

# EUROPEAN ACCOUNTING ASSOCIATION MEMBERS NEWSWIRE

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Stephen Zeff

[\(Members: View an easy to print version of this newswire from here\)](#)

## EDITORIAL -

WELCOME to the second issue of the re-issued EAA Newswire.

This issue is focused at developing the theme of our President's Message from issue 1 - the EAA's role in developing a beyond. Professor Elling proposed the establishment of a committee within the Association to support the European financial reporting setting process. This was partly to ensure that academics play a role in developments in this area and also to ensure that we hear the opinions and advice of academics - a mutually advantageous situation. Professor Elling develops his proposal and calls for specific comments on this proposal to be made ahead of the Seville meetings at the start of next month. He plans to present formally to the EAA Executive at its meeting in Seville so 'listen out' for further developments being announced there (if any at the Congress this year), or via subsequent issues of this newsletter.

The two other formal pieces contained in this issue are also related directly to the same area. We have an interview with Inchausti, a well-known member of the Association and TEG member of EFRAG - the group tasked with providing technical advice on moves towards adoption of IFRS across Europe in 2005. She provides details on the background of the work of EFRAG and the kind of support for its work Professor Elling is proposing.

Our final formal contribution to this issue is a thought piece from the USA - from a regular and long-standing supporter of the Association, Stephen Zeff. His piece, commissioned for this newsletter, again follows the issues of the future of financial reporting standards and beyond. He addresses the balance between rule- and principles-based standard setting and subsequent regulation. The future based future may be on the cards for us all however much some may expound the value of a principles-based approach.

We also have other recent news updates, job details, updates from the EAA Secretariat and Seville Congress organisation in this issue!

Thank you to those who provided feedback from the first issue. The second issue follows much the same format and structure and seemed to like it. Please let me have other comments, of any kind (positive and negative), either via email, or why not speak to me at the EAA Congress in Seville next month? I'd very much welcome the chance to talk to you.

As before, please send me proposals for future content, jobs adverts, comments on the current issue or past issue, or anything that may be of interest to EAA members. The deadline for content for the next issue of the newsletter is June 13th. The third issue of the new newsletter series will be then distributed at the end of June.

Andy Lymer  
EAA Newsletter Editor & Web manager  
March, 2003

The editor can be contacted at [newsire@eaa-online.org](mailto:newsire@eaa-online.org) or on +44 870 7415934

## ADVERT

**Thomson are pleased to announce two exciting new titles publishing this semester for accounting courses...**

**International Financial Reporting and Analysis, 1e, David Alexander, Ann Jorissen**

This brand new textbook is a development of the best selling, Financial Reporting and Accounting, 1e, by David Alexander and Ann Jorissen. It is designed to meet the rapidly emerging demand for coverage of the International Accounting Standards that will be compulsory for the EU by 2005. This is a both a European and International text with a wealth of worked examples and real world cases. The combination of an experienced author and a student orientated material make this text invaluable for the advanced financial accounting student at undergraduate or post graduate level.

**Principles and Practice of Group Accounts, 1e, Aileen Pierce and Niamh Brennan**

This title covers the background, context, technicalities and practice of group accounting and reporting courses, professional accountancy courses and general practice. The coverage of EU Law and the International Accounting Standards is set firmly in a European context. Real UK and European companies, such as Abbey National & Swiss Bank, are used in the examples and questions. This powerful blend of the principles and the practice makes this a valuable resource a European and International audience.

Need more details or want to order an inspection copy? [See the Thomson website here](#)

## MESSAGE FROM THE PRESIDENT -

In the first issue of our newsletter I launched the idea of setting up a committee to coordinate the activities of the Association of Accountants in Europe in financial accounting standard-setting. In this issue I shall further elaborate on my proposal, which may also be seen as discussed at the annual Congress in Seville.

The Committee might be founded on the following objectives and tasks, and be structured as indicated below:

### Objectives

- *to increase the quantity and quality of academic input to the standard-setting process in the private sector in Europe:* The Committee should thus be limited to issues having sufficient theoretical and research-based substance to make academic contributions.
- *to stimulate accounting research related to regulatory issues.* : Often academics are accused of ignoring this area in favour of other projects.
- *to enrich teaching in standards and standard-setting.*: The analytical approach and broader economic, social and environmental issues on regulatory issues taken by the Committee may well be an eye-opener for academics involved in teaching accounting, thus emphasizing the purely technical aspects.
- *to profile the Association towards European business and accounting practice.*

### Tasks

- *the Committee shall as its primary task evaluate and respond to Exposure Drafts from the IASB and to other issues related to accounting and reporting in Europe.* : The issues may be related to already published EDs or EDs under way. Or they may be of a new nature, e.g. dealing with the need for new ways of regulation in the knowledge society. Some of the issues may be related to the IASB or the EFRAG or be based on the Committee's own discussions.

In order to strengthen the relationship between research, teaching and practice the Committee shall

- *make publications of selected responses in EAR and the Newsletter.*
- *organise a symposium on contemporary regulatory issues at the annual Congress.*
- *participate in meetings with the standard-setting groups.*

### Structure

I suggest a Committee consisting of eight to ten members from the European academic community and perhaps also one

from European accounting practice (auditing firms). Formally, the members shall be selected by the President for a three year revolving basis. Every year the chairperson will present a report on the activities of the year at the Executive Meeting and the Annual Meeting.

I will make a proposal to the above effect to the Executive Committee of the EAA at its next meeting in Seville and will be happy to receive the response of this Committee during the collective members meetings to be held in Seville. I would very much encourage members to express their opinions known to their national representatives ahead of coming to the Seville Congress so that these opinions can be taken into account by the Committee.

Jens O. Elling  
President  
Copenhagen Business School

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## **EAR NEWS AND ANNOUNCEMENTS - <http://www.eaa-online.org/EAR>**

### **Current Outstanding Call for Papers -**

- The Adoption of IAS in Europe (edited by Begona Giner and William Rees)- deadline for submissions is 30th June 2003
- Transitional Economies and changing notions of accounting and accountability (edited by Pat Sucher, Katarzyna Jurek, Irene Jindrichovska & Svetlana Bychkova) - deadline for submissions is 1st June 2003

### **Contents of the next issues of EAR:**

#### **12:1**

- Trombetta, M. - International regulation of audit quality: Full harmonisation or mutual recognition? An economic analysis
- Black, E.L. & White, J.J. - An international comparison of income statement and balance sheet information: Germany, France and the UK
- Chwolka, A. & Simons, D. - Impacts of revenue sharing, profit sharing, and transfer pricing on quality-improving incentives

#### Special section on 'Management control and new information technologies'

- Introduction by the Guest editors Markus Granlund and Jan Mouritsen.
- Lodh, S.R. & Gaffikin, M.J.R. - Implementation of an integrated accounting and cost management system using a case study.
- Caglio, A. - Enterprise Resource Planning systems and accountants: Towards hybridisation?
- Hyvönen, T. - Management accounting and information systems - ERP vs BoB.
- Nicolaou, A. - Manufacturing strategy implementation and cost management systems effectiveness.
- Scapens, R.W. & Jazayeri, M. - ERP systems and management accounting change: opportunities or impacts?

#### **12:2 (as currently planned by subject to change or addition)**

- Van der Stede, W. - The Effect of National Culture on Management Control and Incentive System Design in Multinational Firms: Evidence of Intracorporate Isomorphism.
- Wagenhofer, A. - Accrual-based compensation, depreciation and investment decisions.
- Kallunki, J.-P. & Martikainen, M. - Earnings management as a predictor of future profitability of Finnish firms.
- Gröjer, J.-E. & Catasús, B. - Intangibles and credit decisions: Results from an experiment.
- Gallizo, J.L., Jimenez, F. & Salvador, M. - Evaluating the effects of financial ratio adjustment in European financial markets

### **Things you may not have known about the EAR website - <http://www.eaa-online.org/EAR>:**

- Full details of each issue of EAR can be found on the EAR home page at <http://www.eaa-online.org/EAR>
- The website also contains details of the next issue due for publication and accepted papers for future issues - new papers are accepted.
- Author submission guidance is also on this website

- Latest Call for Papers always go on the EAR website before they appear anywhere else

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## ADVERT

[PRINCIPLES OF EXTERNAL AUDITING](#) by B. Porter, J. Simon, & D. Hatherly (Pul) describes and explains, in non-technical language, the nature of the audit function and the audit process. The book covers both UK and International Auditing Standards and relevant law. It explains the fundamental concepts of auditing and takes the reader through the audit process. It also discusses topical aspects of auditing such as legal liability, audit risk and the impact of information technology. This new edition of the text has been thoroughly revised. New chapters have been provided on the conceptual framework, internal auditing and environmental auditing.

Follow this link to obtain a copy of the book directly from [Amazon.com](#), or [Amazon.co.uk](#)

See [Wiley Europe's website](#) for further details on this book, including the full chapter listing and a downloadable chapter.

## NEWS UPDATE

This news section is produced in conjunction with [AccountingEducation.com](#) - the key global community for accountants and researchers. Visit [their website at to sign up for their free weekly news alert service](#) - called Double Entries - and become one of our weekly readers receiving weekly news such as that below.

### EAA NEWS

#### [01] EAA SECRETARIAT MOVES HOUSE

As of 5 December 2002, the EIASM (European Institute for Advanced Studies in Management) who provide the Secretariat for the EAA have moved to new premises. These are located Place de Brouckère-plein 31, in the beautiful 19th century Hotel Metro in Brussels. Inside on the first and second floor is a modern dedicated centre that provides pleasant offices as well as very comfortable conference rooms and meeting rooms.

#### [02] EIASM WORKSHOP ANNOUNCEMENTS

EIASM is organising a series of workshops in Accounting. For full details, please visit their website (<http://www.eiasm.org>) or the Functional Calendar of Events.

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## EUROPEAN NEWS - supplied by [AccountingEducation.com](#)

#### [03] [DELOITTE & TOUCHE RELEASE GUIDE ON TRANSITION TO IAS/IFRS IN DANISH](#)

Deloitte & Touche in Denmark has developed a 28-page publication on transition to IAS/IFRS. The booklet is written mainly for the members of the supervisory boards and the executive boards of entities listed on the Copenhagen Stock Exchange. Of course, other Danish readers can get a quick overview of the process of transition to IAS by reading it. The focus is on the areas that are likely to require most resources for Danish entities. See <http://www.accountingeducation.com/news/newsdetails>.

#### [04] [CHARTERED ACCOUNTANTS LAUNCH REVISED GUIDANCE ON REALISED PROFITS UNDER THE COMPANIES ACTS](#)

New guidance on the determination of realised and distributable profits under the Companies Acts has been issued by the Institute of Chartered Accountants in Scotland (ICAS) and The Institute of Chartered Accountants in England and Wales (ICAEW). See [the full details](#).

<http://www.accountingeducation.com/news/news3854.html> for further details.

**[05] [ICAS AWARDS HONORARY TITLE TO STEPHEN ZEFF](#)**

The Institute of Chartered Accountants of Scotland has awarded its former International Research Adviser Professor Stephen Zeff the ICAS Honorary Research Fellow. The Institute made the award for Professor Zeff's enthusiastic support of ICAS and for his activity with regulators, standard-setters and academics around the world. See <http://www.accountingeducation.com/news/news3854.html> for further details.

**[06] [UK COMPANIES URGE EU TO DITCH QUARTERLY REPORTING PLANS](#)**

The publication of the proposed Transparency Directive, which was expected to contain plans to introduce mandatory quarterly reporting in the EU has been postponed. Commenting on the delay, Andrew Hawkins, Chief Executive of the Investor Relations Society, welcomed this delay in the publication of the proposed Transparency Directive and hoped that the Commission took this as a sign of its plans for mandatory quarterly reporting in Europe. See <http://www.accountingeducation.com/news/news3852.html> for further details.

**[07] [FEE PRESENTS EUROPEAN ACCOUNTING PROFESSION VIEWS ON FUTURE EU/USA ACCOUNTING REGULATION ENVIRONMENTS](#)**

FEE has expressed the view of the European accountancy profession to Commissioner Bolkestein, ahead of his discussion with the regulatory authorities on the EU's response to Sarbanes-Oxley. Topics covered include: regulation of global capital markets; principles of accounting standards; auditor independence; registration of European audit firms with the US PCAOB; and oversight of the profession. The full news item is reproduced in its entirety in the full news item. See <http://www.accountingeducation.com/news/news3850.html> for further details.

**[08] [FEE RELEASES SURVEY ON CONVERGENCE OF EUROPEAN ACCOUNTING PROFESSION](#)**

FEE, the representative body for the accountancy profession in Europe, has launched a new survey examining both the current state of the profession of accountant and auditor, and the free movement for professionals between member states of the European Union. See <http://www.accountingeducation.com/news/news3849.html> for further details.

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**OTHER NEWS- supplied by [AccountingEducation.com](#)**

**[09] [NEW ASSOCIATION LOOKS AT RESTORING INTEGRITY IN ACCOUNTING](#)**

The Association for Integrity in Accounting (AIA), a new public interest accounting group formed in the wake of the recent Enron scandal, has outlined an ambitious agenda to restore integrity to the accounting profession. See <http://www.accountingeducation.com/news/news3853.html> for further details.

**[10] [IFAC EXPANDS WEB SITE TO INCLUDE INFORMATION ON CORPORATE GOVERNANCE](#)**

The International Federation of Accountants (IFAC) has introduced a new Internet resource center for the public entitled 'Corporate Governance, Accountability and the Public Trust'. Individuals may access it directly by going [here](#). See <http://www.accountingeducation.com/news/news3858.html> for further details.

**[11] [NEW IFAC PUBLICATION FOCUSES ON QUALITY OF EARNINGS](#)**

The International Federation of Accountants' (IFAC) Financial and Management Accounting Committee (FMAC) has released a new publication designed to educate management, accountants and other business decision makers about a wide range of issues that affect the quality of earnings. Quality of Earnings Case Study Collection was first published by the American Institute of Certified Public Accountants. See <http://www.accountingeducation.com/news/news3835.html> for further details.

**[12] [IAASB 2002 ANNUAL REPORT NOW AVAILABLE](#)**

The first annual report of IFAC's International Auditing and Assurance Standards Board (IAASB), officially formed in March 2002, is available by [clicking here](#). The report summarizes IAASB standard-setting and other activities during 2002 and looks ahead to international harmonization. See <http://www.accountingeducation.com/news/news3822.html> for further details.

**[13] [INSIGHTS INTO IFRS](#)**

Watch PwC's new international video in which experts discuss the future of corporate reporting. Hear experts' views on how to restore market confidence, global convergence, Sarbanes-Oxley and consistent enforcement of IFRS. See <http://www.accountingeducation.com/news/news3825.html> for further details.

**[14] [AUDIT COMMITTEE RESOURCE GUIDE](#)**

Deloitte & Touche have produced a new booklet, "Audit Committee Resource Guide", that is focused on the impact that the new rules will have on the role and responsibilities of the audit committee. The publication is useful in understanding and interpreting the requirements of the Sarbanes-Oxley Act and the proposed requirements of the national securities exchanges or associations. See <http://www.accountingeducation.com/news/news3805.html> for further details.

**[15] [IMPACTS OF SARBANES-OXLEY ON NON-US ISSUERS DISCUSSED BY SEC COMMISSIONER](#)**

SEC Commissioner Paul S. Atkins recently spoke to a German audience at the University of Cologne about 'The Sarbanes-Oxley Act: Goals, Content, and Status of Implementation'. His remarks addressed the effects of the Act on non-US companies that are listed in the United States. See <http://www.accountingeducation.com/news/news3796.html> for further details.

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## CONGRESS UPDATE -

### Looking forward to EAA'2003, Seville, Spain

EAA'2003 is now just around the corner. We hope you all have your flights booked and accommodation reserved for what is set to be another great EAA Annual meeting at the start of next month.

The Congress Organisers are busy making the final arrangements for the event. The following information may be of interest to those of you planning on attending. It details the themes and coverage of the main and symposia sessions (please note that timings given are subject to change and should be confirmed on arrival at the event itself).

The symposia themes are:

1. "Research fields of Accounting History. Only Business Accounting? Why?" (Thursday, April 3, 15:00 - 16:30)
2. "Accounting for Central Government: Radical Reforms in the New Europe". (Thursday, April 3, 9:00 - 11:00)
3. "An European Research Arena on Intangibles" (Thursday, April 3, 17:30 - 19:00)
4. "The HARMONIA project ; research studies in Earnings Management and the Properties of Earnings in Europe". (Friday, April 4, 9:00 - 11:00)
5. "Regulatory Reforms in the Aftermath of ENRON: Accounting, Auditing and Corporate Governance" (Thursday, April 3, 15:00 - 16:30)
6. "New Perspectives of Auditing in the European Union" (Wednesday, April 2, 15:30 -17:00)
7. "Accounting Research and Accounting Decisions: Implications of Accounting Research for Accounting Regulation and Practice" (Wednesday, April 2, 17:30 - 19:00)
8. "New Technologies and Accounting: Continuous Auditing, XBRL and Assurance Services" (Friday, April 4, 11:30 -13:00)
9. "The Challenge of ERP Systems for Management Accounting Research, Education and Practice" (Friday, April 4, 15:00 - 17:00)

There are two also Special sessions planned:

- (I) Special session: In memoriam of Dieter Ordelheide (Wednesday, April 2, 15:30 -17:00)
- (II) Editor's Panel (Wednesday, April 2, 17:30 -19:00)

For further details on EAA 2003, including contact details for any queries you may have, please see the Congress website at <http://www.eaa-online.org/EAA2003>

All the abstracts and the full programme for EAA'2003 will shortly be accessible online as part of our EAA website. Please visit the Annual Congress section of the site at <http://www.eaa-online.org/>. This searchable database also contains all abstracts from the Copenhagen Congress in 2002 and the Athens Congress in 2001 whilst our old site contains presentation information from the Birmingham Congress in 1995 for each presentation given at each Congress

Please note - details for the EAA'2004 Congress in Prague are being prepared and will be launched at the Seville Congress. Details for the next Congress will shortly be available from its Home Page on the EAA website at <http://www.eaa-online.org/EAA2004>

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## OTHER EVENTS - <http://www.eaa-online.org/other/index.cfm>

Listed below are brief details of other (i.e non-EAA) events that we have been notified about that we consider to be of potential interest to our members:

- **[6th European Conference on Accounting Information Systems](#)**  
Event dates: 31-Mar-2003 to 1-Apr-2003  
City: Seville  
This annual event, brings together academics and practitioners interested in the latest development in accounting research and teaching in a European context. The event is sponsored by CIMA, Bentley College, Elsevier Science Publishers, and the Universities of Maastricht and Birmingham
- **[Financial Reporting and Regulatory Practices in Europe](#)**  
3-May-2003 to 7-May-2003  
Sponsor: European Commission, EIASM, Elsevier Science  
City: Île Rousse  
The Euroconference project aims to enable a multidimensional understanding of the consequences for financial reporting and regulation of accelerating economic integration in Europe. The fields covered by the Euroconference are increasing and attracting research interest at each national level but there is still a remarkable lack of research and training at the European level. For most participants who are at the career stage where they are beginning to take over wider research responsibilities, university courses and departmental research efforts, the Euroconference will be an opportunity to discuss the financial accounting and corporate governance research areas with colleagues from across Europe.
- **[2nd International Conference on Corporate Governance](#)**  
19-May-2003 to 20-May-2003  
Sponsor: The Research Center of the Warocqué Faculty , HEC Montreal  
City: Mons  
The Research Center of the Warocqué Faculty (Mons-Hainaut University) and the Chair in Governance and Financial Reporting (HEC Montreal) will jointly organize the 2nd International Conference on Corporate Governance under the general theme "New Economy".
- **[6th Manufacturing Accounting Research conference](#)**  
26-May-2003 to 28-May-2003  
Sponsor: CIMA, University of Twente  
City: Enschede  
The seminar focuses on the interface between accounting innovations and developments in manufacturing and industry.
- **[The 7th Interdisciplinary Perspectives on Accounting Conference](#)**  
13-Jul-2003 to 16-Jul-2003  
Sponsor: Universidad Carlos III de Madrid  
City: Madrid  
The IPA conference is an established forum for research into the social, political and organizational aspects of accounting practice. For the first time in its 18-year history the IPA will be held outside of Manchester. The IPA 2003 will retain the features of past IPAs including: a thorough review of papers received and the presentation of papers by discussion with the author. See the full event listing for further details.
- **[Centre for Social and Environmental Accounting Research \(CSEAR\) - 13th Summer School](#)**  
1-Sep-2003 to 3-Sep-2003  
Sponsor: Centre for Social and Environmental Accounting Research, University of Glasgow  
City: Dundee  
This Conference is normally a deliberately informal gathering of researchers, teachers, students and practitioners in the field of social and environmental accounting, teaching and research in the very widest sense.

**NOTE:**

- **ISACA Workshops for Europe**  
Event dates: 31-Mar-2003 to 4-Apr-2003 - Please note this event, advertised in the Issue 1.1, has been cancelled.

Further details on each event can be found on the EAA website at <http://www.eaa-online.org/other/index.cfm> or by following the links in the event listings.

each notice above.

## Conference Report:

A conference entitled "The Transparent Enterprise. The Value of Intangibles" recently a experience exchange platform, bringing together the state-of-the art on intangibles man reporting. It took place in Madrid, on November 25-26, 2002, under the auspices of the the OECD, the Ministry of Economy and the Ministry of Science and Technology. The ev E\*know-net, a research network on intangibles funded by the European Commission an Autonomous University of Madrid ([www.eu-know.net](http://www.eu-know.net)).

The meeting evidenced a clear need to develop new, widely-accepted tools to visualize, manage and report on the Intangibles are clearly becoming the key drivers of value creation in today's knowledge-based economy but genera neither in business management systems nor in financial statements. Many significant advancements achieved in rec and the views of the different stakeholders involved were discussed. However, it was clear from the conference dele there is still a long way to run to fully embrace the challenges posed by the rapid changes occurring in economic and respect, we are confident that this conference will be a key reference for future policies and research activities to be intangibles and intellectual capital, both from an innovation management and from an accounting perspective.

More than 250 delegates from 18 countries and 140 institutions participated in the event, including firms, research in makers and associations. Some of the speakers in the conference, to name a few, were Mr. Pedro Ortún (Director of European Commission), Prof. Baruch Lev (Stern School of Business, New York University), Mr. Rainer Geiger (Dep Financial, Fiscal and Enterprise Affairs, OECD), Mr. Kurt Ramin (Commercial Director, IASB), Mr. Jean Jacques M Adviser, European Investment Bank) and Prof. Luc Soete (Director of MERIT, University of Maastricht). The Conferer available for purchase at [www.aeca.es](http://www.aeca.es)

[Supplied by Professor Leandro Cañibano (Autonomous University of Madrid)]

If you are organising an event of possible interest to EAA members please email the details to us ([events@eaa-online.org](mailto:events@eaa-online.org)) newsletters and on the EAA website.

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## JOBS -

Following are currently outstanding vacancies from our vacancy advertising service offered via our website. Further det be found on the website.

- [Fitzgerald Chair of Accounting](#)  
Institution: The University of Melbourne  
Deadline for applications: 31 March, 2003
- [Full Professor in Accounting](#)  
Institution: University of St. Gallen: Institute of Accounting, Controlling and Auditing  
Deadline for applications: 30th April, 2003

Our full vacancy service can be found on the EAA website at <http://www.eaa-online.org/vac/index.cfm> and on our web website at <http://accountingeducation.com/jobs>

For future editions of this newsletter, all outstanding vacancies with deadlines beyond the publication date of each issue have a vacancy you would like to have advertised to the membership please email details to the editor to have them inc

website (note - a small charge applies for this service)

Send vacancy details by email to the Editor at [jobs@eaa-online.org](mailto:jobs@eaa-online.org)

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## INTERVIEW -

### Interview with Begoña Giner Inchausti, Member of the Technical Expert Group of EFRAG & Professor of Accounting at the University of Valencia.

**Editor:** *Could you give us a little more detail of who you are please?*

**Prof. Giner:** I am Professor in Accounting and Finance at the University of Valencia. My research has been focused on Financial Reporting, International Accounting, and Capital Market Research. My experience in the European accounting standardisation process started in 1995, when I was member of the Technical Accounting Subcommittee of the Contact Committee on the Accounting Directives at the Spanish Institute of Accounting and Auditing (ICAC), that studied the conformity of the Accounting Directives and the IAS. I have been a member of the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG).

**Editor:** *Can you give us a little more detail about what EFRAG is?*

**Prof. Giner:** EFRAG is a private and independent organisation, that was created the 31st of March, 2001, this is before the adoption of IAS/IFRS was passed. In the middle of 2000, the Commission invited FEE to contribute to the development of a mechanism for IAS/IFRS, and explore ways to bring about the coordination of the accounting standards setters, the accountants, users and preparers in the EU. After consultation, it was proposed to create the group that has become EFRAG. The EFRAG members involved, known as 'the founding fathers', come from different interested parties:

- business /preparers: UNICE
- accountancy profession : FEE
- European credit sector associations: EBF; ESBG, GEBC
- insurance industry: CEA
- stock exchanges: FESE
- financial analysis: EFFAS
- SMEs : UEAPME and EFAA

*[Ed: for details of all these organisations and what their acronyms mean please see the EFRAG website as described in the article.]*

**Editor:** *How is EFRAG organised?*

**Prof. Giner:** EFRAG is structured into two levels. The Supervisory Board (SB) and the Technical Expert Group (TEG). The SB has approximately 20 members, representing the European interests through the founding fathers. It undertakes the governance of EFRAG, such as selecting the TEG members, funding, and monitoring the TEG. The TEG carries out the technical work, so it must be made up of qualified people, with good knowledge of the international financial reporting scene, thorough experience in standard setting, with national standard setters, and or/ experience in applying IAS. TEG members should represent the European point of view, the individual organization they come from, and they should come from different countries in the EEA, as well as from different sectors. The TEG is limited in size to facilitate the discussions and decisions, currently we have 11 members. The European Commission is represented in the SB, and CSAR (Committee of European Accounting Regulators) is in the TEG only. Due to the links established with IASB over the years of activity, IASB members also attend the TEG meetings.

**Editor:** *What roles does EFRAG try to carry out therefore?*

**Prof. Giner:** EFRAG has two main mandates: to advise the Commission on the endorsement process and to play a role in the regulatory process. As most EAA members will know, the 1606/2002 Regulation indicates that only accepted IAS/IFRS can be used in the EU, and this leads to the establishment of an endorsement process. According to the Regulation, in making the endorsement process, the Commission will be assisted by a political committee (the Accounting Regulatory Committee) and will receive the support of a technical committee (EFRAG). So the role of EFRAG in this new context is to advise the Commission before deciding on the endorsement of IAS/IFRS and its Interpretations. In addition the Commission also requires the opinion of EFRAG before introducing changes, as to avoid potential incompatibilities with IAS or for other reasons.

EFRAG's second, pro-active, role, arose once the EU had decided to leave the establishment of the new accounting standards to the IASB. It is important to design a system that allows Europe to take part in the due process established by the IASB. The IASB provides interpretations after a consultation period, when the drafts are made public, and discussed with the interested parties. So it is important to have a European expert group that could establish a dialogue with the IASB and take an active role in forming a common approach to accounting issues. In my view the changes in the regulatory process, and the role of EFRAG in this new context, should be

main consequence of the Regulation. In other words the Regulation establishes the adoption of accepted IAS/IFRS for listed companies, and this opens the door to a new way of developing accounting standards in Europe, where the national regulators have less direct power, and other indirect ways have to be developed to influence the standards, I think EFRAG should plan for this scenario.

**Editor:** *How interested groups, such as EAA members, can take part in the work of EFRAG?*

**Prof. Giner:** EFRAG cannot work in isolation in this new context, its legitimacy is based on representing the opinion of Europe, and on providing well-founded views on technical accounting issues. So far, the pro-active role of EFRAG has been limited to responses to the Exposure Drafts issued by IASB, but following its own due process. This involves publishing the draft responses ([www.efrag.org](http://www.efrag.org)), discuss them with the Consultative Forum of Standard Setters, and then, after receiving comments and suggestions, sending the final response to the IASB. Of course, our pro-active role isn't limited to this. Our main purpose is to contribute to the development of accounting, and this implies that in the future EFRAG has to take a more active part, producing technical opinions on topics that could serve as a guidance for the future development of standards by IASB, and in that way trying to influence the process.

In my view European academics can take an active part in this pro-active role serving as an input for the EFRAG activities. They can provide responses to the tentative answers to the EDs on future IFRS, but also feeding EFRAG with conceptual and empirical points, arguments on the theoretical issues under discussion, and illustrate the consequences of proposed changes in accounting standards. I sincerely welcome the initiative suggested by the President of EAA, Jens Elling, who in the interview published in the latest issue of the Newsletter comments the possible establishment of a committee within the Association that could work in cooperation with EFRAG in the regulatory process. [Ed: See Professor Elling's comments on advancing this idea in his Message above in this Newsletter.]

To conclude I want to clarify that EFRAG does not pretend to be seen as a regulatory accounting body. It is not going to set standards, but to serve to the development of high quality accounting standards and this means that EFRAG is working in cooperation with the standard setters.

For more information on the questions about: What EFRAG is? How is it organised? I suggest you to look: [http://www.efrag.org/doc/206\\_EFRAG\\_JointProposals.PDF](http://www.efrag.org/doc/206_EFRAG_JointProposals.PDF)

In addition on the website you will find the comment letters, as well as the draft comment letters, sent to the Commission on various projects, and other related information.

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## OTHER CONTENT -

### **Thought Piece: Some Possible Implications of Heightened Regulatory Enforcement of Accounting Standards for the Approach to Setting the Standards**

The United States is widely regarded as the bastion of rules-based accounting standards. The reasons for this circumstance are easy to discern. The highly litigious environment makes lawyers of everyone. Audit firms entreat the standard setter to give them the right to sue their defense in a lawsuit. The United States is a confrontational society, not only in the courtroom but also in pressing companies and legislators (and on auditors). Moreover, the accounting staff of the US regulator, the Securities and Exchange Commission, has defined comparability in terms of conformity with detailed prescriptions (as government regulators are wont to do); the SEC's innumerable conferences with registrants over the bounds of permissible practice. The SEC's accounting staff has therefore been a major force for rules-based standards.

Another major reason for the arbitrary and detailed standards in the United States is the self-interested lobbying by companies for exclusions or exceptions or exemptions from standards they know that the rigorous regulator, the SEC, will enforce strictly.

While the incidence of litigation against auditors in Europe seems to be rising, it is still a long distance from what occurs in the United States. There will be a further factor that drives rules-based standards, a rigorous regulator, be coming to Europe and to countries elsewhere. Not a few European companies were seen to comply only with "preparer friendly" IASs, or so-called "IAS-lite." But Europe is now heading toward national systems of stricter compliance with standards.

As the Committee of European Securities Regulators sensibly acts to provide a framework and stimulus for EU Member States to fortify their system and structure for securing compliance with approved accounting standards, company executives may find new avenues of escape from a total and faithful application of IFRS (as endorsed by the EC). Whether EU countries opt for a private sector commission (or authority) or a monitoring body in the private sector akin to the UK's Financial Reporting Review Panel, compliance with IFRS will in the future be more strictly monitored and enforced than before. To be sure, a private sector regulator oriented to principles and objectives than might be true of a government regulator.

This issue becomes particularly acute in a European business environment in which increasing numbers of top executives are being replaced by those who are more familiar with the US system.

compensated by bonuses, stock options and other incentive plans that, directly or indirectly, are predicated on the subject's earnings. In such a climate, can the standard setter safely assume that executives will implement standards in the spirit of the principle, notwithstanding their strong self-interest not to do so? If standard setter cannot make this assumption, it might be necessary to establish detailed, inescapable rules.

Already, Europe's major multinationals have learned how to form alliances to lobby EFRAG and the EC against "complicated" and other financial reporting evils. All of these interventions potentially invite exceptions, exclusions, provisos, and other niceties.

The interesting policy question for Europe is whether principles-based standards can, in such an environment, co-exist with enforcement mechanisms that are bent upon securing faithful application by listed companies of accounting standards.

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