standard regulation in the U.S., compared to a rather hierarchical and focused institutional setting in Europe. The European system is characterized by an effective mechanism for broad preference aggregation at the transnational, as well as at the domestic, level. Coordination takes place under the umbrella of a single domestic institution, supplemented by private sector organizations all over Europe that reinforce these structures. The European system is hierarchical and strongly complementary to the structures of ISO/IEC. The U.S. system lacks this complementarity, because a variety of domestic institutions compete nationwide for constituents. Market globalization amplifies the need for U.S. firms to comply with international product standards in order to keep their market shares. However, the institutional fragmentation impedes U.S. firms from effectively taking part in the process of international standards development. Due to the contesting domestic institutions in the U.S., it is difficult for U.S. constituents to speak with a single voice.

In Chapters 5 and 7, the authors explicate two large and comprehensive survey designs for global accounting standard setting and product standard setting, respectively. The question they pose in Chapter 5 is whether Europeans are aware of their institutional disadvantage in global accounting regulation and whether institutional fragmentation is the reason. In essence, accounting experts, that is, financial executives in European and U.S. firms, are asked about their satisfaction with the IASB and their involvement in the standard setting process. The survey is concentrated on the preparers of financial statements, not on the users. The design is similar for product markets (Chapter 7), because the survey here concentrates on technical experts in European as well as in U.S. firms. However, while such a design makes perfect sense for product markets, one might ask why other key constituents affected by accounting standards, e.g., financial analysts or other users, are not part of the survey. The authors may justify a concentration on preparers by saying that users, although affected by the rules, traditionally do not play a significant role in the standard-setting process. Nonetheless, it seems that the authors' intention was to keep the two surveys closely comparable and therefore confined both sets of studies to company experts.

The research approach in Chapter 5 (Chapter 7) is to identify whether U.S. (European) firms are more in favor of the IASB rule-making (ISO/IEC rule-making) process than their European (U.S.) counterparts. The authors start with striking anecdotes on accounting and product-standard regulations, respectively, which indicate that their theory on institutional complementarity as the main driver for successful involvement in the regulation processes might hold empirically. In their systematic analyses, the authors use four maximum likelihood regression models. The dependent variable reflects the respective overall satisfaction of the surveyed experts with their involvement in the IASB or ISO/IEC due processes. Independent variables are several factors the authors presume to significantly affect a firm's perceived success to influence the standards-setting processes.

In a first comparison, the authors find that overall satisfaction with IASB rule-making is significantly higher for U.S. firms than for their European counterparts (Chapter 5). This result is related to survey questions on the effectiveness of the IASB in achieving specific objectives (e.g., transparency, capital market stability, comparability) and on its governance (e.g., accountability of the IASB, timeliness of up-dating, accessibility of

IFRS, due process in general). The perceived success of influencing IASB standard setting (the dependent variable "power and influence") is regressed on six explanatory control variables derived from corresponding survey questions (firm size, direct contacts with expert groups within the IASB, attempted influence via comment letters, timing of information received, frequency of influence attempts, and attempted influence via government). Testing the four regression models, the authors find that all variables have a strong explanatory power. However, in order to test their theory, the authors integrate a dummy variable with 1 = U.S. firm and 0 = other, which enhances the significance of each model considerably. The authors also document significant increases in the perceived overall influence on the IASB standard setting if the dummy is 1, that is, for U.S. firms. In other words, constituents in the U.S., a country with a domestic standard-setting system that highly complements the IFRS system, feel better served by the IASB than constituents in Europe, where complementarity of domestic standard setting with the IFRS system is low.

The research approach on the ISO/IEC rule-making (Chapter 7) is very similar to that on the IASB regulation. As expected, U.S. firms' overall satisfaction with global standards on product markets is significantly lower. The authors conduct a regression analysis similar to that on the IASB. The dependent variable is the perceived influence on international product standards, while independent variables are various control factors that the authors presume to affect the perceived influence on the rule-making of ISO/IEC. All factors have a significant influence in four alternative models. In an analogy to the study on accounting regulation, a dummy variable with 1 = European firm and 0 = other enhances the significance of the models, and increases the overall satisfaction with influence on international standards in product markets. The high complementarity of European product standard setting with ISO/IEC rule-making seems to be the driving factor. Interestingly, U.S. firms with subsidiaries in Europe show a higher overall satisfaction with international rule-making than those without. The authors attribute this finding to the fact that those firms are able to execute their influence via their European subsidiaries, that is, in a system that better complements international rule-making than the U.S.

In Chapter 8, the authors discuss their results and draw some important conclusions. Institutional complementarity seems to be crucial in transnational standard setting by focal institutions. Their comprehensive survey provides compelling evidence of their theory and invaluably enhances our understanding of international standard setting. As they claim in Chapter 1 (p. 10), the monograph is the result of eight years of extensive research on this highly relevant topic. However, the authors are also careful in their conclusions. They stand afar from drawing any normative claims. Neither do they regard high complementarity systems as superior in every sense, nor do they overlook legitimacy concerns with regard to international standard setting by focal institutions. The authors can nonetheless take credit for having developed a convincing theory on the main drivers of power within this specific and widespread phenomenon of global ruling.

The book is, without a doubt, highly recommended. While it is primarily intended for scholars, it provides very interesting insights for anyone interested in how global standard setting works, in its historical, political, and socio-economic background, and in its significance for global governance in general. The conclusions drawn by the authors contribute to the literature in political science, sociology, law, economics, and business science. Accounting scholars should be particularly interested because a major focus of the research is standard setting by the IASB.

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GARY PREVITS, PETER WALTON, and PETER WOLNIZER (editors), *A Global History of Accounting, Financial Reporting and Public Policy: Americas* (Bingley, U.K.: Emerald Group Publishing Limited, 2011, ISBN 978-0-85724-811-4, pp. xi, 160).

Each of the five chapters of this book covers the history of accounting in a major Western Hemisphere country: Argentina, Brazil, Canada, Mexico, the U.S., and Canada. These nations represent a well-balanced cultural portfolio of British, Portuguese, and Spanish origin, which provides an interesting backdrop for examining the evolution of accounting in the hemisphere. With the exception of Canada and Mexico, the chapters are authored by accounting faculty at major universities in the selected countries. Chapter 5 is dedicated to the United States and is jointly written by Stephen Moehrle and Jennifer Reynolds-Moehrle, both accounting professors at the University of Missouri–St. Louis. Given the space limitations for this review and the familiarity that most readers of *The Accounting Review* have with U.S. accounting, I will limit my comments on this chapter to observing that it is an excellent synopsis of the history of U.S. accounting. It could be required reading for all accounting majors.

Chapter 1, "Argentina," written by Sandra Aquel and Mabel Mileti, accounting professors at the Universidad Nacional de Rosario in Argentina, begins by taking the reader back to the 15th century when there really was no national economy, little import/export activity, and no significant impulse for accounting development. Eventually, growing colonial trade with Europe in the late 18th century, and the emergence of conveniently located large cattle-raising ranches as well as the advent of the railroads in the 19th century led to the growth of international commerce, large diversified businesses, national legislation, a governmental budgetary system, a monetary system, and the increased use of contracts that obligated debtors to keep books in balance and report on them as requested by creditors.

Most of the chapter on Argentina is dedicated to reporting the history of the country's mechanisms for issuing "professional" accounting standards by the accounting profession within a legal system that afforded the profession wide latitude in its choices. There were also "legal" standards issued directly by the national and provincial governments, as well as "corporate" accounting standards issued by regulatory bodies. Various accounting associations existed since 1941; every few years they would hold an assembly in which standards may be adopted, but this system of holding meetings for the adoption of accounting standards eventually gave way to the formation of successive professional bodies specifically charged with that task. Accounting principles then had to be approved by provincial accounting associations as well as by those representing Buenos Aires, the country's very large capital city and predominant economic center. Achieving consensus across these different organizations was not always easy, an important issue that impeded progress and that the authors fail to mention in their discussion. Consequently, it was only in 2005 that a body of principles (a "technical agreement") was finally adopted countrywide by all of the professional organizations. Further, motivated by globalization and recognizing the advantages of international standards, the profession, led by the Argentinean Federation of Professional Councils in Economic Sciences (FACPCE), has now adopted IFRS, subject to modifications based on local needs.

By focusing primarily on the history of the mechanisms used in issuing "professional" accounting standards, the chapter on Argentina has the narrowest focus of all of the chapters. The authors could have discussed many other issues of interest, such as specific accounting principles and practices (particularly in dealing with inflation, which reached a rate of 20,000 percent in the early 1990s), foreign influences on Argentinean accounting, standards for professional practice, the social status of the profession, etc. Further, there is no discussion of the colonial accounting systems that were employed early on and for a long time by the representatives of the Spanish crown and institutions such as the Catholic Church and its Jesuit missionaries (see the "Mexico" chapter for this information). Also, while sometimes at odds because of the Perón dictatorship and more recently the Falkland Islands sovereignty conflict, Argentina and Britain have maintained a very close cultural and economic relationship for centuries following the Spanish colonial era. The long-standing Harrods department store in Buenos Aires, British ranches, clubs, and even the country's pre-eminence in British sports like football (soccer), rugby, tennis, and polo (consistent world champions) and many other venues and endeavors are evidence to this day of a British legacy firmly entrenched in Argentina's economy and culture. It would be unthinkable for the British not to influence local accounting standards and practices—yet there is no mention in the chapter of the doubtless important contribution that British managers and other foreign influences from large multinational businesses and accounting and auditing firms must have made to the development of Argentinean accounting. There is also no discussion of the professional formation and certification of accountants (for a long time trained primarily in economics rather than in accounting and still not having to pass a professional examination or meet continuing education requirements), their social status (also for a long time relegated to lowly bookkeepers), and the threat of legal liability (much less of a concern than in the U.S. or Canada).

Chapter 2, "Brazil," is written by L. Nelson Carvalho, a professor at the Universidade de São Paulo, and Álvaro A. Ricardino Filho, a professor at Pontificia Universidade Católica de São Paulo. It is the second longest chapter (24 pages of text versus, for example, 17 for "Argentina") and is broader in scope and richer in depth and detail than Chapter 1. The content again is classified into periods that affected accounting, although these periods are based primarily on the country's political developments rather than on the accounting profession's stages of development. Political periods discussed include the country's colonial period, its years as the seat of the Portuguese throne (when seeking refuge from an impending French invasion under Napoleon, the royal family of Portugal and 10,000 courtiers and sympathizers moved to Rio de Janeiro in 1808 and stayed there until 1821), its subsequent years as an independent kingdom from 1822 to 1889, and three phases as a republic, its current status. From its early stages, the country's economy was more diversified than Argentina's, because, in addition to cattle, it produced sugar, coffee, and minerals.

Throughout Brazil's first 300 years of history, accounting practices "had as their sole purpose to report taxes to the Portuguese crown, usually ranging from 10% to 20% of gross proceeds of any kind of revenue or production" (p. 26). Legislation adopted in 1860 for the first time required financial institutions to present financial statements, prepared according to prevailing standards, to shareholders and the government. The remainder of the chapter is a fairly detailed narrative about accounting practices and requirements, the development of accounting standards, the evolution of the accounting profession in response to political and economic events (including the significant impact of inflation in the early 1980s), and a discussion of Brazil's decision, which was overturned by a law in 2007, to allow financial accounting practices to differ from those used for tax purposes. That same law in 2007 mandated IFRS to be applied in the preparation of financial statements. Currently, the Committee on Accounting Pronouncements issues accounting standards and endorses IFRS, which have to be followed by listed companies as regulated by the country's Securities and Exchange Commission.

Chapter 3, dedicated to Canada, is written by Chester H. Brearey, who teaches at Siena College in New York State. Four time periods are identified: early accountability (1850–1890), accountancy (1891–1920), consolidation and U.S. influence (1921–1951), and delegation of standard setting (1960–2010). Britain and the United States have significantly influenced the development of Canadian standards, although at times the latter has been in a leading position. Somewhat similar to the Argentinean experience, the development of the railroad industry is mentioned as an important nation-building factor, which likely fostered the accounting development of these large countries. Development of accounting in Canada has evolved without major intervention by the country's federal government, which has left the "virtually unrestricted government delegation of standard setting authority to the profession (Canadian Institute of Chartered Accountants [CICA])" (p. 51). Over time, the CICA's accounting and auditing standards-issuing functions were delegated to a series of committees, presumably searching for wider acceptability of standards. Eventually, the accounting principles-issuing function was passed on to the Accounting Standards Board. In 2006, this Board opted for the convergence of Canadian principles with IFRS, which are now required for public companies.

Chapter 4 concerns Mexico and is written by Ikseon Suh and Sandra Minaburo. Professor Suh teaches at Marquette University in the United States and Professor Minaburo is a faculty member at the Instituto Tecnológico Autónomo de México. The chapter is divided into five stages: (1) pre-Spanish conquest, (2) post-Spanish conquest, (3) transitional era, (4) era of the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, or IMCP), and (5) the convergence era.

The historical perspective reflected in this chapter stretches the furthest into the past. This is the most interesting chapter from an anthropological point of view, even though the space dedicated to the pre-Spanish period is only a little more than one page. Aztec currencies were cocoa beans, cloth, shells, and powdered gold; "a sack of 8,000 cocoa beans represented the most frequently used unit of measurement, known as '*xiquipilli*'" (p. 80). Taxes were levied by the Aztec government on inhabitants of conquered cities in exchange for protection, and were collected and recorded by government representatives, or "*calpixques*," who then submitted them to stewards in major cities who also had to keep records of the inflows and outflows. Examples of these early accounting records, though very rare, are kept in museums in Oxford, U.K. and Mexico City, Mexico.

The section on Mexico as a Spanish colony includes an excellent discussion of the accounting books, such as the *book for alms and favors* and the *book for tax collection,* kept by the Crown's representatives for a variety of economic and social functions that they performed. The colonial era was followed by the era of independence. Successive commercial codes were issued that eventually (in 1889) required merchants to maintain a *journal*, *ledger*, and a *book of inventories and balances*, as well as a series of other records. This period was followed by the era of the Mexican Institute, which in 1964 assumed the accounting rule-making authority for the country. An important item within this era is the discussion on inflation accounting. Finally, during the current era of convergence, the Consejo para la Investigación y Desarrollo de Normas de Información Financiera (CINIF), the Council for Research and Development of the Principles of Financial Information, has been given responsibility for the development and issuance of accounting standards. Beginning on January 1, 2012, Mexican public companies are preparing financial statements in conformity with IFRS under CINIF's guidance. Although the chapter does use relatively more space than others on the development of the accounting profession, it fails to mention that the Mexican equivalent of a U.S. CPA and a Canadian CA, the *contador público certificado* (CPC), was instituted only in 1988, with continuing education and other requirements. This and other changes resulted from Mexico's membership in NAFTA and subsequent international commitments, such as with the U.S.'s National Association of State Boards of Accountancy (NASBA).

Overall, it is apparent the authors were given considerable latitude in selecting the format for their contributions. This is both a weakness and strength, because, while it makes it a bit more difficult to sort through and compare the chapters' contents, which vary in depth and breadth, it adds freshness and uniqueness to each chapter. Nonetheless, the chapter on Argentina, in particular, could have been enriched with some additional content, as commented on above. Also, the reader should keep in mind that, until just a few years ago, the primary purposes of accountability in Latin America were reporting to owners and creditors, tax compliance, and stewardship and control, rather than providing information to what were until recently tiny local capital markets. Globalization and the need for external investors' financing have favored the adoption of IFRS by the three Latin countries, which, in turn, raises the status of the accounting profession. This effect is likely not as significant in the U.S. or Canada, where relatively larger capital markets and strong accounting professions have been in existence much longer. In conclusion, this is a well-written and well-edited, interesting book that may be used in international accounting classes. The book will also be an excellent addition to any professional library, and will be particularly useful to readers involved in accounting activities in the Western Hemisphere.

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GARY PREVITS, PETER WALTON, and PETER WOLNIZER (editors), *A Global History of Accounting, Financial Reporting and Public Policy: Europe* (Bingley, U.K.: Emerald Group Publishing, 2010, ISBN 978-0-85724-671-4, pp. xii, 302).

This volume of essays on ten European countries is the first in a series of four covering the history of accounting, financial reporting, and public policy in larger economies and developing economies. Later volumes will cover the Americas, Asia and Oceania, and Eurasia, Middle East, and Africa.

The goal of the editors of the series is to provide a series of historical source books for a readily converging world of accounting and financial reporting based on the premise in Walton (1995) that it is important to evaluate a country's accounting and financial reporting in the light of its national history. The ten European countries chosen for this first volume are Belgium, France, Germany, Italy, The Netherlands, Poland, Spain, Sweden, Switzerland, and the United Kingdom.

Each essay deals with a single European country and is written by one or two nationals of the relevant country. For the most part the authors structure their essays around developments in particular time periods. The essays by Claude Bocqueraz on France and Alicja Jaruga and Przemysław Kabalski on Poland are good examples of this approach. They also show the different influences on national accounting, including the impact of one country's accounting on another country's accounting.

Bocqueraz identifies three time periods in the history of accounting in France: the end of the seventeenth century to the Second World War, from 1942 to 1973, and from 1973 to the present day. Jaruga and Kabalski identify five periods in the history of accounting in Poland: the fifteenth and sixteenth centuries; the nineteenth and early twentieth century when Poland was partitioned between Austria, Prussia, and Russia; from 1919 to 1939, when Poland was independent; from 1945 to 1989, when Poland was a centrally planned economy; and from 1990 onward after Poland regained its sovereignty.

Bocqueraz explains that the first French accounting requirements were Colbert's ordinance in 1693 and the commercial code in 1807. As other essays explain, the requirements of Colbert's ordinance and the French commercial code were reflected in national codes in, for example, Belgium, Germany, Spain, and Switzerland. Furthermore, as Jaruga and Kabalski acknowledge, this French influence was extended to Poland when, under partition, it was compelled to use the commercial codes of Austria, Prussia, and Russia, each of which had, themselves, been influenced by the French code.

The second period in the history of French accounting was dominated by the creation of the *plan comptable général* (national accounting plan) that provided detailed guidance on the keeping of accounting records and the presentation of financial statements. Bocqueraz explains that the plan reflected the state's need to establish control over the production of accounting information. As a centrally planned economy between 1945 and 1989, the focus of accounting in Poland also shifted to the needs of government statisticians, which meant, according to Jaruga and Kabalski, that Poland eventually turned to the French model.

In the 1980s and 1990s, France and Poland adopted the EC directives, but their experiences of the directives differed. France had participated in the negotiations leading up to the adoption of directives. Bocquerez suggests that that level of harmonization achieved in France was minimal because of the compromises that underlay the directives. Poland joined the European Union after it had regained its sovereignty and long after the directives had been approved. Jaruga and Kabalski relate how the transformation of the economy meant changes to the accounting system. They suggest that the adoption of the directives changed the orientation of accounting in Poland from tax to business.

Other essays also highlight the different experiences of implementing the directives. Mara Cameran and Angela Pettinicchio suggest that their implementation in Italy brought greater regulation, increased comparability, and significantly improved accounting regulation. Carlos Larrinaga and Marta Macías argue that the directives drove an intense process of accounting reform in Spain, which led to a profound transformation in the audit profession and in the audit market. In contrast, Kristina Artsberg relates the disappointments of the Swedish accounting profession with the directives and how one member of that profession described the adoption of the directives as a return to the stone age of accounting.

Most of the essays deal only briefly with the influence of the European Union's IAS Regulation and any broader influences of IAS/IFRS on national accounting and financial reporting requirements. The one exception is Poland, for which the authors deal extensively with the influence of IAS/IFRS on successive revisions to the Accountancy Act and national accounting standards. While Bocqueraz admits to some convergence between French standards and IFRS, she suggests that convergence has been constrained by the French legal and taxation environment.

The link between financial reporting and taxation requirements is dealt with in all of the essays. The reader will soon be aware that the link not only varies among countries, but also that it continues to evolve. Ann Jorissen and Peter Stabel note that Belgium's commercial law of 1913 provided ample opportunity for tax laws to influence financial reporting and valuation practices, but that this opportunity was lost following the decision of the tax authorities to accept all of the rules of the accounting law of 1975 unless the tax law expressly provides otherwise. Kristina Artsberg refers to the extensive recent debates in Sweden about whether to retain a 1928 requirement that taxable profits should be based on accounting profits. Christopher Napier refers to the United Kingdom's earlier position under which entities were not required to measure accounting profit using tax rules, but omits any reference to the 1990s requirement that requires that the taxable profits of all entities should be based on their accounting profits (which makes the U.K. similar to Belgium and Sweden and may have affected whether entities elect to use IFRS instead of U.K. accounting standards in their legal-entity financial statements).

Germany is often referred to as a country in which there are strong links between accounting and taxation. Wolfgang Ballwieser explains how that link has now weakened because purely tax-driven values are no longer allowed in commercial accounts. German entities now have to follow three different systems: IFRS in their consolidated financial statements; German GAAP in their legal-entity financial statements; and tax rules for the determination of the tax liability.

This use of different accounting policies in consolidated and legal-entity financial statements is a French idea, which is what Claude Bocqueraz describes as the duality of French accounting. It has not only spread to Germany, but it has also made possible the approach in the IAS regulation, which requires the use of IFRS in the consolidated financial statements of a publicly traded entity but allows the use of national standards in the parent's legal-entity financial statements.

While all of the essays deal extensively with the different historical influences on accounting and financial reporting, only a few show how this has affected the technical accounting and financial reporting requirements. One exception to the general rule is Ballwieser's essay, which provides an insight into the underlying concept in German accounting of creditor-oriented prudent determination of profit, which is mandatory for all business entities. Another exception is Kees Camfferman's essay that explains the links between Dutch accounting and the concept of business economics (*bedrijfseconomie*) and the resulting emergence, use, and eventual demise of current cost accounting. Beyond these two examples, there is little about the technical aspects of accounting and financial reporting beyond passing mentions of hidden or secret reserves, the historical cost model, and a few other issues.

Technical issues aside, there is a wealth of material in the essays that will help researchers understand how accounting, financial reporting, and public policy in ten European countries have developed. In addition to the issues referred to earlier in this review, the country essays deal with the creation of independent private standard-setting bodies, the need for an audit, and the growth of the accounting and auditing professions. The essays on Belgium, Germany, The Netherlands, Switzerland, and the United Kingdom also address the roles of academics and practitioners who have contributed to accounting thought.

I recommend this collection of essays to anybody who wants to understand how national accounting in Europe has developed. Such an understanding will lead to a greater appreciation of the attitudes within Europe to the convergence of accounting standards. For post-graduate courses that continue to explore the history of accounting in individual countries, this volume will be an invaluable source of information. For researchers, the volume should help identify a glut of issues that warrant further study.

REFERENCES

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