

DISCUSSION OF THE PAPER: “STANDARDIZATION AND COMPARABILITY: REGULATORY WALTZ”

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A “NASTY” QUESTION

- **Is it really possible for an international audience to learn much from a single-country case study**
 - in this case about an attempt to standardize financial reporting in Norway in accordance with IFRS-SME?
- Justification for the question - AHR, p. 7: “...standardization is case-specific and depends on the participants, their goals and their strategies to attain these goals.”
- ...and p. 34: “Overall, the importance of context in the standardization process cannot be understated, as existing institutional structures are not easily replicated in different settings”
 - = The standardization process will likely not be replicable elsewhere

ANSWER TO THE "NASTY" QUESTION

- Depends on: whether the setting and the analysis is able to extract and highlight something of general interest.
- There is a difference between something that only exists in Norway, and something that can only or advantageously be examined in Norway.
- In my opinion AHR's study is of the second type.

NORWAY'S SETTING IS INTERESTING

- Current accounting law: “an outlier in the accounting landscape” (Kvaal, 2017)
- Income statement (matching) orientation rather than a balance sheet orientation based on stringent definitions in a conceptual framework.
- Draws on a number of sources: the International Accounting Standards, UK GAAP and US GAAP
- Norwegian standard-setter (NASB): never formally recognized by the Government – on the other hand: the Government has representatives in the committee
- NASB prefers to base new regulations on the choices in IFRS-SME if not full IFRS
- The Government seems to shift its position
- Major business schools disagree,
- Auditors seem to prefer different solutions when they are in the committee mode (pro IFRS-SME) and in the market mode (more reluctant)
- Most preparers are against IFRS-SME while at the same recognizing that this movement has been ongoing for a long time in Norwegian GAAP

IN SUM

- The paper is based on an interesting setting
- It contains all three modes of standardization identified in the literature:
 - committee-based,
 - market-based and
 - government-based,
- provides a good opportunity for meeting Wiegmann et al.'s (2017) call for research to obtain a better understanding of multi-mode standardization.
- Together with AHR's specific focus on the role that comparability plays in the standardization process

= lays the ground for potentially interesting take-aways for a broader audience.



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DUAL PURPOSE

1. Respond to Wiegmann et al.'s (2017) call for research that use the multi-mode standardization perspective to investigate the interplay of the committee mode, the market mode and the government mode.
2. To analyse the concept of comparability and the role this concept specifically has in the standardization process.

APPLICATION OF WIEGMANN ET AL.'S MULTI-MODE FRAMEWORK

- The authors clearly build on the thoughts or framework by Wiegmann et al. (2017)
- Wiegmann et al. (2017) stress the importance of **interactions** between modes
- Examples (Wiegmann et al., p. 1381):
 - “...actors who anticipate that governments will intervene.... may engage in relevant committees to ensure that the resulting standards reflect their preferences”
 - “...government intervening in a standardisation process in response to interactions between the committee and market-based modes which lead to an unsatisfactory result of the standardisation process”

APPLICATION OF WIEGMANN ET AL.'S MULTI-MODE FRAMEWORK

- AHR's paper: numerous references to “interplay”, “interactions” and “dynamics” **between** the modes.
- However.... much of the analysis takes place **within** the different modes - highlighting
 - each mode's individual contribution to the standardization process and
 - how comparability is viewed by participants in each of the modes
- Little regard to the dynamic interplay between the modes.
- Wiegmann et al. (2017, p. 1382): “The first suggested area for research could look in more detail into the processes leading to the emergence of new standards....multi-mode standardization processes are highly dynamic but current literature does not provide sufficient evidence about **the interactions** in these processes”

APPLICATION OF WIEGMANN ET AL.'S MULTI-MODE FRAMEWORK

- Wiegmann et al. (2017, p. 1371): the standardization “cultures” which the involved actors are familiar with could be important.
- Kvaal (2017) calls the current Norwegian accounting law “an outlier in the global accounting landscape.”
- There seemed to be agreement in 1998 when the law was enacted that Norway should find **a distinctive road** to accounting.
- Is there a specific Norwegian standardization culture, which might affect the outcome, view on comparability or the dynamics between the modes?

APPLICATION – INSIDE THE MODES

		Modes					
		Committee			Market	Government	
Date		NASB	AAC	IASB		National	Transnational
(1) June 26, 2013	EU Directive 2013/34/ introduced changes related to financial information obligations.					Y	X ¹⁴
(2) April 2, 2014	The NASB issued an exposure draft for Norwegian Accounting Standard (<i>Norsk Regnskapsstandard</i>) based on the IFRS for SMEs to replace the existing NGAAP.	X			Y		
(3) September 19, 2014	The government appoints the Accounting Act Committee (AAC) tasked with drafting a new accounting law.		Y			X	
(4) October 31, 2014	The NASB received 74 comment letters on the exposure draft for the Norwegian Accounting Standard.	Y			X		
(5) May, 2015	The IASB issues amendments to the IFRS for SMEs.			X			
(6) June 26, 2015	The AAC concludes <i>part I</i> of its report and delivers it to the Ministry of Finance.		X			Y	
(7) September 2, 2015	Ministry of Finance issues <i>part I</i> of the AAC's report - Law on accounting requirements (NOU 2015:10) for consultation.		X		Y	X	
(8) December 2, 2015	Ministry of Finance received 41 comment letters on NOU 2015:10.				X	Y	
(9) June 24, 2016	The AAC concludes part II of its report and delivers it to the Ministry of Finance. It addresses other issues related to the EU Directive.		X			Y	
(10) August 17, 2016	Ministry of Finance issues <i>part II</i> of the AAC's report – Accounting law provisions on annual report and other (NOU 2016:11) for consultation.		X		Y	X	
(11) November 17, 2016	Ministry of Finance received 44 comment letters on NOU 2016:11.				X	Y	
(12) February 9, 2017	The NASB publishes a working document outlining expected departures from the IFRS for SMEs in the accounting standard proposed by the NASB in 2014.	X			Y		
(13) June 21, 2017	The Ministry of Finance issues Proposal 160L to Parliament: <i>Changes in Accounting Act & Simplification</i> . It contains only minor amendments to the existing Accounting Act.					X	

APPLICATION – INSIDE THE MODES

Wiegmann et al. (2017): The market-mode's contribution to a standardization process

= situations where private companies compete for a solution and the individual actors influence the outcome with their actions (cf. AHR table 1)

The Norwegian acc. law: contains an overriding requirement which states that the preparation of financial statements shall comply with “good accounting *practice*” (note: not good/generally accepted accounting principles)

The Norwegian std. setter: has never been formally recognized and given any rights by the Government and Parliament

=> Seems to provide the space for companies to try to define (compete over) what constitutes good accounting practice - The resulting equilibrium may affect the attitudes or positions towards new and tighter rules.



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ANALYSIS OF COMPARABILITY

- Arguments from opponents to the use of IFRS-SME: it makes “**unlike things look similar**”.
- In other words they argue: we are so special that transactions are different (they are unlike things) when they appear in our company, industry or country => different accounting rules, i.e., local customizations are necessary in order to provide useful information.
- Large energy company: from +874 Mill. NOK under NGAAP to -198 Mill. NOK under IFRS
Reason: unrealized losses on hedging instruments recognized in profit and loss according to IFRS
- Hard to see that characteristics of the reporting entity or the industry should be so different that the IFRS solution would result in a situation where “unlike things look similar” – what is it that is “unlike” here?
- Special hedging rules show = the IASB acknowledges that different use of financial instruments by companies should result in different reporting. In this way they make unlike things look different.

ANALYSIS OF COMPARABILITY

- Is “*because we are different*” an excuse to maintain privileges awarded by current accounting regulations such as cost savings, maintain control over the standard setting process or maintain flexibility?

“One former FASB member told me recently that 95 percent of the comments the Board receives from financial statement preparers fall into one of three categories: don’t make any changes, don’t move so fast, and don’t make income volatile – don’t let it fluctuate”

Professor Loyd C. Heath, Financial Executive, Sep/Oct 1990

- AHR do not discuss comparability arguments as a self-serving technique,
- But the paper highlights different interpretations of the concept of comparability, it extracts the dimensions of comparability that participants use as “ammunition”, and it makes the reader reflect on such things, which is interesting.

Thank you



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