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Comment établir des normes comptables cohérentes et admises par les parties prenantes ?

Une lecture critique du projet de révision du cadre conceptuel de l'IASB et du FASB

Determining a Consistent Set of Accounting and Financial Reporting Standards

A Research Note Based on the IASB-FASB Conceptual Framework Revision Project

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Abstract

Following the debate on the Conceptual Framework revision undertaken by the IASB and the FASB, this paper discusses three major concerns about the way financial reporting standards should be determined: (1) What is the role a Conceptual Framework?; (2) For whom and for which needs are accounting and financial reporting standards made?; and (3) What information set should financial reporting provide?

We show that the perceived need of a Framework has resulted in practice in weak usefulness. We note that arguments used in the IASB-FASB new Framework to justify the focus on the needs of capital providers are questionable and so is the hypothesis according to which the content of these financial statements should aim at providing useful information in making decisions about allocation of resources.

Résumé

Le projet conjoint de révision du cadre conceptuel de l'IASB et du FASB a ravivé le débat sur le rôle de la comptabilité. Dans ce papier, nous discutons trois questions essentielles, pour lesquelles les normalisateurs ont adopté des positions contestables: (1) Quel est le rôle d'un cadre conceptuel comptable ?; (2) Pour qui et pour quels besoins doivent être établis les normes comptables et (3) quelles informations doivent fournir les états financiers ?

L'histoire des cadres conceptuels comptables révèle qu'ils se sont avérés peu utiles en pratique. Les arguments utilisés par l'IASB et le FASB pour justifier le choix des investisseurs comme utilisateurs privilégiés d'états financiers, dont l'unique objet serait de faciliter leurs décisions d'allocation de ressources, sont remis en cause.

Keywords: Conceptual Framework, IASB, Financial Reporting Objectives, Users

Mots-clés: cadre conceptuel, IASB, objectifs des états financiers, utilisateurs des états financiers

1. Introduction

Under accounting regulation, a Conceptual Framework is typically defined as a coherent system of inter-related objectives and fundamentals aimed at leading to consistently articulated standards and prescribe, through strong theoretical basis, the nature, function and limits of financial statements and accounting information (FASB, 1978; Scott, 2009).

While the necessity of a Conceptual Framework for financial reporting has been much questioned in the 1970s when the FASB was developing its own framework (Hongren, 1981; Peasnell, 1982; Miller, 1985), it is now well admitted that such a framework is of particular importance to provide guidelines for standard-setting in the current accounting context characterized by significant changes in regulations and corporate financial reporting practices, as well as sustainable efforts towards international convergence and harmonization. Standard setters, such as the IASB in its 1989 Conceptual Framework (IASB, 1989, para. 1), typically include a wide range of objectives that should be pursued by their respective Conceptual Frameworks. These objectives can be split up into two main functions: (1) help the standard-setter design and develop accounting standards; and (2) assist entities in the preparation of financial statements, users in their interpretation and auditors in their judgment making-process (Christensen, 2010). Although standard-setting actors generally reach consensual views upon these objectives, the practical ways and methods used to achieve them differ significantly amongst local and international accounting regulators.

As an example, these major differences gave incentives, in 2004, to the FASB and the IASB for undertaking a joint revision of their Conceptual Frameworks, as a part of the convergence objective they agreed on in 2002 through the Norwalk Agreement. According to Bullen and Crook (2005), this revision is necessary to fulfill the pre-requisites of principles-based standards shared by both Boards and their constituents. Under this approach, a Conceptual Framework must be a comprehensive and internally consistent set of fundamental concepts in which standards are rooted. Undoubtedly, the first Conceptual Frameworks result in some inconsistencies and unsolved issues, which, beyond the convergence issue, is a major reason to engage in a revision process. The IASB and the FASB underline the critical role of the Conceptual Framework in their revised Framework issued in September 2010 (hereafter 2010 Framework¹; FASB, 2010b; IASB, 2010c) while advocating that the new Conceptual Framework will not override prior standards. Moreover, many projects on the IASB's agenda are connected to the IFRS Conceptual Framework. This convergence process is claimed to be

¹ The contents of both Frameworks are the same except for the introduction which details the status of the Framework. Therefore, the references to the IASB's 2010 Framework made in this paper apply also to the FASB's 2010 Framework.

of much importance since the legitimacy of the FASB and the IASB, and their financial reporting standards, has been questioned over the 2008 financial crisis period.

Starting from this current debate, this paper aims firstly at discussing the objectives of a Conceptual Framework in an international context and its implications in light of the main decisions made by the FASB and the IASB in their 2010 Frameworks. Discussing these proposals is crucial as the objectives of financial reporting are often considered by standard setters as the foundation of the framework from which other concepts flow (e.g. FASB 2010b: OB1 and IASB 2010c: OB1) and may, as a result, imply economic consequences for both users and preparers of financial statements.

The remaining of the paper is organized as follows. Section 2 is dedicated to identify through prior literature the role and purposes of a Conceptual Framework in an international accounting regulation context. Section 3 discusses and identifies the users and recipients of accounting and financial reporting information. Section 4 aims at discussing the information content that financial reporting and financial statements should achieve. Finally, a conclusion draws out some future research avenues to further discuss those topics.

2. What is a Conceptual Framework and what should it be made for?

In 1976, while the FASB was developing its first Conceptual Framework, it proposed to define it in a Discussion Memorandum as a constitution on which standards would be based much as laws of the land derive from the US constitution (Hendriksen and Van Breda, 1991: 122). The Conceptual Framework hence appears to be of major importance for accounting standard-setting. The definition proposed by the FASB in its last SFAC n°8, issued in September 2010, as a result of the first phase of the joint project it undertook with the IASB in 2004, specifies that the Conceptual Framework is “a coherent system of interrelated objectives and fundamental concepts that prescribes the nature, function, and limits of financial accounting and reporting and that is expected to lead to consistent guidance. It is intended to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of unbiased financial and related information” (FASB, 2010b). The IASB just mentions that “This Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users” in its 2010 Conceptual Framework 2010 (IASB, 2010c: Introduction), but it provides detailed information about the purpose of the Conceptual Framework. Even if the proposed definitions are not exactly the same, the FASB and the IASB seem to agree that a Conceptual Framework pursues two main objectives: (1) to assist standard setters when developing a standard and (2) to be useful for practitioners (Christensen, 2010), even we will explain that the FASB seems to be more focused on the first objective.

In this section, we discuss the necessity and the function of a Conceptual Framework, its political implications and the public interest objective accounting standard setters intend to meet when developing such a framework.

2.1. The perceived need for a Conceptual Framework and its effective usefulness

A brief history of the American Conceptual Framework is of great help to understand the underlying principles of a Conceptual Framework. The search for a Conceptual Framework emerged in United States in the 1930s but was mainly an issue for academics at the beginning. Hence, from 1936 to 1966, the AAA published several statements on accounting principles (Hendriksen and Van Breda, 1992), including two documents of major importance. In 1940, the AAA published a study written by Paton and Littleton² which can be regarded as a response to the monograph written by Sanders et al. and issued by the AICPA in 1938³. Paton and Littleton intended to present a framework of accounting theory. Their study is particularly noteworthy for the development of the matching concept. The last statement issued by the AAA in 1966, known as ASOBAT (A Statement of Basic Accounting Theory), which promoted for the first time a user-oriented accounting theory which will be of great influence on the recommendations of the Trueblood Report (AICPA, 1973).

The AICPA really took part to the process in the 1960s as a response to many attacks on the quality of financial reporting launched by professional accountants (Gore,1992:10) and to the increasing controversial accounting issues which had been debated between the SEC, the AIA (i.e. American Accounting Institute, the AICPA's predecessor) and the CAP (i.e. Committee on Accounting Procedures) (Zeff, 1999). The final result of the AICPA's involvement was the establishment of the FASB as recommended by the Wheat Report (AICPA, 1972) and the publication of the Trueblood Report (AICPA, 1973; Peasnell, 1982) which is the main basis for the FASB's Conceptual Framework.

In the American context, the search for a Conceptual Framework for financial reporting can be explained by the necessity to find a solution to the failures of standard setting by the AICPA from the 1930s. The AICPA was under criticisms because of its refusal of a single uniform system of accounting which had led to many options that reduced the quality of financial reporting. A lack of consistent objectives and principles made it difficult to impose accounting solutions which could be accepted by everyone. A Conceptual Framework was therefore crucial to justify standards and make them acceptable. Hines (1989:81) underlines that "a major reason stated by the FASB for undertaking its CF project was to provide a coherent conceptual core that would enable the setting of theoretically grounded and consistent rather than arbitrary and ad hoc standards". Twenty years later, the same reason explains that the FASB and the IASB need a Conceptual Framework when writing standards, but the question of its real function still remains.

In the 1980s the usefulness of the FASB's Conceptual Framework was soon questioned. Indeed, many researchers have pointed out the incompleteness, the inconsistency, the circular reasoning and non-operationality of the American Framework (Dopuch and Sundern, 1980; Solomons, 1986; Gerboth, 1987; Hines, 1989). Standards promulgated prior to the conclusion of the Framework have not been revised and as such were not consistent. This raises the problem of an ex-post framework. But even for new standards, the FASB's Conceptual

² Paton, W.A and A.C. Littleton. (1940).*An Introduction to Corporate Accounting Standards*, AAA.

³ Sanders et al. intended to provide guidance to the SEC on the best accounting practices but their study was considered as a defense of accepted practices rather than a try to develop accounting theory (Schroeder et al., 2008).

Sanders,T.H., Hatfield,H.R., and W. Moore. (1938). *A Statement of Accounting Principles*, 1938, New York: AICPA.

Framework has not provided sufficient theoretical grounding to achieve the consistency and comparability objectives⁴. Mozes (2003) explains how the vagueness of the FASB's Conceptual Framework and its level of abstraction have enabled the SEC to oppose to FASB's proposals about accounting for employee stock options in 1993.

The IASB faces the same problems with its 1989 Framework. For example, the confusing definition of the concept of profit⁵ has led to inconsistent accounting solutions, as some transactions are recorded in net income whereas others are recorded in Other Comprehensive Income, and as such bypass net income and can be recycled or not, depending on the cases⁶

In fact, it seems that both the standard setters and their opponents refer to the Conceptual Framework in order to justify their views. For example, in the case of the disclosure of comprehensive income, the IASB explained in its ED issued in 2006, that as "the Framework does not define, profit or loss (...) it was conceptually correct for an entity to present all non-owner changes in equity (...) in a single statement..." (IASB, 2006a: BC 12). But some opponents to this ED also mentioned the Conceptual Framework to justify their position. Hence, UNICE wrote that "the IASB cannot refer to the existing framework to justify the aggregation of all non-owner changes in equity into a single statement"⁷.

Obviously, the FASB and the IASB's Conceptual Frameworks have failed to enable the production of consistent standards and both Boards seem to be aware of it. To be really useful in the development of more consistent standards, a Conceptual Framework has to remove the necessity of re-debate of conceptual issues when developing a new standard (Jones and Wolnizer, 2003). It will avoid endless debates about what is an asset or a liability each time a new standard is discussed.

The revision project is an opportunity to give to the Conceptual Framework a leading role. Unfortunately, it seems that the same mistakes are being made. Firstly, the revision process is too slow. Indeed, the Boards undertook the project in 2004 and only the first phase (out of 8) - phase A, has been completed within 6 years. The Boards have not set any project deadline. As a result, the new Conceptual Framework comes quite late regarding IFRS which are being discussed now. For example, the IASB issued in August 2010 an ED about leases (IASB, 2010c) which proposes that the lessee would recognize as an asset the right to use the leased asset, whereas the definition of an asset is still being debated as a part of the phase B of the Conceptual Framework project. In the same way, the IASB is revising its standard on non financial liabilities (IASB, 2010b) while the definition of liability will be given in the future phase B.

The authoritative function of a Conceptual Framework is also an issue. In its Rules of Procedure, the FASB underlines that the Conceptual Framework is not a source of authoritative generally accepted accounting principles (FASB, 2010a). The Conceptual

⁴Gerboth (1987) explains how the ambiguous definition of the term "liability" in the FASB's Framework led to an endless debate when the FASB undertook a project about accounting for pensions.

⁵"Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to measurement of profit are income and expenses" (para. 89).

⁶ See Le Manh (2009) for more details on the IASB's position on the concept of income.

⁷ UNICE (Union of Industrial and Employers' Confederations of Europe) explained that the use of OCI recorded in equity is consistent with the IASC's conceptual framework which states that holding gains are not to be recognized as income "until the assets are disposed of in an exchange transaction" (para. 108).

Framework is supposed to be more important under IFRS, as its function is not only to assist the standard setter but also to be useful for practitioners (McGregor and Street, 2007). For the FASB, the Conceptual Framework is mainly of use for the standard-setter, even if the new SFAC n°8 recognizes that the Conceptual Framework could be helpful for those who are affected or interested in GAAP (FASB, 2010). Hence, under US GAAP, the Conceptual Framework is not supposed to be very useful for preparers, users, auditors and other interested parties, which explains why it does not have the same authoritative status as standards. This question of the authoritative status has been an important difference between the FASB's and the IASB's Conceptual Frameworks.

However, the IASB seems now to follow the FASB's conception when writing in its 2010 Framework "This Conceptual Framework is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nothing in this Conceptual Framework overrides any specific IFRS". The Board affirms that the conflicts between IFRS and the framework should be limited, but the domination of standards raises the question of the real function of a Conceptual Framework.

If the need for a Conceptual Framework is admitted, past experiments reveal that Conceptual Frameworks have failed to enable standard setters to develop consistent and easily accepted standards. One explanation may be that the main function of a Conceptual Framework may be something else than providing operating concepts useful for standards setters and for stakeholders of financial reporting.

2.2. Political implications of a Conceptual Framework

Some researchers advocate that the Conceptual Framework could play another, more political, role. Hines (1989) states that Conceptual Framework projects have been led in contexts in which the accounting profession wanted to legitimate its authority and its standards. She asserts that these projects still exist, even if their technical failures have been proved, as "a strategic manoeuvre for providing legitimacy to standard setting boards and the accounting profession during periods of competition or threatened government competition" (Hines, 1989:89) which would explain why a Conceptual Framework does not exist in countries where a governmental agency is in charge of standard setting. Indeed, national accounting Conceptual Frameworks have been first developed in the UK, the US, Canada and Australia where standard setting has pretty much been delegated to the accounting profession. On the contrary, Conceptual Framework projects have not been undertaken in France, Germany or Japan where accounting rules are largely determined by government legislation (Hines, 1989: 86). Dopuch and Sunder (1980) provide evidence of the inefficiency of the FASB's Conceptual Framework and raise the question of the reasons of its existence. Like Hines, they state that the Conceptual Framework-seeking is a way for the public accounting profession when being under criticisms, to maintain its control over the standard-setting process.

Peasnell (1982) affirms that a Conceptual Framework is even more crucial when both responsibility and power of developing standards are delegated to the same body. According to him, this is the only way to prove that standards are developing in a fair, logical and highly professional manner. Unlike the FASB, the IASB has both the power and the responsibility of standard setting as it is not accountable to any agency comparable to the SEC and is in fact in

the situation described by Peasnell (1982) and Hines (1989). But, the drawback of this independence is that the IASB's political legitimacy is weak (Colasse and Pochet, 2009). Developing consistent principles which will constitute a guidance for the production of standards is a part of the political legitimacy quest of a standard setter. The Conceptual Framework is not only a technical tool for the standard setter but it is also a way of preserving its independence. Indeed, with consistent principles, the standard setter is supposed to be better armed to promote its standards and to avoid lobbying pressure.

Moreover, a Conceptual Framework can also be used to facilitate convergence between standard setters. The FASB-IASB's joint project is of course a part of the convergence agreement decided in 2002. But, according to the IASB, one purpose of its new Conceptual Framework is to "assist standard-setting bodies in developing national standards" (IASB, 2010c, Introduction). Thus, the Conceptual Framework could be a political way to bring worldwide convergence towards the different ways of thinking accounting information and financial reporting systems. The question was raised when Australia decided to adopt IFRS. A detailed Conceptual Framework had been developed during the 1990s by the Australian Accounting Research Foundation and was perceived as rather useful in the standard setting process. Some members of the accounting profession and the academic community opposed to the adoption of the IASB's Conceptual Framework and suggested to adopt IFRS but to retain the current Australian Conceptual Framework (Jones and Wolnizer, 2003). They pointed out the inconsistencies of the IASB's Conceptual Framework and its inoperability whereas the Australian one had proved to be efficient. They also underlined that the national nature of the Australian Conceptual Framework was one of the main reasons for its success and questioned the capacity of the IASB to develop a globally harmonized Conceptual Framework to guide the standard setting process. The Australian standard setter finally adopted the IASB's Conceptual Framework in 2004. However, the IASB's Conceptual Framework supersedes only two of the four statements of accounting concepts (SAC) issued by the Australian standard setter between 1990 and 1995 as SAC No 1 about the reporting entity and SAC No 2 about the objective of financial reporting are still being applied. Indeed, it has been considered that the IASB's Conceptual Framework was incomplete on these points.

To be effective, and especially in an international context, a Conceptual Framework must of course be operational but must also, as explained by Jones and Wolnizer (2003: 384) "gain general acceptance, represent collective behavior and protect the public interest by facilitating the development of high quality standards". Meeting the public interest objective seems to be a necessary condition for a Conceptual Framework to be accepted by constituencies.

Indeed, the public interest objective is generally put forward by standard setters but its real meaning and implications are often unclear.

2.3. The public interest assumption in a Conceptual Framework

The term public interest appeared in the field of accounting with the emergence of codes of ethics of the accounting profession, first in the United States in 1924 and then in other countries like Australia, New Zealand or the United Kingdom (Dellaportas and Davenport,

2008). At an international level, the IFAC still puts forward that its “mission is to serve the public interest” (IFAC, 2010).

As a consequence, the term has also been used by accounting standard setters to qualify their mission. For example, according to its constitution, the mission of the IFRS Foundation is “to develop, in the public interest, a single set of high, understandable and enforceable global accounting standards” (IASCF, 2009: para. 2a). It also specifies that the members of the IASB “shall agree contractually, to act in public interest”⁸. The Canadian standard setter also refers to the public interest commitment in its Terms of Reference (ASOC, 2010). On its website, the Australian standard setter explains that it “is committed to developing, in the public interest, a single set of high quality, understandable accounting standards that require transparent and comparable information in general purpose financial statements”⁹. Unfortunately, neither the constitution of the IFRS Foundation, nor national standard setters’ publications propose a definition of this “public interest” concept, which makes it difficult to consider any implications for the standard setting process.

Indeed, there is little consensus on what “public interest” means. The term itself is a bit confusing as “public” accepts different meanings, depending on the context and on the country. The term “general interest” may be more appropriate in European countries.

In an academic sense, “public interest” more specifically refers to one of the theories of regulation which propose a broad-based analysis of the economic social and political influences involved in a regulatory process. According to the public interest theory, the regulation should maximize social welfare (Scott, 2009). As financial information is a public-good, it has to be regulated under this constraint. But the public interest theory is more focused on justifying the existence of a public regulation than on really explaining what “acting in a public interest” is.

In a more usual sense, public or general interest can be defined according to two extreme points view: in one extreme, an action is in the general interest when it benefits to every member of the society, whereas in an another extreme an action can be regarded as meeting the general interest objective as long as it benefits a part of the population without disturbing other parts. Being more pragmatic, we can assume with Day (2000: 81) that following a public interest objective leads to a “consensus-seeking process whereby preferences are examined impartially in seeking as tolerable and comprehensive a compromise among these interests as is possible”.

Transposed to the context of accounting standard-setting, the public interest objective should then imply a trial to reach a consensus between the needs of all users of the financial information. In its Exposure Draft about a public interest framework, the IFAC proposes to define the public as “all users of financial information in the financial reporting supply chain: financial preparers, corporate boards, stakeholders, auditors, governments and financial industries (...) electors and taxpayers” (IFAC, 2010). It seems, however, that the IASB failed to achieve this goal in its 1989 Framework when it explicitly assumes that meeting the needs

⁸ Interestingly, the FASB no longer uses the term “public interest” when explaining its mission which is “to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports” (FASB, 2010a).

⁹ <http://www.aasb.gov.au/AASB-Board.aspx>

of investors covers most of the needs of other users (IASB, 1989). In the United States, the use of the term “public interest” in the accounting area seems to refer explicitly to investors. Indeed, in its Policy Statement reaffirming the status of the FASB (SEC, 2003), the SEC states that its decision about the authoritative status of the FASB’s standards “is premised on an expectation that the FASB (...) will continue to serve investors and protect the public interest”.

It is usually admitted that the IASB’s Conceptual Framework stems from the FASB’s Conceptual Framework (Camfferman and Zeff, 2007). It is also interesting to keep in mind that the FASB’s decision to favor financial information that should be useful to users in making investment, credit or other similar decisions (FASB, 1978), was discussed by academics during the writing process of the FASB’s Conceptual Framework. The Trueblood report (AICPA, 1973), the main basis of the FASB’s Conceptual Framework, recognized the responsibility of companies to the society and not just to their shareholders but, surprisingly, the FASB limited its attention to investors and creditors without really justifying its position (Solomons, 1986). Moreover, the decision-useful objective didn’t gather real support when the FASB carried out a survey to determine if constituencies did agree with the Trueblood report objectives of financial reporting (Dopuch and Sunder, 1980).

Notwithstanding these issues, the FASB and the IASB go further towards a focus on capital providers needs in their joint project of revision of the Conceptual Framework when writing that financial reporting is not primarily directed to other groups than capital providers (IASB, 2010c, OB 2 and OB 8).

Dellaportas and Davenport (2008) state that the IASB has implicitly adopted a consensualist approach of the public interest concept when defining primary users. According to this approach, public interest can be defined as “a universally shared private interest” (Benditt, 1973¹⁰) which means that it encompasses a large number of people but not the entire society.

However, this approach is not the only one. Under a normative approach of public interest, primary users would not be designated as financial reporting would be regarded as a social good of the whole community. Meanwhile, the international standard setter seems to recognize that the vagueness of the public interest concept it refers to is not satisfying. The IFRS Foundation has published in November 2010 a paper for public consultation about the strategy review of the organization. One question raised is about the definition of the public interest to which the organization is committed (IFRS Foundation, 2010).

If the general or public interest objective is really assumed, it implies that the standard setter should enlarge its role, not only focus on the trade-offs between cost and advantages for capital providers but consider that financial reporting is useful for various interested parties among society. Besides, the G20 recommended in September 2009, and repeated it in November 2010, that the IASB’s institutional framework should further enhance the involvement of various stakeholders.

As a summary, apart from the political implications and legitimacy brought to the standard setter, a Conceptual Framework should achieve two main purposes: (1) identify the users and recipients of accounting and financial reporting information; and (2) discuss the information

¹⁰ Benditt TM, 1973, ‘The public interest’. *Philosophy and Public Affairs*, 2 (3): 291-311, quoted by Dellaportas and Davenport (2008).

content that financial reporting and financial statements should provide to external stakeholders of a company. These two objectives are discussed next through the proposal made by the IASB and the FASB in their 2010 Frameworks.

3. For whom and for which needs are accounting standards made?

When discussing the overall objective of accounting standard setting, the first question that should be answered is for whom and for which needs are accounting standards made. The 2010 Framework issued by the IASB addresses these questions as a priority and introduces in this respect major changes compared to the 1989 Framework. Starting from these references, three issues related to users are examined: (1) Can primary users of accounting data be identified through the characteristics of their needs? (2) Can these primary users be identified through the nature of their relationships with the reporting entity? and (3) Are the needs of primary users homogeneous and are they so different from other users' needs?

3.1. Can primary users of accounting data be identified through the characteristics of their needs?

Both Frameworks first identify users of accounting data that are in general purpose financial statements/reporting. Where the 1989 Framework specifies a wide range of users, which “include present and potential investors, employees, lenders, suppliers, and other trade creditors, customers, governments and their agencies and the public [...]” (para.9), the 2010 Framework defines a primary user group which only includes capital providers defined as present and potential equity investors, lenders and other creditors (OB5).

The 1989 Framework already focused as a priority on the needs of providers of risk capital to the entity and admits that when meeting the needs of these specific users financial information also meets most needs of other users (para.10). However, it states that financial reporting is directed towards the common information needs of a wide range of users (as defined in para.9), although providers of risk capital are given priority. The 2010 Framework introduces a significant change in the determination of the users whose needs should be addressed by general purpose financial reporting. It limits the objective of financial reporting to addressing the needs of capital providers, defined as “present and potential equity investors, lenders and other creditors” (OB2). It only notes that “other parties...may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups” (OB10). By doing so, the 2010 Framework is narrowing the scope of financial reporting to the fulfilment of the needs of certain kinds of users, which are designated as primary users.

The focus on the needs of primary users (i.e. capital providers) is justified by the fact that they would have the most immediate and critical need of financial information (IASB, 2010c ,BC1.16a) for their decisions of allocating resources. This strong statement is not extensively explained and justified in the Basis for Conclusions of the 2010 Framework, although it is identified as the key starting point for developing all the logic of the Conceptual Framework (OB1 and OB2). Therefore, there would be merit to elaborate more on the criteria used to identify the primary users.

First, when the criterion of “immediacy” is concerned, there is no clear evidence that capital providers are the only users that need immediate information to make economic decisions. Many stakeholders who have relationships with an entity without necessarily providing capital to this entity may need immediate information to decide how these relationships would evolve. These stakeholders may be the same as those described below that may consider financial reporting of the entity as critical. There is also no clear evidence that all capital providers need immediate information to make economic decisions, except if we assume that they all need to take their decisions urgently. Many users of financial reporting, including capital providers, do not take decisions in the short term. They may rather have a long term holding time horizon that does not make it necessary to change allocation of resources quickly and frequently. There are also diverging views within academic researchers, accounting experts and standard setters on whether to consider if the need of immediate information would have consequence on the information needs and on the content of the financial reporting, as the notion of “immediate information” is not well defined. Therefore, it may be questioned whether “immediacy” should be a major criterion in determining who the primary users of financial reporting should be and if this criterion would necessarily designate capital providers as primary users.

There are also some questions about how to apply the “critical” criterion. Information in financial reports may be critical not only for capital providers, but also for other users, including employees, suppliers and customers, whose concerns and needs of information about the financial healthiness of the entity may not be limited to the immediate recoverability of their receivables. Employees, suppliers and customers may have an interest beyond this one in assessing the long term financial sustainability of the entity in order to take critical decisions in terms of – respectively – “investing” in a career’s perspective within the entity, in the development of regular business relationships or in buying goods or services that imply capacity of the entity to maintain or enhance them in the long term. As relationships with and inputs provided by employees, suppliers and customers are essential for an entity to run its business, their information needs cannot be neglected. Financial reporting could also be critical for governments and their agencies, especially to those in charge of supervising certain types of entities which are of particular importance for economic and financial stability (banks, insurance companies, other financial institutions) and that could generate systemic risks.

Another argument mentioned in the 1989 Framework to identify capital providers as primary users was that information directed to address the information needs of capital providers may be sufficient to address most information needs of other users. This assumption is based on the fact that capital providers are presumed to have the most complete and sophisticated information needs. Therefore addressing their needs would normally address most of the information needs of other users. This statement – although having significant consequences in the accounting standard setting process – has not been clearly demonstrated. It would benefit from further investigation and surveys in such a respect. In fact, the development of specific reporting aiming at directly satisfying the needs of employees, securities and prudential supervisors or tax authorities seem to indicate that this statement may not be so robust in practice. This may be a reason why this argument is no longer mentioned in the 2010 Framework OB part and is only discreetly mentioned in the Basis for Conclusion (BC1.16c).

This preliminary analysis of arguments used to justify the identification of capital providers as primary users of accounting data based on the characteristics of their needs should be completed by more in-depth surveys. For the time being, these arguments do not appear very robust and convincing.

3.2. Can primary users of accounting data be identified through the nature of their relationships with the reporting entity?

General purpose financial statements/reporting are the major source of financial information for users who may not have the power to prescribe and obtain all the information they need by specific direct requirements, which is assumed to be the case for capital providers in the 1989 (para.6) and 2010 (OB5) Frameworks. Therefore general purpose financial statements/reporting should aim at addressing the needs of these users as a priority – in the 1989 framework – or exclusively – in the 2010 one.

However, this criterion of major source of information does not result in capital providers being the only ones concerned. Employees, suppliers, customers (all of them beyond their specific concerns as creditors of the entity), governments and some public agencies that do not have the power to prescribe specific reporting may be in the same situation. Therefore, it may be prejudicial not to take their information needs into account in general purpose financial statements, as they would not have the possibility to obtain it elsewhere, except through the development of specific reporting requirements that may be costly and may not be as reliable as general purpose financial reporting, assuming that they would have the power to obtain this specific reporting. Beyond the case of tax authorities and securities and prudential supervisors, who generally have this power to require specific reporting – although many of them in several countries prefer to rely on accounting figures as a first basis for their own reporting to address reliability and cost concerns -, it may be problematic for less powerful current and potential users of accounting figures to obtain information they need outside the general purpose financial statements.

As a conclusion, the argument of the general purpose financial reporting being the major source of information of some users should normally result in designating a category of primary users that would be broader than those of capital providers.

It should also be noted that in their 2008 Exposure Draft on the first phase of the revision of their Conceptual Frameworks (IASB and FASB, 2008), the IASB and FASB mentioned that their “mandate is to assist in the efficient functioning of economies and the efficient allocation of resources in capital markets by developing high quality financial reporting standards” (OB3) while focusing on the information needs of users “in making decisions in their capacity as capital providers”. This is reminded in the Basis for Conclusions of the 2010 Framework that “The (IASB) Board’s and the FASB’s responsibilities require them to focus on the needs of participants in capital markets” (BC1.16b).

One may therefore consider that IFRS are directed to address the information needs related only to for-profit entities listed on financial markets raising capital from capital providers other than those directly involved in management of the entity and that primary users have been identified in such a context. This direction of the IASB and FASB’s objectives may be

explained by the fact that their Conceptual Frameworks have been elaborated in the context of the U.S. economic environment where financing through large equity markets is much more developed than everywhere else in the world (Hail, Leuz and Wysocki, 2009). In fact, the banks' share of credit intermediation is only 23.6% in the US compared to 52.6% in Japan and 73.8% in the Eurozone (Source IIF). As IFRS are international standards, there would be merit to discuss again the overall objective of the IASB Conceptual Framework, especially as primary users of financial statements are concerned, in order to take into account to a larger extent the economic contexts outside the U.S.A.

This focus on the information needs of capital providers who are not close to the management of the entity may also explain why the IASB and FASB have chosen to favor the entity perspective instead of the proprietary perspective in order to address situations where entities are no longer owner-managed (ED 2008 Framework BC1.14). This choice is confirmed in the Basis for Conclusions of the 2010 Framework (BC1.8) and results in designating the primary users as "existing and potential investors, lenders and other creditors" (BC1.16 and 1.16a) instead of the more limited scope of existing shareholders (BC1.15) in line with the proprietary perspective.

According to the proprietary perspective, which dominated accounting theory from the beginning of the 19th century to the midst of the 20th century, the accounting objective is to determine the increase in the wealth of owners (Hendriksen and Van Breda, 1991). With the emergence of corporations which are no longer owner-managed, accounting theory evolved towards the entity theory which postulates that, as an entity is separated from its shareholders and its creditors, no distinction has to be made between shareholders. Equity, liabilities and earnings made by an entity must go to all capital providers. Even if the IASB and the FASB advocate an entity perspective in the revised framework, it is not clear that all the standards are written under this approach, which seems in fact to be limited to the objective of consolidated financial statements (Mattessich, 2003). In fact, what the FASB and the IASB call the entity perspective is rather another version of the proprietary perspective, focused on the shareholders of the holding company, which has little to do with the entity theory (Biondi et al., 2007).

It may be noted that the largest companies or groups, which are listed and therefore raise resources in capital markets from capital providers, are generally no longer owner-managed. However, this is usually not the situation of many smaller ones, which represent the vast majority of business entities in numbers. The European Commission Staff Working Document issued on 26 February 2009 (European Commission, 2009) as accompanying document to a proposal for amending Council Directive 78/660/EEC noted that among more than 28 millions of enterprises registered in the European Union and more than 7 millions covered by the Fourth and Seventh Council Directives, only 7608 are listed. Unlisted enterprises may raise funds from capital providers outside capital markets. However, it may be assumed – although there is no data available – that this generally implies close relationships with these capital providers that would make them be in a situation more comparable with owner-management relationships.

There are currently discussions to extend the application of IFRS to unlisted or/and small entities, which are not in the same situation as the largest ones mentioned above. Moreover, there is a finalized standard - IFRS for SMEs – that may be applied to those entities. This possibility of scope extension is mentioned in the Basis for Conclusions of the 2010

Framework (BC1.29) with the conclusion that the primary users are the same in large/listed/non owner-managed and small/non listed/owner-managed ones (BC1.30). One may question whether this extension is consistent with the mandate highlighted by the FASB and IASB to focus on market participants' needs, and whether the same constituents may be designated as primary users for unlisted entities. Should the scope of IFRS be extended to these entities, the identification of primary users of their financial reporting – if it appears necessary to identify them – may merit from being reassessed in the light of the identification of the effective users of their financial reporting.

Finally, there may be confusion about the objective of “accounting standards”, as these terms have been understood for a long time in many Continental European countries as providing accounting information for a very large range of users without giving priority to some of them. In this respect, it may be noted that the first recital of the accounting Directive 78/660/EEC (Council of the European Community, 1978) mentions that coordination of presentation and content of annual accounts and reports are important for members and third parties. Also the third recital mentions financial information that should be made available to the public. None of those recitals restricts the notions of “third parties” and “public”. These accounting standards have been applied to a very large number of entities whatever their status and their relationships with their “owners” were. Therefore, there may be questions on the legitimacy to reduce the scope of the objective assigned to financial reporting to only address the information needs of some of their users, based on the status of the entities (e.g. listed, for-profit entity) or on their relationships with owners/capital providers.

As a conclusion of parts 3.1 and 3.2, it seems that none of the arguments highlighted in the 1989 or in the 2010 Frameworks in order to justify the identification of primary users of financial statements whose needs should be given priority are indisputable. Therefore, one may question if it is the role and objective of a Conceptual Framework to designate primary users.

There is a possibility that the objectives assigned to financial accounting as a social activity is directed by a dominant group that imposes its will on all others involved in the activity by making its own objective become the objective of the social activity (Dopuch and Sunder, 1980). Therefore, when criteria are used to justify the identification of primary users, there should be a comprehensive analysis of their definition, their importance for each category of users of financial reporting and if other criteria should be taken into account before reaching strong structuring conclusions on the objective of financial reporting and on identifying their primary users that may reflect the will of a dominant group.

This choice may also result from the renouncement to find the best trade-off between the objectives of usefully informing investors and best representing manager performance and stewardship, which was recognized as a very difficult issue by Gjesdal (1981). Choosing to prioritize one of these objectives against the other one may appear arbitrary, as it seems to result from the argument noted in 2010 Framework (BC1.14) to justify the identification of a primary user group, i.e. “without a defined group of primary users, the Conceptual Framework would risk becoming unduly abstract or vague”.

3.3. Are the needs of the so designed primary users homogeneous (and so different from other users' needs)?

Finally, there is an issue as regards the identification of the needs of users. The 1989 Framework is rather vague when it states that "The objective of financial statements is to provide information [...] that is useful to a wide range of users in making economic decisions." (para.12). The added precision that meeting information needs of investors will also meet the needs of other users of financial statements (para.10) seems to reduce the scope of the related needs. However, both do not provide much precision in practice.

In return, the 2010 Framework precisely asserts that capital providers are directly interested in the amount, timing and uncertainty of cash flows from dividends, interest, and the sale, redemption or maturity of securities or loans (OB3). As they have been designated as primary users of financial reporting, the main objective of financial reporting standards should be to address these needs. However, both Frameworks also refer to the stewardship objective of financial reporting (para.14; OB4) although fulfilling both needs may be difficult to fulfill at the same time (Gjesdal, 1981).

First, there is no evidence that there would be homogeneity of information needs within the users identified as the primary users of financial reporting in the 2010 Framework. In fact, as it has been mentioned for a long time, they are a variety of reasons why investors' consensus or unanimity may not exist regarding which information should be produced (Beaver and Demski, 1974). The IASB itself has noted that information needs may be different between capital providers that invest in equity instruments and those who are lenders/creditors (2010 Framework, OB8 and BC1.18). There are also many comments made by investors in equity instruments expressing different information needs depending on their holding time horizons. It may be noted that the G20 declaration in April 2009 required the IASB to take into account the investors' holding time horizon when assessing measurement of financial instruments.

Considering all doubts existing on the homogeneity of information needs between capital providers designated as primary users, one may question if it is worth trying to focus on their specific needs that may appear quite divergent at the end.

It may be more useful to aim at determining the common information needs for all users of financial reporting, considering that no specific focus would succeed to satisfy the needs of more than a narrow part of those users. This perspective may be all the more attractive than there may be common needs that may be identified between capital providers and other users of financial reporting.

One example of information that could fulfill common needs is the internal information that could be used by managers for making economic decisions related to the management of the entity. Should this information diverge from external financial information provided to users of financial reporting in order to make economic decisions? Normally, both information needs should converge, as there should be the same interest of managers and investors to make economic decisions that would have favorable consequences for the entity. Knowledge of internal information as the basis for management decision may also help investors to better assess how managers have fulfilled their stewardship responsibilities, which is part of the information needed by users to allocate resources. It may be noted that the IASB followed this

reasoning when elaborating IFRS 8 *Operating Segments*. It structured some accounting requirements on the entity's chief operating decision maker's vision, as in (IASB, 2006b):

Para.5: “an operating segment is a component of an entity: [...] (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, [...]”; and

Para.25: “The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. [...]”

The IASB justified this approach “through the eyes of the management” in IFRS 8 by mentioning in IFRS 8 BC 82 the report of the AICPA Special Committee statement (AICPA 1994): “[...] The usefulness of information prepared only for [external] reporting is questionable. Users want to understand management's perspective on the company and the implications of key statistics. [...]”. Although IFRS 8 may be considered as addressing specific segmental information, it should be mentioned that the IASB acknowledged that management's perspective is useful information for users. More generally, there is no particular reason to consider that information considered as useful for managers for internal purposes would not be useful externally for users of financial reporting.

Another example of specific purpose financial reporting that is provided to a specific type of users, i.e. prudential supervisors, has proven to be of great interest for other users, including capital providers, as experienced during the recent financial crisis. One may consider that the impact of prudential regulation on the development of the business activities of the entities concerned (banks, insurance companies and other financial institutions) makes this kind of information critical for capital providers in assessing the entities' financial situation, performance and perspectives in order to make economic decisions. Therefore, it may be of interest to include them in the general purpose financial reporting of the entities concerned. This may be all the more justified than capital providers may have the same interest as prudential regulators to assess the capacity of financial institutions to be solvent and resilient through economic cycles, as well as to be informed of the systemic risks to which they are exposed.

Multiplying specific purpose financial reporting directed to the needs of certain kinds of users may appear burdensome and susceptible to weaken their reliability, especially when it finally appears that there would be a common interest of many other users in such kind of information.

As a conclusion, trying to identify a primary user of financial reporting in order to reduce and facilitate the determination of the objective of general purpose financial reporting may not appear as the most appropriate avenue. An alternative may be to try to identify the common information needs that could be shared by a large range of users, as this is expressed in the current framework, but removed in the revised one. Once this common basis of information needs is identified and subsequently materialized in the accounting standard setting process, more specific information needs of each type of users could be more easily addressed through additional reporting information.

This approach may help to achieve the objective of accounting standard-setters to act in the public interest. It could also help to recognize the nature of financial accounting as a social activity which affects a varied set of interests (Dopuch and Sunder, 1980) and to justify the objective of aiming at a balanced compromise between different stakeholders. Finally, this approach would be in line with the theory of stakeholders (Freeman, 1984) applied to business entities, which would itself appear consistent with the entity perspective chosen by the IASB and FASB in their proposed new Conceptual Framework.

4. What information set should financial reporting provide?

In this section, we study the changes in scope recently made by the IASB and the FASB regarding the nature and content of financial information (4.1) and show that the latter relies on a grounded model carved out by strong assumptions about users of financial statements. One of these main assumptions remains the criterion for evaluating financial reporting involving a grounded model for the behavior and decision making process of the users of financial statements (4.2). However, we show that this issue can be mitigated while proposing a set of “common sense” principles for the construction of the information content (4.3).

4.1. Changes in the scope of the IASB and the FASB in addressing the information set

The set of information contained within financial statements is a key standard-setting issue and shapes the way financial information should be handled by external users. In their 2010 Frameworks, the IASB and the FASB jointly state that “The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity” (OB2). They further add that these decisions are mainly driven by the returns expected by those capital providers, although not naming them in this way, while these returns “depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity” (OB3). The changes in economic resources and claims against the reporting entity are assumed to help predict those future net cash inflows (OB15). In the new Conceptual Framework, the references to the financial performance and to the financial position grow blurred, whereas the cash flow prediction seems to be the only objective of the financial statements.

Interestingly, the FASB and the IASB have abandoned the idea exposed in their prior exposure draft of 2008 according to which an entity’s financial performance reporting during a period should include changes in market prices in order to help users in assessing the entity’s ability to generate net cash inflows (IASB and FASB, 2008, OB10 and OB22). Finally, they complement their view while adding: “[...] That information is also likely to help those who wish to estimate the value of the entity; however, financial reports are not designed to show the value of an entity” (OB16). However, the IASB requires comprehensive income disclosure since 2009, a financial performance measure which can be regarded as an estimate of the changes in the fair value of the assets held by the firm.

From this, it is noteworthy that a major change implied by the 2010 Frameworks concerns the scope of accounting information. While the IASB refers to the “general purpose of financial statements” in the 1989 Framework (para. 6), the revised framework mentions “The objective of general purpose financial reporting” (OB2), which broadens the scope concerned. This may appear as a consequence of giving priority to satisfying the needs of capital providers as primary users of financial information with the objective of providing them with decision-useful information to allocate resources. The fulfillment of these objectives may require a significant enlargement of the scope of financial reporting in order to encompass all the financial information provided by an entity.

Thus, it should be noted that the scope of accounting standard setting is changing. The term “accounting” has been progressively replaced by the terms “financial reporting” since the IASC has been transformed into the IASB in 2001. The difference between “financial reporting” and “financial statements” is not clear as the IASB and the FASB have decided to discuss this point in a further step of the Conceptual Framework project Phase E, “Presentation and disclosure”. It can be considered that financial reporting does not have the same objectives as financial statements as it embrace a wider range of information (e.g. forecast, social and environmental information, management commentary) (Lennard, 2007). It appears therefore difficult to agree on the change included in the revised framework as long as the definition of financial reporting has not been discussed.

Implications of such a change may be to extensively develop formalized and/or mandatory information to be provided by reporting entities. A significant increase in the quantity of information has already arisen (Eccles et al., 2001), which may be linked to the fact that changes of perspective in financial reporting has begun years ago (in fact since the ASOBAT published by the AAA in 1966). This may contribute to discourage some entities to be listed and therefore to be subject to satisfying the costly information needs of capital providers. Depending on how the information needs of capital providers is apprehended, this may also drive the financial communication and performance indicators of entities in a way that would have a significant impact on how they are managed. Other possible difficult issues could result from changes in the distinction between audited and non-audited financial information with significant impacts on the activity and responsibility of external auditors, as well as conflicts of legal competence between accounting standards setters and security and market supervisors in determining the financial information requirements.

Notwithstanding the weaknesses and drawbacks of this conceptual approach, the objectives assigned to financial reporting by the 2010 Frameworks imply strong assumptions about the criterion for the evaluation of financial reporting, the difference between value and price and the performance indicators identified to communicate the performance of a company. These assumptions are discussed next.

4.2. Determination of a criterion for the evaluation of financial reporting

The overall purpose and objectives that financial reporting and accounting information provided through financial statements should pursue is a longstanding academic and

professional debate (see Feltham, 1968; Trueblood, 1960 for first premises). Since accounting is acknowledged to be plagued by the number of alternative measurement methods (Ijiri and Jaedicke, 1966) standard setters and academics have been extensively searching for criteria in order to ease the identification of the best measurement approach (Beaver, 1989).

In parallel of this debate, the role of accounting and financial reporting as suppliers of information for various decision-making process designs has been increasingly acknowledged by standard setters and the firms' stakeholders (e.g. internal management decisions, choice of asset allocation for investors, tax valuation). This latter view implies a substantial broadening of the scope of accounting information and partly a recognition that more and better information can be produced (Scott, 2009; Feltham, 1968) and that more and better information can be effectively used by a firm's stakeholders when produced (Beaver, 1989). In this respect, preparers of financial statements and standard-setters play a key role in deciding which information set should be produced and how it should be disclosed. However, it has been argued by authors (e.g. Scott, 2009) that the methodology for making these decisions is lacking and the quest for a common denominator criteria that could satisfy different stakeholders is not ended.

As underlined by Beaver, Kennelly and Voss (1968), "one criterion being employed by a growing body of empirical research is predictive ability. According to this criterion, alternative accounting measurements are evaluated in terms of their ability to predict events of interest to decision-makers. The measure with the greatest predictive power with respect to a given event is considered to be the "best" method for that particular purpose".

Nevertheless, the enforcement of the predictive ability /decision-making criterion by the 2010 Frameworks to design the content of financial reporting chiefly faces two practical matters.

Firstly, the decision models conditioning the behaviors of the users of accounting data cannot be clearly identified. Three reasons bring grounds for this claim: (1) Business decisions are not made according to a specific decision-making model based on identifiable variables and parameters (Beaver et al., 1968). This infringes the comparativeness of various accounting measurement methods since no models are available to assess their intrinsic characteristics (Ijiri and Jaedicke, 1966); (2) even when specifying this model and its input variables, it could be argued that a sound knowledge of the weights allocated to each decision variable and the constraints binding the users' behaviors would be required (Feltham, 1968); (3) the decision-making model may vary over time due to observable (e.g. market proxies) and non observable (e.g. user's risk-aversion) variables. As a result, specification of business decision models, for the most part, is beyond the current state of knowledge (Anton, 1964; Scott, 2009) of any firms' stakeholders and, subsequently, of the standard setter.

Secondly, even when assuming that the users' decision model and underlying variables are specified, it is still not clear how to determine which accounting measure should produce the best solution in the decision-making process. Most accounting measures can be defined in more than one way. For instance, when appreciating the risk default probability of a company, different definitions of the debt-to-asset ratio could be used. The decision model will automatically lead to different assessments of the risk default probability based on different accounting measures for gearing. However, it will not determine what accounting measure is the better predictor of a loan default. Beaver et al. (1968: 678) use this example to underline the relationship between predictions and decisions: "A prediction can be made

without making a decision, but a decision cannot be made without, at least implicitly, making a prediction. In a world where little is known about the decision models, evaluating alternative accounting measures in terms of their predictive ability is an appealing idea, because it requires a lower level of specificity regarding the decision model”.

In a nutshell, behavioral models of users of financial statements and underlying variable proxies make the establishment of a common denominator criterion by a standard setter a highly arbitrary choice. Even assuming the predominance of a sub-group of users of accounting information (e.g. investors as primary users in the case of the IASB and the FASB), proper identification of this sub-group’s decision-making model cannot be satisfied. As a result, the “mirror” perspective adopted by the 2010 Frameworks according to which a well-defined information set should help any users’ groups in their own decision-making process appears to follow an unrealistic design. Having said that, it could be argued that the information set to be included on the face of the financial statements should comply with key “common sense” principles. These principles are discussed next.

4.3. Principles underlying the construction of the information set

In this section, we discuss a set of four common sense principles that should be used to underpin the building up of accounting information and therefore be included in any discussion regarding the enforcement of a Conceptual Framework after considering the grounded model as discussed previously. These principles are articulated around four dual views of financial reporting: (1) information quality vs. transparency, (2) timing vs. timeliness of accounting information; (3) sustainable vs. transitory performance and (4) value vs. price.

4.3.1. Information quality vs. information transparency

The concepts of information quality and information transparency are commonly intertwined even if representing different characteristics of accounting information. These concepts are both anchored in a context where the insiders of the entity (supposedly, the managers) own private information and thus benefit from this information asymmetry in disfavor of outsiders to the entity (supposedly, the capital providers).

While the concept of information transparency has been well documented (see for instance, Verrecchia, 1983; Healy and Palepu, 2001) and is commonly defined amongst authors as the capacity of exhaustively revealing information about the nature and mix of business, the business structures, the financing choices and the accounting standards implementations of an entity, the concept of information quality is still hard to define.

Healy and Palepu (2001) suggest that, as a general matter of fact, information conveyed by financial reporting helps companies lower information asymmetry and mitigate agency conflicts between managers and investors. However, they conclude that more information does not imply better information. In the streamline of thoughts, through various empirical studies, authors have analyzed the tradeoff, costs vs. benefits, of increased corporate

disclosures. Potential benefits include lower cost of capital (Botosan, 1997), agency cost reduction (Leftwich et al., 1981) and better share price performance (Lang and Lundholm 2000).

Many studies suggest that the decision model of the users of accounting information strongly depends on the quality of the accounting information provided by an entity through publication.

Despite its essential role, the quality of accounting information is still rather complex to detect and proxy mainly because of the vast accounting standardization and practice (Scott, 2009). Subsequently, this topic has been regularly challenged by authors over the last two decades. Most authors have addressed this research question from the accounting theory and standardization perspective (Dempsey, 1989; Pahler, 2003). Others propose to analyze the quality of the information in general, from a conceptual point of view, and suggest definitions and classifications in order to develop new assessment methodologies (e.g. Lillrank, 2003).

However, studies reach a consensual view underlining that when accounting information reaches a high quality level, it improves the entity's economic performance by mitigating agency problems (Bushman and Smith, 2001; Francis et al., 2004, 2005). In particular, Bushman and Smith (2001) justify the importance of the quality of information for users' decisions on the ground that quality lowers agency costs by interacting with other key corporate governance mechanisms (e.g. internal control, business model management).

4.3.2. Timing vs. timeliness of information

The timing factor is an essential component of the accounting information since it designs the value disclosed on the face of the financial statements. Once the balance sheet is acknowledged to be an accumulation of earnings and past information, it is incoherent to assert that it is designed for the purpose of providing instantaneous valuation. A contradiction then stems from intertwining instantaneous values (like in the fair value reporting whether mark-to-market or mark-to-model) and past performance assessment (stewardship perspective). The notions of timing / temporality and timeliness of accounting information should therefore be considered separately since implying two systems of accounting measures which are exclusive one from another. This debate is made concrete while considering the disclosure of performance measures.

4.3.3. Permanent vs. transitory performance measures

Although identifying what predictive aspects of accounting information and financial reporting should be focused on and for what type of decision making this set of information is made, a consensus amongst accounting authors has been reached regarding the overwhelming characteristics of accounting performance measures. As noted by Black (1980), users of financial statements (e.g. financial analysts, shareholders, creditors, managers, tax authorities and even economists) seem to have a concurring opinion about their need of an earnings figure that measures value, not change in value. For instance, as reported by Black (1980; 1993), empirical studies indicate that financial analysts look for an earnings number they can

multiply by a standard price-earnings ratio to arrive at an estimate of the firm's value. Accordingly, the ideal set of accounting rules would be one that makes the price-earnings ratio as constant as possible. Black (1993) concludes that "the main thing lacking in present accounting practice is the recognition that this has been the goal all along".

According to this author, ideally, the earnings figure will take account of everything observable about the firm, including past earnings growth and past earnings volatility. Because everything that bears on the future will be incorporated in the current earnings figure, estimates of future cash flow, or future earnings, will be of no help in estimating the firm's value. Indeed, the accountant's earnings figure will often yield variable price-earnings ratios. In arriving at his earnings figure, the accountant can use much information about the firm that analysts and the public will never know. But he cannot use information external to the firm, accounting rules that have not yet been agreed upon or even information about the firm that came in after the financial statement cutoff date.

To achieve this purpose, authors argue that accounting rules should make a difference between "value" and "price".

4.3.4. Value vs. price

The key concepts of « value » and « price » are distinct (Black, 1993). Every firm and every security has a value, even though we may have only imprecise estimates of it. Only a security that trades has a price, and its prices may differ from its value. Even a project within a firm can have a value. We can think of either value or price as the present value of a distribution of possible future cash flow streams. This present value depends on the information that investors have. Price is the present value conditional on the information provided by current accounting rules. Value is the present value conditional on ideal (but achievable and objective) accounting rules. Every proposed choice of accounting rules defines a different value.

A firm's future cash flows are uncertain in both amounts and timing, partly because they are influenced by many of the firm's choices. Both value and price summarize the amounts and timing of future cash flows in the most useful way. They measure all the possible uncertain cash flow patterns that the firm may choose, especially when many of these cash flow patterns have the same discounted present value.

Accordingly, Black (1993) and others have articulated the case for permanent earnings accounting. However, although this view is rather intuitive and theoretical, much empirical evidence has been documented in favor of it. As an example, previous empirical evidence (e.g. Cheng et al., 1993; Chambers et al., 1997) on the value-relevance of comprehensive income and its components indicate that market-based other comprehensive income items do not help users estimate future cash-flow and/or earnings and all exhibit weak value-relevance compared to traditional operating and net income measures.

As a conclusion, a Conceptual Framework should consider a grounded model with clearly identified assumptions and discuss them in the light of the principles based on the following dual views, namely information quality vs. transparency, timing vs. timeliness of accounting information, sustainable vs. transitory performance and value vs. price.

5. Conclusion

The Conceptual Framework emerged in the accounting area as a solution to the inconsistencies of standards which had led to a low legitimacy of standard setting bodies. The literature shows that Conceptual Frameworks seem to have failed to meet this objective as yet. If the necessity of a Conceptual Framework is not questioned anymore, its real function and its contents still are. In their 2010 Frameworks, the FASB and the IASB made decisions about the purpose of a Conceptual Framework and the objectives of financial reporting. In this paper, starting from these decisions, we discussed the function of a Conceptual Framework, the users of financial reporting and their needs and the information that should be provided in financial reporting.

A Conceptual Framework is first supposed to help standard setters in developing consistent and unquestionable standards. A Conceptual Framework is also useful for practitioners when they produce or use the financial reporting. The FASB and the IASB have reaffirmed these objectives in their 2010 Frameworks. However, to be operational, a Conceptual Framework should dominate the standards, which is not the case neither in the FASB's Conceptual Framework nor in the IASB's. Hence, as defended by some authors (Peasnell, 1982, Hines, 1989), the main function could be a political one. Even if not really operational, a Conceptual Framework brings legitimacy to a standard setter which can be crucial for the IASB as its political legitimacy is rather low. It also seems to be a way to reach an international consensus about what the objectives of accounting are. Finally, most standards setters, and among them the IASB, put forward that they act in the public interest. Consequently, this public interest mission should appear in the Conceptual Frameworks. However, we have noticed that the term "public interest" is never defined by standard setters, making it difficult to check if the objectives of financial reporting detailed in their Conceptual Framework are consistent with their public interest mission. In a common sense, public interest refers to actions which benefit to the whole society (Day, 2000), and this definition is accepted by the IFAC in what concerns the accounting profession (IFAC, 2010).

Hence, when identifying primary users of financial reporting, the IASB and the FASB do not meet the public interest objective. Indeed, capital providers are now identified as primary users (IASB, 2010c). Moreover, the reasons given to this focus are not really justified. The Boards explain that capital providers are primary users because they have the most immediate and critical need of financial information. However, capital providers do not all make decisions in the short term, whereas it could be the case for other stakeholders. Furthermore, information in the financial reporting can be critical for other users, like governments or supervising agencies. In the second place, the Boards also affirm that capital providers do not have the power to obtain all the information they need by specific requirements while it could be the case for other users. Again, these assertions are not verified and are easily disproved. Even if we accept the focus on the so-designed primary users, the question of the homogeneity of their needs still remains. For example, equity investors and creditors, both a part of capital providers, can have different information needs depending on their holding time horizons. Moreover, some information which is at first produced for the management can be very useful for capital providers, and standard setters are aware of it, as shown with the development of IFRS 8 on segment reporting (IASB, 2006b). So, rather than focusing on the supposed homogeneous needs of capital providers, it would be better to determine the common information needs for all users of financial reporting.

Finally, when giving details about their mission, the IASB and the FASB explain that standards they develop mainly concern for-profit entities listed on financial markets. However, if this focus on financial markets can be justified in the US economic environment, it is not really adapted for countries, like Japan or some European countries, where financing through equity markets is much less developed. Hence, the objectives of financial reporting cannot be limited to the production of information for financial markets but must encompass broader users' needs.

As a consequence to the priority given to capital providers, the scope of accounting information has been enlarged from financial statements to financial reporting (IASB, 2010c). The difference between these two terms remains vague as the FASB and IASB will discuss the signification of financial reporting in the future. However, this change in the terminology may lead to the disclosure of more compulsory information which could raise new issues about the costs inducted for preparers, auditing and financial communication. Even if we accept that financial reporting objectives are to give to capital providers the information they need to make their economic decisions, as asserted by the FASB and the IASB, the literature provides evidence that it does not really enable standard setters to choose the best accounting solution. Firstly, it is quite impossible to make sure that information meets the decision-making criterion as the behaviors of users of accounting data cannot be clearly identified (Beaver et al., 1968; Feltham, 1968; Scott, 2009). Then, even if the users' decision model is supposed to be specified, it is still unclear how to choose which accounting measure will be of best use in the decision-making process.

As a consequence, rather than following an unrealistic design, standard setters should develop key common sense principles which would enable the production of a financial reporting useful for a wide range for users. First, a balance between information quality and information transparency should be made, which would certainly imply more research studies to better apprehend what information quality is. Then, standard setters should consider separately the notions of timing temporality and timeliness of accounting, which imply two different accounting measure systems. Finally, permanent and sustainable performance measures appear to be a common need to most financial reporting users (Black, 1980). While standard setters seem to focus on the change in value of the firm (e.g. comprehensive income), users are looking for a recurrent earnings number which, multiplied by a standard price-earnings ratio, could give them easily a value of the firm. Hence, it is not worth trying to give the value of the firm through the balance sheet, when giving a recurring earnings number would be enough. Empirical studies have proved that comprehensive income, which is supposed to enable users to better understand the change in value occurred during a period, is not really helpful for investors compared to traditional and operating earnings measures (Chen et al, 1995; Chambers et al., 1997).

This paper provides evidence that the function and the contents of a Conceptual Framework need to be further investigated even if the FASB and the IASB have already made specific decisions on them. Indeed, we have raised many issues from the definition of public interest objective in the accounting area to the real needs of users of financial reporting. Further research could bring some answers. A first set of studies could be led in different national contexts in order to specify what "to act in the public interest" means and how standard setters could do it when developing a Conceptual Framework.

Then, in depth-surveys should be conducted to confirm or infirm the necessity of designing capital providers as primary users of financial reporting. For instance, interviews of different types of capital providers, in different economic environments, could be led to test the homogeneity of their needs as asserted by standard setters.

Finally, a third set of studies could be carried out to provide a better understanding of how accounting information is really used by users. For example, the use of a laboratory methodology would enable researchers to confront users directly with various earnings measures.

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