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BOOK REVIEWS

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TIM BUSH, ''*Divided by Common Language,'' Where Economics Meets the Law: US versus non-US Financial Reporting Models* (London, U.K.: The Institute of Chartered Accountants in England and Wales, 2005, ISBN 978-1-84152-359-0, pp. 58).

In this ''viewpoint'' monograph, Tim Bush, a Chartered Accountant with Hermes Pensions Management, puts forth an intriguing thesis, that U.S. and U.K. disclosure laws and practices are more different than they are alike due to important differences in their respective legal systems. Because the Securities Act of 1933 was modeled on the U.K. Companies Act of the day, the two systems might seem to be, and have been described as, very similar. But, he writes, they are really not. U.K. law is based on the duty of a (limited liability) company, regardless of whether its securities are publicly traded, to its shareholders. Consequently, U.K. accounting and auditing is directed toward stewardship—providing shareholders with information about the state of resources entrusted to the managers and directors and how efficiently their company has been run. Emphasis in the U.K. Companies Acts, therefore, has been on the balance sheet.

In contrast, Bush states that corporate law in the United States is governed by the individual states. Because of ''a constitutional quirk, the US federal reporting model does not address in enforceable law the fundamental capitalist proposition 'do the accounts show how efficiently a company is run on its capital resources?' '' (p. 2). Instead, U.S. federal securities laws must be and are concerned with securities markets and trades by investors in those markets. The consequences of this difference are profound, he writes: ''Instead of a commonsense commercial view of what is relevant accounting and truthful reporting for shareholders, the US regime has become rigid and rules based'' (p. 3).

Before considering Bush's elaboration of the effects on accounting rules and auditing practices of the differently oriented U.K. and U.S. corporate laws, I must mention two serious errors that permeate the monograph, and some important omissions. First, his thesis is based on his incorrect assertion that the U.S. Constitution prevents enactment of a federal law dealing with corporate governance. Not so. The Commerce Clause allows such laws, and they have been enacted. Indeed, the Securities Exchange Act of 1934 requires that shareholders be given proxy statements prior to voting for directors and for specified events (such as mergers) and requires the publication of periodic financial statements. Over many years, the Securities and Exchange Commission (SEC), which was established by the 1934 act, has promulgated many regulations dealing with corporate governance and shareholders' rights. For example, SEC Rule 12e-3 (1977) annulled a Delaware law that allowed controlling shareholders to take their corporation private without fully compensating minority shareholders, and in 2003 it enacted the ''all holders rule'' (13e-4 and 14-d-10), which ''demolished the specifics of state law on a selective stock buyback'' (Roe 2003, 619).[1]

[1] Roe offers an extensive examination of the ways that federal law has superseded state laws governing corporate governance. He concludes (pp. 597–598): ''If one were only to skim the doctrinal surface, one might think there was a sharp divide between state and federal corporate authority: states govern internal corporate affairs, while the federal rulemakers, via the SEC, govern the external trading of the firm's securities. ... But the internal affairs doctrine is just an understanding, not a crisp constitutional rule, and all corporate law could be federal law.'' His article provides many examples thereof.

Second, Bush always and only refers to the Securities Act of 1933 as the statute governing financial reporting by publicly traded U.S. corporations. Yet that law deals only with newly issued securities and requirements for prospectuses. He never mentions the Securities Exchange Act of 1934, which governs periodic reporting and includes Regulation S-X, which imposes specific requirements for both prospectuses and periodic reports. Establishment of the SEC was perhaps the most important aspect of the 1934 act that affects financial reports and accounting. The SEC was given the authority to determine how financial reports should be structured and what they should include. Although the SEC has supported and deferred to the public accounting profession, most recently the Financial Accounting Standards Board (FASB), on several occasions it has overruled FASB statements.[2]

Nor does Bush mention the U.K. Financial Services Authority (FSA), which was created in 1997. The FSA is the first ongoing government authority that could control and enforce financial reporting, although it has not attempted to do so. Previously, the U.K. Companies Act of 1981 only required presentation of financial statements in one of four formats. It was not until 1989 that the Companies Act included a reference to accounting standards. It required companies to state whether these had been followed in preparing the financial statements. U.K. companies must send their financial statements to the Companies House of the Department of Trade and Industry (that he also does not mention), which serves as a public repository for company statements. In the past, the financial reporting provisions of the Companies Act were enforced *only* by the courts. Now they are enforced mainly by the private-sector Financial Reporting Review Panel.

Bush claims that, ''Unlike the US Securities Acts of the 1930s, which were introduced to fix a problem, British company law has tended to support good practices, not force new practice or tightly regulate'' (p. 5). He is wrong on both counts. Although the Securities Act of 1933 was indeed enacted to ''fix a problem,'' it was not the problem that Bush appears to have in mind. Rather, as Mahoney (2001, 1) documents, the principal impetus and effect of the act was to benefit high-status wholesale investment firms and firms that specialized in retailing by reducing competition from integrated investment firms, new and less known rivals. Inadequate corporate financial disclosure was not dealt with or even considered by the 1933 act.

Unlike the 1933 act, which Mahoney (2001, 1) states, ''was drafted in haste and secrecy,'' the Securities Exchange Act of 1934 was preceded by the U.S. Senate's Stock Exchange Practices (''Pecora'') hearings held in 1933 and 1934. After examining the 17 hearing testimony volumes, I found the mention of only one instance of alleged dishonest and deceptive financial reporting (Benston 1969, 517). Furthermore, in 1926 all New York Stock Exchange listed companies provided shareholders with balance sheets and income statements, of which 82 percent were audited by CPAs. All of the balance sheets separated current from noncurrent assets and liabilities. On the income statements, all reported net income, 55 percent revealed sales, 45 percent gave the cost of goods sold, and 71 percent reported depreciation. By 1933, these percentages increased to 62 percent for sales, 53 percent for cost of goods sold, and 93 percent for depreciation; 94 percent of the statements were audited by CPAs (Benston 1969, 519). Thus, the 1934 act was not enacted to ''fix a problem,'' at least not a reporting problem.

The U.K. acts, by contrast, were at times preceded by a scandal, as documented by Rose (1965). For example, the failure of the Royal British Bank in 1856 was followed by the Prevention of Frauds Act of 1857, and the collapse of the City of Glasgow Bank in 1878 was followed by the Companies Act of 1879. Income reporting was changed following disclosure of the use by the Royal Mail case on the use of secret reserves in 1931.

Finally, Bush does not mention the roles played by the London and New York Stock Exchanges (LSE and NYSE, respectively) and the professional accountancy organizations, the ICAEW and the AICPA. In 1933 the NYSE required listed corporations to present audited financial statements to their shareholders, although, in response to the exchange's urging, nearly all did so before this time. As outlined earlier, most of what was required by the SEC was already presented by these corporations.[3] Because there is no over-the-counter market in the United Kingdom, the LSE's requirements apply to all publicly traded corporations. These requirements generally have been more extensive and issued earlier than those enacted in the successive Companies Acts. The professional accounting bodies in both countries cooperated with the stock exchanges in codifying accounting rules and auditing procedures. These have been much less detailed in the United Kingdom compared to the United States, but the reason, I suggest, is due more to the litigious environment and the existence of the SEC.

Bush is correct in his repeated basic observation that the U.K. laws, at least at present, are directed toward informing shareholders (earlier the emphasis was on creditors), because the laws apply to all limited liability companies, not only to those with regularly traded securities. He is also correct when he repeatedly notes that U.S. federal laws apply primarily to stock trading rather than specifically to shareholders' rights. However, the periodic

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[2] Statements relating to U.S. and U.K. securities and corporate laws and practices are based on Benston (1976) and Benston et al. (2006, Chapters 4 and 5).

[3] In Benston (1973), I report statistical tests that the required disclosure of sales (the most important not previously disclosed item) had no meaningful effect on the stock prices of the affected companies.

disclosure requirements of the 1934 act provide current as well as prospective shareholders with financial statements, and (as noted earlier) the SEC has increasingly become concerned with shareholders' rights. Thus, this is a difference without much meaning.

Bush's key point is that U.K. law directs independent Chartered Accountants (ICAs) to be more concerned with stewardship than with providing investors with information they might use to make investment decisions. He writes: "Under the British governance and reporting model, the end customer and the enforcement mechanism are in each case the body of shareholders" (p. 15). Consequently, "UK auditors are able to report and comment freely in audit opinions, especially if there is uncertainty. A key feature of the US model of financial reporting is that it virtually disallows free-form reporting by an auditor" (p. 27). And: "The UK auditor is a witness for the shareholder interest, not a judge or certifier for market exactitude. Furthermore, unlike in the US, where the share price is of concern, due to their duty of care being different, UK auditors need not concern themselves with the impact of their work on the share price" (p. 35). Rather, "Auditors and directors are jointly and severally liable for actual loss of company property, other than that incurred as part of normal enterprise risk. Auditors are not liable for first loss, that is the directors' responsibility, but negligent failure to detect first loss is the responsibility of the auditor" (p. 37).

In what way, then, is financial reporting different in the United Kingdom compared to the United States as a result of the differences in auditors' responsibilities? U.K. reporting is more principles-based, and U.S. reporting more rules-based (as is well known). But Bush provides few specific examples of how this plays out. Indeed, the only one I could find is an apparent expansion of what a U.K. ICA would report: "The British reporting model *should* treat any self-serving expenditure inefficiency as relevant information for shareholders, ahead of anything that needs to be prescribed for disclosure by additional accounting standards" (p. 15; emphasis added). He implies, but does not come out and say or provide any evidence, that U.K. ICAs report inefficiencies. I am informed by colleagues that this does not occur, although I am unaware of a study of the issue.

Finally, although "economics" and "law" are in the title of his monograph, Bush does not consider the effect of differences in tort law. The United Kingdom's legal system does not allow class action lawsuits, and unsuccessful plaintiffs must pay the defendant's legal costs. This surely affects the willingness of independent auditors to extend their comments beyond those that are legally required. It also explains the bias in the United States toward rules on which companies and auditors can rely to protect themselves from lawsuits. Nor does Bush even discuss economics, as in what effect do differences in financial reporting in the two countries have on returns to shareholders, other investors, and the economies of the countries? Most importantly, he does not consider the effect on accounting standards and financial reporting of the U.S.'s creation of the SEC, an ongoing regulatory agency that has the authority, responsibility, and propensity to make rules and regulations, and compare this situation to the United Kingdom, which, until recently, did not have such an agency. Perhaps I am critical of this omission because I pointed to it as the key difference between the principles-based U.K. system and the more costly rules-based U.S. system in a book comparing the two regimes, also prepared for the ICAEW (Benston 1976). I had hoped that Bush would have updated my analysis, particularly now that the United Kingdom has created the FSA as its regulatory body.

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KEES CAMFFERMAN and STEPHEN A. ZEFF, *Financial Reporting and Global Capital Markets—A History of the International Accounting Standards Committee, 1973–2000* (Oxford, U.K.: Oxford University Press, 2007, ISBN 978-0-19-929629-3, pp. xxiii, 676).*

In the foreword, Sir David Tweedie, chairman of the IASB, describes this book as "the definitive history of the IASC from its inception to its transformation from a part-time to a full-time organization." This book is certainly that and much more. The authors, Kees Camfferman and Steve Zeff, have done an excellent job of chronicling events at the IASC over its 27-year history. In this review, I summarize the highlights of each chapter and conclude with some personal observations on the contributions of the book.

In Chapter 1, the authors describe the approach they have taken to present the IASC's history. It contains an overview and synthesis of the major developments organized into three periods: (1) the antecedents and founding of the IASC (Chapters 2–3); (2) the first 14 years of the IASC up to 1987 (Chapters 4–7); and (3) the last 13 years from 1987 to 2000, when the IASC was replaced by the IASB (Chapters 8–13). This chapter contains a summary that, on its own, can be informative for readers new to the world of international accounting and the IASC.

Chapter 2 narrates how the growth of international trade and investment in the post-war period resulted in some of the first calls for internationalism by the accounting profession in the late 1950s and through the 1960s. It identifies Henry Benson, Washington SyCip, and Jacob Kraayenhof as some of the influential voices calling for uniformity or harmonization of accounting and auditing practices worldwide. Some of the significant events it cites in the academic arena are the establishment of international accounting centers at the University of Illinois and the University of Washington, Gerhard Mueller's doctoral thesis and his research in the New York office of Price Waterhouse, and the launch of *Abacus* at the University of Sydney by Ray Chambers with the specific objective of publishing comparative and international accounting research.

Chapter 3 provides insights into the negotiations that took place on the structure and authority of the IASC, the participating countries and accounting bodies, the funding, and the location. It also discusses the reactions from various national and multilateral organizations to the setting up of the IASC. The authors emphasize Henry Benson's role "in transforming generally held inchoate feelings about the necessity of international harmonization into a concrete programme of action" (p. 46). This chapter also discusses the start of the controversy over defining the relationship between the IASC and IFAC.

The IASC's structure, leadership, composition of delegations, and funding during the 1973–1987 period are the subject of Chapter 4. It starts with pen-portraits of the first six chairmen and proceeds to list the composition of the original delegations to the IASC, which were from Australia, Canada, France, Germany, Japan, Mexico, The Netherlands, U.K. and Ireland, and the U.S. Most significantly, the chapter provides the first signs of how some of the early decisions would lead to political controversies later in the IASC's history. These decisions related to the countries that were included in the process, the composition of the technical staff and the project steering committees, the level and sources of funding, the closed nature of the deliberative process, and the relationship with IFAC.

Chapter 5, "Compromise to Harmonise," recounts the first phase of the IASC's standard setting from 1973 to 1987, when it published a total of 31 exposure drafts and two discussion papers, resulting in 26 standards. The authors defend the IASC against the characterization that it was seeking the lowest common denominator in its early standards. They argue that, before 1987, the IASC's strategy was not to attain uniformity in accounting standards but rather to outlaw the unacceptable and allow the acceptable. The authors explain the multiple options permitted in the early standards as being a result of the board members' unwillingness to make arbitrary decisions in favor of one particular approach. However, one could argue that it was just as much the political reality of the times that required the IASC to gain more support (and subscribers) for its standards. Given the absence of enforcement backing, one way to gain support was to make the adoption of IAS easy and inexpensive for companies and countries. It was not a coincidence that some of the early subscribers to international standards were developing countries.

During the 1970s and 1980s, the developed countries that were the founding members of the IASC were not the ones that required the use of international standards in their domestic jurisdictions. Chapter 6 reviews "the disappointing performance" of the members and associate members of the IASC during this period. It recounts the IASC's efforts to gain acceptance of its standards by national regulators and standard-setting bodies and discusses the attitude toward international standards in some 20 countries. Not surprisingly, the longest section is devoted to the United States and the general lack of enthusiasm and even negativity toward the IASC's work,

* The arrangements for this review were made by Gary L. Sundem, a former Editor of *The Accounting Review*.

particularly at the FASB. The difficulty of the IASC's position was underscored by the fact that, during the same period that it encountered benign neglect from the U.S., the French were unhappy with the IASC because, in their view, "the harmonization sought [was] very much impregnated with American methods and ideas" (p. 168).

Chapter 7 looks at the IASC's efforts to cope with the political challenges it faced in trying to serve the many constituents that had a stake in its work. Among the criticisms was that, while overall, developing countries were more frequent adopters of international standards, their relative lack of inclusion in the process meant that their economic and social circumstances were typically not taken into account by the IASC. The chapter is structured around three interconnected developments: relations with the UN, relations with the OECD, and attempts to bring IASC under the control of IFAC.

Chapter 8 starts Part III of the book. It details the operations of the IASC in the 1987–2000 period, specifically focusing on the people, structure, and funding. This chapter contains several lists of those associated with the IASC, venues, frequency, length of board meetings, and the IASC's revenues and expenses. I found this to be the least interesting chapter in the book. Much of the data contained therein could have simply been included in an appendix.

Chapter 9 contains a discussion of the steps taken by the IASC starting in 1987 to strengthen its standards. In an effort to reduce the options permitted in its standards, the IASC launched the Comparability and Improvements projects, which dominated its agenda from 1987 to 1993. The other important change was that, from 1989 onward, the IASC could refer to its *Framework for the Presentation of Financial Statements* as a basis for deciding which accounting treatments should be eliminated and for developing new standards. The chapter also discusses a number of other projects not directly related to the Comparability and Improvements projects. These include cash flow statements, developing country issues, and bank disclosures.

As mentioned previously, in the late 80s there was a widespread perception and a concern among IASC board members that its standards were mainly being used only in economically developing countries. The board believed that, in order to gain acceptance in economically developed countries, the IASC had to make inroads with securities market regulators, national standard-setters, and major corporations. The IASC decided that the International Organization of Securities Commissions (IOSCO) would be the major focus of its attention to gain acceptance and enforcement backing for its standards. Chapter 10 looks at this effort in two phases—a difficult period from 1987 to 1994 and a more promising phase starting in 1995.

Chapter 11 wraps up the discussion started in Chapter 5 and continued in Chapter 9 on the IASC's efforts to strengthen its standards in order to have them endorsed by IOSCO. It starts with a description of the technical agenda and the standard-setting process and then contains a discussion of several specific standards. The conflicting views of the various participants posed serious challenges to the IASC as it tried to complete the core standards and provide a body of standards for IOSCO's approval. The chapter provides evidence of the growing concern by the Europeans that they were being marginalized and that U.S. GAAP would drive the IASC's standards.

Chapter 12 revisits the question of the acceptance of IASC standards in developed countries and concludes that there was progress made in the 1990s. Specifically, it discusses the responses to the IASC in European countries represented on the IASC board as well as those not on the board; the European Commission's decision to require all listed companies in Europe to apply IASC standards starting in 2005; the support provided by multilateral financial institutions such as the World Bank; and the concerns raised by the muscle-flexing of the group of national standard-setters from the G4 +1.

Chapter 13 provides a detailed inside view of the politically charged process that resulted in the IASC being replaced by a restructured IASB. In a series of meetings from July 1997 to November 1999, the participants went through several iterations of what the new organization would look like in terms of its size, composition, structure, authority, and funding. There were serious fundamental disagreements between the Europeans and the "G4" cadre of standard setters. This chapter provides a blow-by-blow account of the negotiations and how the ultimate decisions were made. The political dynamics at the time of the creation of the IASB remain relevant today, as questions are raised about the direction pursued by the IASB on issues such as the trend toward the greater use of fair values in primary statements (Dilks 2007; Fearnley and Sunder 2007).

This book makes an invaluable contribution by providing a detailed history of the IASC. The authors have painstakingly researched the organization through countless documents and numerous interviews. The result is a narrative that provides as complete a picture of the IASC as we are likely to see. It is a scholarly work that makes for interesting reading for those of us who have a professional interest in the IASC. It is also a fascinating study of the politics of an international organization. In an era of growing multilateralism, the lessons to be learned from Camfferman and Zeff's book extend beyond the arena of accounting standard-setting. They are relevant to a host of other international organizations working to establish international standards. The IASB is to be commended for commissioning and funding this project.

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ROBERT J. KIRSCH, *The International Accounting Standards Committee: A Political History* (Wolters Kluwer (UK) Ltd., 2006, ISBN 978-1-84140-608-4, pp. xx, 465).

When indigenous Australian film maker Rachel Perkins was confronted with the daunting task of telling the story of the first Australians from 1780 to 1992, she received guidance from the celebrated U.S. documentary maker Ken Burns. His advice? Tell it chronologically and through the lives of individuals.[4] Robert J. Kirsch's history of the IASC is consistent with this approach. It chronicles the development of the idea of the IASC (from 1966), describes the life of the organization from 1973 to 2001, and introduces the key people who shaped the IASC over this period. In the style of historical documentary makers, the author highlights the political forces that shaped the IASC and how these forces were used by its key people to develop the organization throughout its existence.

Kirsch provides a documentary history, using relevant archival material and published documents. In addition, he interviewed and corresponded with most of the surviving IASC Chairmen and Secretaries General as well as a number of Board and staff members. Kirsch was a research fellow at the IASB from July 2001 to August 2002, during which time he gathered archival data and conducted many of the interviews cited in the book.

Covering 465 pages, the book reviews the major milestones in the IASC's existence. Events are explored in detail to explain how they came about and their importance. The depth of discussion will be rewarding for general readers as well as those seeking to explore a particular event or issue in the IASC's history. Kirsch has provided explanations and background to the myriad of events, meshing his material into a narrative which both informs and carries the reader onwards.

Events are covered in a chronological order, with Chapters 2 to 9 addressing particular groupings of years, clustered in terms of a dominant theme. For example, Chapter 2, "The Formative Period: 1966 to 1973," covers the period in which the idea of the IASC developed into reality, describing the people, organizations, and events leading to its formation. Chapter 3, "Challenges, Responses and The First Standards: 1974 to 1977," covers the early years of operation and production of the first standards. Each chapter opens with a list of chapter sections, which give a useful guide to its content. Where appropriate, there is consistency in the way the material is organized within each chapter. For example, Chapters 4 to 8 begin with a discussion of the Chairmen and staff, then lead on to descriptions of issues relating to the organizational structure and relationships with other bodies. Chapters then progress to a discussion of other events in the period, separated into appropriate sections. All chapters conclude with a useful summary of the key events in the period under review.

The history is also analyzed in terms of themes, with 16 noted in Chapter 1. They include the following: how the organization interacted with other entities, responded to its environment, and evolved over time; the importance of the art of politics and compromise in the life of the IASC; the key role of Chairmen and the strategic vision of being the preeminent standard-setting body; and the organization's development as a standard setter, the growth of the board and staff, and the evolution of the standards themselves. This list shows the broad scope of the book. The author uses Chapter 11, "Synthesis," to provide a valuable summary and commentary of the material in the preceding chapters, organized around these themes.

The following quotation comes from a section in Chapter 11 entitled "Diversity and personal relationships." The author provides the material to illustrate cultural diversity, but it also shows how he manages, with humor, to portray the complexity of seeking agreement among people in an international forum:

> The investment analysts would want more disclosures; the Swiss would oppose them on the grounds of cost or practicality. The Australians and British want more use of current values; the Germans would oppose this on the grounds of prudence and reliability, and the North Americans on the grounds that it was unclear what

[4] See George (2007).

> exact model was being used to replace historical cost. The European Commission observers could be relied upon to oppose anything not allowed by the Fourth Directive and even to oppose anything that would ban an optional practice in it. The Australians acted as the police for the conceptual framework. The Mexican delegation could be relied upon not to waste the Board's time with idle chatter. The Japanese (quite reasonably) often asked for longer exposure periods for documents, given translation problems. (p. 373)

The book has many attractive features for readers. The author's style is clear and easy to read. All content is carefully referenced, and source materials are quoted in detail. Each chapter features an appropriate use of tables and figures to capture relevant statistical material. It is easy to locate material within chapters, using the chapter index and headings. A surprising weakness of the book is the overall index, which is only two and a half pages long. Given the wealth of detail in the history, the range of events, and the huge cast of characters, a more comprehensive index would have been useful in locating people and topics. There are 14 appendices, providing relevant background material about personnel, committees, meetings, and reproducing constitutional documents.

The author uses many quotations to fill out important aspects of the story. The quoted correspondence and interviews add freshness to the text by allowing the reader to hear the views of key players in the various events, at the time they occurred. For example, David Cairns is quoted about the factors which led to the harmonization project:

> the IASC itself recognised that it ought to do something about the choices permitted by its standards. ... When I joined there was already in process a number of reviews of existing standards. ... somehow we developed the idea that we should do it as a single project. (p. 183)

In addition, the author includes vignettes at various points in the chapters. Many controversial events and colorful characters are described in the history, but their nature is often communicated directly through quoted material. For example, the death of Sir Henry Benson, the founding father of the IASC, is recorded in a vignette describing events leading to Michael Sharpe's Chairmanship (1995–97). Just prior to his passing, Benson sent a message to Sharpe saying that he would die happy in the knowledge that the IASC was in good hands.

Lighter material is also included, such as explanations of dining etiquette during sensitive negotiations with the Chinese government about membership on the IASC (vignette, p. 261). Political machinations are constantly illuminated; one notable example is described on page 228. Despite the wish of the Japanese delegation to vote in support of a set of revised, harmonized standards in 1993, they were obliged to follow instructions from Tokyo and abstain, all the while proclaiming support for the work of the IASC. Further embarrassment was caused because the then IASC Chairman, Eiichi Shiratori, was Japanese. Some anecdotes seem unbelievable, even though true; for example, page 234 records that in 1994 Secretary General Cairns agreed to send the SEC a free copy of the bound volume of IASC standards because the SEC had insufficient funds to purchase a copy.

The history is comprehensive and covers important milestones, but must of course reflect the author's views of events. Kirsch had discretion about the extent of coverage given to various events, organizations, people, and relationships. It appears that major events in the IASC's history are covered, but the extent to which particular issues are highlighted reflects the author's view of their importance. If another author were to provide the IASC history, a different view of events and people would be portrayed. While Kirsch appears to present the material in a neutral fashion and to provide source documents which "speak for themselves," the material chosen reflects his perceptions of what is important and interesting. Other participants in the history could well hold a different view of events described.

The book can be read as presented, that is chronologically, or it can be dipped into to suit the reader's purposes. A reader can find material on a particular topic, which can be located and extracted from various chapters. Readers can gather background about people, events, and the standards themselves. For example, Sir David Tweedie is first mentioned on page 76. Then, in Chapters 7, 9, and 10, readers can find out about his involvement in the IASC prior to his appointment as the current Chairman of the IASB. Similarly, those wanting a history of the IASC's relationship with national standard-setters can find relevant discussion in several places in Chapters 4 through 7. The history of specific standards can also be investigated, through summaries in Chapter 9, "Standard Setting from 1995 to 2001," and in other relevant chapters. Interestingly, the history covers not only events at the IASC, but also developments in various countries and organizations that are relevant to the IASC story. Thus, it has a truly international perspective.

The book is aptly titled as a political history. The difficulties of developing an autonomous IASC, obtaining sufficient funding, expanding its influence, and gaining acceptance for its standards make a fascinating political story. Kirsch's book itself reflects the political nature of matters associated with the IASC. The author received financial support from the IASB until September 2002; however, opposition from two important players in the history persuaded the IASB not to proceed with its publication (p. ix). Kirsch does not provide reasons for the withdrawal of support; it could have related to others' views of the selected content or its manner of presentation.

Robert Kirsch is a well-published academic who has written about the IASC and international standard-setting in prior work. In the current book, he creates a valuable record of an important organization, which he describes on page 364 as "the history of the IASC from its conception and birth, through an eventful life, to the end of its first incarnation on 31 March 2001." The organization that led to the current IASB developed in stature and influence over its life, consistent with the goals and aspirations of its chairmen, staff, and supporters. Kirsch's text is a fascinating record of the people and events that shaped the IASC, which will be of interest to students, academics, and practitioners. I recommend this book to all with an interest in the politics of international organizations and those wishing to gain an understanding of current arrangements for setting international accounting standards.

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JAMES OHLSON and ZHAN GAO, *Earnings, Earnings Growth, and Value*, in *Foundations and Trends® in Accounting*, 1:1 (Boston, MA: now Publishers Inc., 2006, ISBN 1-933019-42-5, pp. ix, 77).

Jim Ohlson and Zhan Gao's monograph is the first in the *Foundations and Trends® in Accounting* series, edited by Stefan J. Reichelstein. This work reviews a valuation model earlier proposed by Ohlson and Juettner-Nauroth (2005) (OJ) and relates it to other valuation models. The monograph is aimed at an academic audience already familiar with the process of assessing stock prices in the light of anticipated streams of earnings and cash distributions. The monograph would be a useful reading in a Ph.D. course covering equity valuation, especially alongside Lundholm and O'Keefe (2001).

The OJ model belongs to a class of valuation models whose members share three assumptions. First, frictions like bankruptcy, taxes, and agency costs are absent. Second, the cost of capital (also known as the normal rate of return) is exogenous and constant over time. Third, future streams of earnings and distributions to shareholders are known with certainty (or, equivalently, that the stock price is equal to a sum of values, each of which is the present value, computed using the normal rate of return, of the expected value of an uncertain future cash flow). The models differ in the state variables they encompass and in the supplemental assumptions made about the evolution of those state variables. In the Residual Income Valuation model, for instance, book value is a state variable, and changes in book value over time are assumed to respect the clean surplus relation. In contrast, the OJ model does not require a book-value state variable. Consequently, the clean surplus relation need not be imposed.

Absent growth, a firm is analogous to a personal savings account. Provided the interest rate does not change, the stream of future deposits and withdrawals from a savings account does not affect its present value, which suggests that the price of a no-growth firm should not be affected by its dividend distribution policy. Ohlson and Gao extend this analogy to growing firms. Along the way, they present many interesting intuitions.

Growth bedevils valuation because the pattern of growth over time may be exceedingly complex. The modeler faces a trade-off between descriptive validity and structural simplicity. In the OJ framework, the overall pattern of growth is assumed to be a function of just two parameters. The first parameter is a measure of growth in the near term. Specifically, the first parameter is the amount by which earnings two years hence exceed a benchmark defined as earnings one year hence plus the normal rate of return accruing in the second year on the first-year increase in shareholders' equity. The second parameter is the rate of growth (assumed to be constant over time) in the first parameter. Thus, the second parameter relates long-term growth to near-term growth. The authors derive comparative statics and offer extensive interpretation of this parsimonious model.

They also explain how the OJ model relates to other models in the class. For instance, the OJ model is a special case of the Abnormal Earnings Generation model. Adding structure to the OJ model by defining a book-value state variable and imposing the clean surplus relation yields the Residual Income Valuation model and the Market-to-Book Valuation formula. As the authors acknowledge, this detailed analysis is somewhat pedantic, but it also increases the value of the monograph as a unifying overview of the many research papers in this area.

Beginning in Chapter 4, the monograph presumes that the reader has the mathematical sophistication to digest statements such as "These two conditions correspond to a standard regularity condition that the maximum root (modulus) of the implied transition matrix ... is strictly less than R" (p. 32). Perseverance is rewarded with insights into why growth firms' values can be insensitive to dividend policy and how information shocks and accounting conservatism affect P/E ratios and earnings growth. These are neat points. Because I suspect other neat points could be made, I wish the authors had also tackled the valuation effects of taxes, leverage, inflation, and periods of economic contraction (when earnings growth might be negative). A discussion of the sources of variation in the cost of capital across firms or over time also would be illuminating.

The monograph lacks polish. In places, the notation is cumbersome. Jargon and acronyms are used when they might have been avoided. Some important terms do not receive clear definitions. Ohlson and Gao end their work abruptly without a summary or conclusion. Despite these shortcomings, *Earnings, Earnings Growth, and Value* is an informative read.

REFERENCES

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Ohlson, J. A., and B. Juettner-Nauroth. 2005. Expected EPS and EPS growth as determinants of value. *Review of Accounting Studies* 10 (2–3): 349–365.

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GEOFFREY WHITTINGTON, *Profitability, Accounting Theory and Methodology: The Selected Essays of Geoffrey Whittington* (London, U.K.: Routledge, 2007, ISBN 978-0-415-37644-0, pp. x, 464).

Geoffrey Whittington is widely known as an inaugural full-time member of the International Accounting Standards Board (IASB). What is less widely known is how he came to be there. This sampler of his writings traces much of Whittington's intellectual journey, from Junior Research Officer at Cambridge in 1962 to a seat at the IASB table about 40 years later. Whittington's essays constitute the first book in the series, *Routledge Historical Perspectives in Accounting*, which is edited by Stephen A. Zeff. It offers great insight into Whittington's career as a highly respected British academic and an influential regulator.

The book contains a foreword by Zeff, an introduction, six sections, and an index. The introduction consists of an academic autobiography followed by a useful overview of the collection and an explanation of why each essay was selected. When the selections were made, Whittington's output had included more than 50 works (listed pages 21–33), 16 having appeared in *Accounting & Business Research* (*ABR*), five each in the *Journal of Business Finance and Accounting* (*JBFA*) and *The British Accounting Review*, and about ten in various economics journals. The collation itself comprises 22 papers published mostly in British journals over almost 30 years. As he explains, they were chosen to give "representative coverage of all my research interests" and biased towards "publication outlets that are less accessible or less well-known to accounting researchers" (Introduction, p. 1).

Section I, dealing with empirical studies based on company accounts, has four papers published between 1972 and 1980, which might be termed Whittington's early period. Two are co-authored, one with his former Ph.D. student, Geoffrey Meeks. During this time, Whittington was involved in constructing what was, for the time, a large-scale electronic database: 360,000 punched cards we are told (p. 3), which on my reckoning was of the order of 200 boxes but would today fit conveniently on a thumb drive. It was compiled from the annual financial statements of the more than 3,000 listed companies in the U.K. and was used to study questions in industrial economics. In broad terms, the database was a "British Compustat," and it was *perhaps* of some regret to Whittington that there was, at the time, no British equivalent of the University of Chicago's CRSP database. I say perhaps, because, as Whittington explains on page 6, he was in any case well occupied in the pursuit of questions that did not involve, directly, estimating the market effects of accounting numbers or their disclosure. Two of his conclusions: "take-overs and mergers are largely initiated to create or maintain large companies with relatively poor profitability ... for the benefit of management rather than shareholders" (p. 65); and size is "of overwhelming importance in the explanation of the level of directors' pay" (p. 86). Sound familiar? These papers are noteworthy because they illustrate Whittington's keen interest in industrial economics, his sound appreciation of the vagaries of accounting numbers (e.g., the effect of asset revaluations on performance measures), his clear understanding of the econometrics of the models and estimators he was using (e.g., omitted variables bias, self-selection and look-back survivorship bias, autocorrelation, and when to use "changes on changes" models), the need to demonstrate robustness of conclusions to alternative measures and models, and especially the difference between "economic significance" and "statistical reliability" (p. 82).

Section II, on the specification of empirical models, contains six papers. The first is a brief comment on a paper by Peasnell and Skerratt, who had provided an "efficient markets" interpretation of an earlier paper he had co-authored with Jones and Tweedie. Even in the late 1970s, Whittington was skeptical of the semi-strong form of the Efficient Market Hypothesis (EMH): it was not "highly plausible" in his view (p. 96), even if it was "fashionable" (p. 94). The second, third, and fourth papers, written in the late 1970s, consider circumstances in which accounting ratios could give reliable signals of economic performance. The fifth is a substantial piece published in 1999 in *JBFA* and co-authored with Tippett, who shares Whittington's interest in the properties of financial ratios. They explore whether the components of four common ratios (liquid assets and current ratios, and the ratios of inventory to current liabilities and debt to assets) are non-stationary in the statistical sense and, if they are, whether the ratios are also non-stationary. It seemed a nice idea: expressing key variables in ratio form could yield a stationary series. But the evidence gave limited support, illustrating that not all nice ideas work in practice. The sixth and final paper in this section, a 1994 paper on empirical models used in research into the determinants of audit fees, was also published in *JBFA*. Co-authored with Pong, it was initially rejected by a U.S. journal—see the wry dig at the un-named editor on page 14. I am glad that the editor of the British journal showed better judgment, because it is a good paper, making the point well that users of *ad hoc*, single equation models so often found in the accounting and auditing literature can face an identification problem. It is the kind of paper that would be useful even today in a doctoral-level course on research methods.

Section III, on price change accounting, comprises three papers on a subject that commanded Whittington's attention because of its theoretical challenge. The first paper had the poignant, if somewhat tongue-in-cheek title, "Inflation Accounting—All the Answers." The title was to be taken literally, it being Whittington's view that "there are many methods of inflation accounting, each of which is capable of providing an answer (but not necessarily a perfect one) to one or more questions which might be in the minds of users of accounting data" (p. 197). What follows is a delightful exposition of alternative ways of thinking about some of these questions. The second paper, titled "The European Contribution to Inflation Accounting," was a plenary address to the European Accounting Association in 1983. His aim was "to provide a more balanced picture of the contribution of continental Europe to both the theory and the practice of inflation accounting" (p. 215) and illustrates his bent for history (p. 1). The third paper, "The End of the Current Cost Revolution," was written with Tweedie, with whom Whittington has had a long association, for Professor Parker's Festschrift in 1997. The paper summarizes the demise of current cost accounting proposals in the U.K., U.S., Australia and New Zealand, Canada, South Africa, The Netherlands, and in some countries in Latin America. One reason given for the demise was reduced demand for adjustments because of lower inflation rates (e.g., we are told on page 258 that, according to the professional accounting body in Argentina, no adjustment is necessary once the annual inflation rate falls below 8 percent). Whittington must have found some comfort in the fact that inflation adjustments remained an issue in regulated industries and the public sector.

Section IV, on taxation and regulation, comprises two papers reflecting Whittington's experience in income tax reform, as a member of the Meade Committee, which reported in 1978, and when he was a part-time member of the Monopolies Commission from 1987 to 1996. Both papers reflect a lasting interest in distortions caused by inappropriate treatment of inflation and price changes.

Section V, on regulation of accounting and auditing, has four papers that represent Whittington's involvement with accounting standards. The first paper is a critique of the Dearing and Solomons Reports. The Dearing Committee was asked "to review and make recommendations on the standard-setting process" (as quoted on p. 316). Whittington saw the Dearing Report as a pragmatic, "sensible and practical response" (p. 318) to pressures on the previous system (discussed on pp. 314–315). He was much less enthusiastic about the Solomons Report, which expressed a preference for measurement at "current value, based on Value to the Business" (p. 319), because, to Whittington's mind, more than one valuation system can have merit. The second paper was co-authored with Tweedie and published in *ABR* in 1990. They identified a set of troublesome accounting problems, including off-balance sheet financing, corporate groups, complex capital transactions, and brands. Tables 1 and 2 contain "a tentative attempt to propose solutions for the problems [they] identified" (p. 336); I would describe the "solutions" as the considered judgments of two thoughtful people well-versed in accounting theory and practice. Little wonder that Tweedie was asked to chair the U.K. Accounting Standards Board and Whittington to be its academic adviser! The third and fourth papers round out the section. The third deals with why and how we should regulate financial reporting, and the fourth, a co-authored paper, ironically is a somewhat disjointed discourse on accounting harmonization in Europe.

The sixth and final section, on surveys and methodology, contains three papers. If by this time the reader has not been persuaded that Whittington is an independently minded academic who "sticks to his guns," then this section will remove all doubt. The first essay starts off innocuously enough, laying out in a matter-of-fact manner a scheme for classifying 20th Century accounting research in the English-speaking world. But toward the end of the paper there is a shift of pace, when Whittington quotes approvingly of a 1983 paper in *The Accounting Review* in which Christenson offers a philosophical critique of views espoused by Watts and Zimmerman. That criticism sets the scene for the second paper, a trenchant review of ''positive accounting theory.'' Watts and Zimmerman had posited that the ''objective of accounting theory is to *explain* and *predict* accounting practice'' (as cited, p. 417), and it clearly offended Whittington mightily. He describes their view as ''arrogant'' (p. 418), ''tendentious'' (pp. 417, 418, 423), and audacious (p. 422). In contrast, Whittington would have us believe that he was more tolerant of other approaches to accounting theory (and theorists). And so it seems, until we come to the final paper, ''Is Accounting Becoming Too Interesting?'' In a humorous but pointed public lecture given in 1995, no hold is barred. Research is characterized (p. 438) as being from the ''right'' (the Chicago/Rochester School), the center (or ''heart,'' namely the ''methods and techniques of accounting'' and its ''ability to provide a consistent account of economic events and transactions,'' which obviously interested Whittington the most), and the ''left'' (''the test of accounting is its effect on society or social relationships'').

In sum, any careful reader must be impressed by the sheer quality and practical import of Whittington's work over more than 40 years. Unafraid to express his views or to take issue with the views of others, he does so with solid argument and, where appropriate, more than a dash of British humor. Geoffrey Whittington has rendered great service to academia, to British commerce and industry, and to the accounting world at large; and this collection goes a long way to answering the question, ''What maketh the man?'' As I put the book down, I found myself wondering what if, instead of answering an advertisement he saw by chance (p. 3) and going to Cambridge, he had joined a doctoral program at a leading North American university? After all, with his native ability, intellectual curiosity and interests in accounting, constructing electronic databases, programming, and econometrics and empirical studies, he would have been a wonderful Ph.D. student wherever he went. Having read the book cover to cover, though, I believe I also know the answer. Had Geoffrey Whittington taken the North American path, the accounting world would have been the poorer for it.

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