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More Accounting Changes: Financial Reporting Through the Age of Crisis and Globalization

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not. These additional costs, if not to be borne by employer/sponsors, would necessarily reduce plan assets and thus have the unfavorable result of being borne by employee participants. In addition, if the report form for limited-scope audits were adopted as proposed, auditors might decline to accept such engagements, thus causing a reduction in competition and further increases in administrative costs. Another possible consequence might be that some small business employers will discontinue their EBPs rather than absorb such additional unwarranted costs. As a result, working people would be forced to rely on IRAs for tax deferrals, which, due to limitations, would be substantially lower than with defined benefit plans, thus reducing their disposable income currently and in retirement.

Proposed Auditor Responsibilities regarding Form 5500

Proposed procedures regarding Form 5500 are based on AU-C section 720, even though the form is not considered a “document containing audited financial statements,” as defined in AU-C section 720.02. For no explainable reason, however, the ED would allow auditors to issue an audit report prior to the availability of an unissued Form 5500 while retaining responsibilities with respect to the 5500 after the audit report date. Except in connection with SEC registrations, it is inherently unreasonable to hold auditors responsible for client actions after the report date. The standard should preclude issuance of an audit report before the unissued Form 5500 is made available to the auditor and require that the terms of the engagement provide so.

Pushing Back

The DOL has no statutory authority either to set auditing or reporting standards or to require compliance testing and reporting, which is likely the primary reason it is pressuring the auditing profession for these changes. But why should the profession yield to such pressure by requiring its members to perform procedures and issue reports that are inconsistent with its otherwise applicable standards that are not required by law or regulation? In the opinion of this author, there should be no exceptions made in auditing standards for ERISA-compliant EBP audits. If the DOL wants a compliance audit and report for EBPs, it should ask Congress to amend ERISA.

Auditors are urged to view the NYSSCPA’s comment letter at http://www.nysscpa.org/advocacy/comment-letters/2017, and to submit their comment letters on time.

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More Accounting Changes

Financial Reporting through the Age of Crisis and Globalization

By Robert H. Herz
Reviewed by Robert Bloom, John Carroll University

This book is part autobiography and part chronicle of recent events in accounting standards setting. The book follows Herz’s role as the chair of FASB from 2002 to 2010 and provides a historical perspective of events during his tenure from his vantage point. He analyzes his own positions along with countervailing positions and offers proposals for moving forward. The principal motifs that guided standard setting during his time on the board—how to make U.S. accounting standards simpler, easier to understand, and converge them with high-quality international standards—are emphasized throughout the book.

The first chapter deals primarily with Herz’s “first 49 years” and is mostly biographical. Chapters 2 through 6 cover recent accounting standards-setting issues during his time on the board. The final chapter summarizes issues covered earlier and looks ahead to the future, in particular sustainability disclosures. Excerpts of articles and speeches Herz prepared, along with letters received from constituents—some angry, others complimentary—appear throughout.

Herz had a diverse childhood, growing up in New Jersey, moving with his family to Argentina, and later studying at the University of Manchester in England. He apprenticed at Price Waterhouse in Manchester and subsequently joined Coopers & Lybrand in the United States. His experience auditing Wall Street firms eventually led to an appointment as senior technical partner in that firm, which later merged with Price Waterhouse. He served on a number of FASB committees and was a member of the IASB a year before joining FASB as its chair.

Several major issues are highlighted in the book, including: 1) the controversy of accounting for stock options, 2) the role...
of FASB in the 2008 financial crisis, 3) the process of codification of accounting standards from many different sources, 4) the development of private company GAAP, and 5) the evolution of sustainability accounting standards by industry. Herz provides a comprehensive analysis of the events underlying each of these topics, stressing the politics involved in setting accounting standards.

On stock options, Herz discusses the arguments for and against expensing them and the parties who took opposite sides on this long-standing controversy. While he was not serving on FASB during its first, unsuccessful attempt to mandate expensing those options, he was very much involved in the second, successful attempt, which occurred after the Sarbanes-Oxley Act of 2002 was enacted and after the IASB had issued its expensing standard. Herz also discusses the inability of FASB to cling tenaciously to its due process in the face of considerable opposition from Congress, in the cases of stock option expensing and mark-to-market accounting, is admirable.

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as chair during its subsequent, successful attempt, which occurred after the Sarbanes-Oxley Act of 2002 was enacted and after the IASB had issued its expensing standard.

During the financial crisis, FASB was widely criticized for requiring mark-to-market accounting, which led to reporting significant losses on investment securities held by banks and other financial institutions. Congress virtually impelled the board to amend its fair value standard in order to clarify such valuation in inactively traded markets. Herz emphasizes the problem of exceptions in accounting standards in this context, the board previously having allowed many banks to use special purpose entities under special circumstances, which they abused by parking toxic assets in them in order to avoid consolidating those entities. While FASB favored full disclosure of fair values and how they are measured, banking regulators were reluctant to assume that position, lest the resulting losses cause a run on financial institutions.

Attempting to amalgamate existing accounting standards from a diverse mix of sources, called the codification project, was a huge and time-consuming undertaking intended to facilitate the finding and understanding of GAAP. FASB pursued this successful, albeit costly, endeavor for several years, and today’s Accounting Standards Codification is the result.

Until recently, the United States had never developed distinct private company GAAP, in contrast to many other countries. Herz examines the parties preparing these standards and how, in a general sense, these still-developing standards might differ from existing GAAP. He also discusses how the Sustainability Accounting Standards Board (SASB), which he recently joined, came into being in 2011, as well as its modus operandi in developing and issuing provisional disclosure standards for 79 industries. The SASB emphasizes materiality in terms of the key performance indicators it has chosen for each industry.

This book dispels any notion that serving on FASB or the IASB is a sinecure. In fact, one criterion for appointing members to these boards should be their ability to deal with conflict management. The “glacial” slowness of setting standards in a due-process, independent framework comes through loudly and clearly. The ability of FASB to cling tenaciously to its due process in the face of considerable opposition from Congress, in the cases of stock option expensing and mark-to-market accounting, is admirable.

Herz offers several major lessons for FASB: avoid exceptions to the extent possible when setting the criteria used in standards; emphasize the role of the board as an issuer of accounting standards, not as an auditor or enforcer of those standards; and refrain from engaging in too many different standards-setting projects at once. In his final analysis of international standards, Herz does not appear certain that full-scale convergence with IFRS is suitable for the United States, given the litigious environment and culture.

Some chapters could have been split into two and the discussion condensed in the process of editing this book. Herz might have provided information about the role of the conceptual framework in developing standards, although he does mention that his biggest regret is not revising this framework in addition, although readers might expect a full discussion of accounting convergence, especially on the revenue recognition and leasing standards, there is none.

Overall, the writing is lively and informative. It should be of interest to users of financial reports, not to mention preparers and auditors. Beyond that, students of accounting and finance would find most of the chapters helpful in illuminating recent controversies in financial accounting.

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