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An investigation and analysis of the political environment in which the decision to adopt International Accounting Standards (IASs) was made

Hajar Roudaki
University of Wollongong

An investigation and analysis of the political environment in which the decision to adopt International Accounting Standards (IASs) was made.

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Hajar Roudaki

Department of Accounting and Finance

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Certificate

I Hajar Roudaki, certify that this thesis, submitted in fulfilment of the requirement for the award of Master of Accountancy, in the School of Accounting and Finance, University of Wollongong, is the product of my own independent research unless otherwise referenced or acknowledged. The document has not been submitted previously for qualifications at any other academic institution.

Signed: ______________________________

Hajar Roudaki

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Abstract

Purpose: The focus of this study is the implementation and adoption of international accounting standards in Australia in the period 2002- 2005. The adoption of international standards came into play when the Australian Accounting Standards Board (AASB) with the persuasion of the Australian Stock Exchange (ASX) launched its harmonisation program in 1996. The aim of the harmonisation program was to improve the quality of Australia’s standards and to improve the international comparability of the existing standards for cross border listing. ASX funded the harmonisation program to ensure that ultimately AASB would adopt the international accounting standards. Also, the Liberal government introduced the Financial Reporting Council (FRC) as a body to oversee the AASB standard setting process to ensure the move towards international harmonisation in Australia. The FRC was proposed by the government as part of the Corporate Law Economic Reform Program (CLERP) in 1997.

Theoretical framework: This study applies a critical approach to analyse and explain the political environment that existed at the time the AASB was directed by FRC, in 2002, to work towards the wholesale adoption of international accounting standards by 1 January 2005. Discourse Analysis has been used as the method to identify the key players involved in the adoption of international accounting standards during 2002. The literary devices and wordy flourishes that have been used by the key players to promote action have been taken into account. In particular, this study investigates the ASX activities that took place around 2002 in relation to the push towards wholesale adoption of international standards as an important factor for ASX to increase its possible and existing listings.

The theoretical framework adopted for the purpose of explaining the key players actions, is based on the Actor Network Theory (ANT) and in particular Callon’s translation model. In ANT, translation is the mechanism by which the networks progressively take form, resulting in a situation where certain actors control others. According to Callon (1986a, p. 26) “translation is a definition of roles, a distribution of roles and the delineation of a scenario” the actors try “to oblige an entity to consent to detour”. Translation, when an actor network is created, consists of four moments, problematisation, interessement, enrolment, and mobilisation. Every moment of the translation process requires rhetorical devices to be successful and lead to one another.

Findings: By closely looking at the procedures that led to adoption of the international accounting standards, as well as the history of standard setting in Australia. It can be argued that Australia has been always influenced by the UK and US accountancy. This behaviour has been justified by different persuasive reasoning in different period of time, for example when early professional accountancy bodies in Australia adopted their English counterpart’s guidelines and objectives, it was on the premise that it had widespread application in Britain over several years as the “proof of their soundness and acceptance” (ICAA 1966, p.3).

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List of Abbreviations

AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
AcSB	Accounting Standards Board (Canada)
ACPA	Australasian Corporation of Public Accountants
AFG	Australian Federal Government
AICD	Australian Institute of Company Director AICD is Australia's membership institute for directors. The beginnings of AICD can be traced back to the United Kingdom's Institute of Directors (IoD), formed by Royal Charter in 1906. Branches of the IoD were established in the Australian States in the 1960s. These branches were united in January 1971 under the Institute of Directors in Australia, an autonomous body affiliated with the IoD in the United Kingdom. The challenge of servicing State branches saw the emergence of the Company Directors Association of Australia, in 1982. The two bodies merged on 1 January 1990 to form AICD.
AISG	Accountants International Study Group
APB	Accounting Principles Board APB was the former authoritative body of the American Institute of Certified Public Accountants (AICPA). It was created by the AICPA in 1959 and issued pronouncements on accounting principles until 1973, when it was replaced by the Financial Accounting Standards Board (FASB).
ASA	Australian Society of Accountants (In 1990, it was renamed ASCPA)
ASB	Accounting Standards Board (United Kingdom)
ASC	Accounting Standards Committee (United Kingdom)

ASCPA	Australian Society of Certified Practicing Accountants
ASRB	Accounting Standards Review Board
ASX	Australian Stock Exchange
CIA	Commonwealth Institute of Accountants
CLERP	Corporate Law Economic Reform Program
CPA	Certified Practising Accountant
EC	European Commission EC is the executive branch of the EU. The body is responsible for proposing legislation, implementing decisions, and the general day-to-day running of the Union.
EFRAG	European Financial Reporting Advisory Group EFRAG was set up in 2001 to assist the EC in the endorsement of International Financial Reporting Standards (IFRS), as issued by the IASB by providing advice on the technical quality of IFRS.
EU	European Union EU was established in 1993. EU is a political, economic and social community of twenty-seven member states, located primarily in Europe.
FASB	Financial Accounting Standards Board (United States of America)
FRC	Financial Reporting Council
G100	The Group of 100 G100 is an organisation of senior finance and accounting executives which represents the interests of large companies with particular emphasis on financial reporting.
G4	Group of 4 In 1992 the UK ASB Chair, David Tweedie, and the Canadian AcSB Chair

joined FASB in a meeting at FASB offices and it was decided to work jointly on provisioning issues. This meeting was the development of the G4 working group to solve accounting problems. At the World Congress at 1992, they made a general invitation for other national standard setters to join their working group. So Australians and Dutch volunteered, however Dutch later dropped out. The IASC also accepted the invitation and the group became known as G4+1.

GAAP	a) Generally Accepted Accounting Principles (United States of America)
	b) Generally Accepted Accounting Practice (United Kingdom, Australia and some other countries)
IAS	International Accounting Standard(s)
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board (Successor to IASC)
ICAA	Institute of Chartered Accountants in Australia
ICAEW	Institute of Chartered Accountants in England and Wales- An association of public accountants.
ICCAP	International Co-ordinating Committee for the Accountancy Profession (1972-1977)
IFAC	International Federation of Accountants IFAC was formed at the time when AISG was disbanded in 1977. The objective of IFAC was the development and enhancement of a coordinated worldwide accountancy profession with harmonised standards. Its mission was to develop international guidance in areas other than financial accounting.
IFRIC	International Financial Reporting Interpretations Committee
IIAV	Incorporated Institute of Accountants Victoria

IOSCO	International Organisation of Securities Commissions IOSCO was founded in Caracas in 1974 as the Interamerican Conference of Securities and Commissions and Similar Organisations and its sole activity was to hold annual conferences. In 1983 it adopted a new name, the International Organisation of Securities Commissions and Similar Entities, and began admitting members from outside of the Americas. The body was traditionally dominated by SEC. In 1987, the by-laws were changed to drop the appendage, ‘and Similar Entities’, and became the body known as IOSCO.
IWP	International Working Group (of accountancy bodies, 1967-72)
OECD	Organisation for Economic Co-operation and Development
SAA	Society of Accountants and Auditors- An accountancy body established in Britain in 1885
SEC	Securities and Exchange Commission (United States of America)
UIG	Urgent Issues Group
USA	United States of America

Dramatis Personae

Alfredson, Keith	Appointed the first full-time chairman of the Australian Accounting Standards Board in May 2000, a position he held until May 2003 (Financial Reporting Council and Australian Accounting Board 2000).
Benson, Sir Henry	President of ICAEW from 1966 to 1967. In 1996 initiated the formation of AISG. He was one of the key players in pushing the profession towards international cooperation (Boys 2005). Benson was the first chairman of IASC (Camfferman and Zeff 2007).
Boymal, David	David Boymal was first appointed as a member of AASB in May 1991. He served as a part-time member of the AASB until 1999, during the latter part of that period, held a standing appointment as the Board’s Deputy Chairman. From 1988 to 1990, was the only Australian on the IASC (International Accounting Standards Committee Foundation 2007). He then became the full-time chairman of AASB in November 2003 for five years. He became a member of AcSB in 1982.
Cairns, David	A Chartered Accountant who has specialised in international financial reporting since 1978. He was the secretary-general of the IASC from 1985 to 1994 (Baliga 1995; World Bank 2006).
Campbell, Senator Ian	Australian Parliamentary Secretary to the Minister for the Environment and to the Minister for Sport, Territories and Local Government from March 1996 to November 1996. He was also the Parliamentary Secretary to the Leader of the Australian Government during this period. He was the Parliamentary Secretary to the Treasurer from November

	1996 to October 1998 and also from November 2001 to October 2003. He was assigned as the Parliamentary Secretary to the Minister for Communications, Information Technology and the Arts from October 1998 to November 2001 (Department of Infrastructure Transport Regional Development and Local Government 2005).
Conroy, Senator Stephen	Appointed as a Federal Senator for Victoria for the Australian Labor Party in 1996. Previously he was an industrial officer and superannuation officer for the Transport Workers Union Victorian Branch from 1992 to 1996, a ministerial adviser to Victoria's Minister for Industry from 1990 to 1992 and an assistant adviser to the Speaker of the House of Representatives from 1988 to 1990. From 1986 to 1987, he was an electorate officer for the Federal Member for Canberra, consultant to the Minister for Science and Minister assisting the Minister for Industry, Technology and Commerce and electorate officer for the Minister for Home Affairs. Stephen worked for the Metal Trades Industry Association from 1984 to 1986 (Minister for Broadband Communications and the Digital Economy 2008).
Cope, Anthony	A member of the US FASB from 1993 until his appointment to the IASB in January 2001. Mr. Cope was a member of the IASC Strategy Working Party, and was closely involved with the IASC's restructuring, and was FASB's observer to IASC Board meetings until 2007. He was a member of IASB until 2007 (Deloitte Touche Tohmatsu 2001; International Accounting Standards Board 2004b).
Costello, Peter	Treasurer of the Commonwealth of Australia from March 1996 to December 2007. During his period as Treasurer, Australia's corporations law has been modernised under the Corporate Law Economic Reform Program (The Treasury n.d.-a).

Herz, Robert	A appointed chairman of the FASB, effective July 1, 2002, and was reappointed to a second term effective July 1, 2007. He was part of the part time members of IASB in 2001. He is both a US Certified Public Accountant (having won the gold medal on the CPA exam) as well as a UK Chartered Accountant. An American, Mr Herz also spent eight years in England and three years in Argentina (Deloitte Touche Tohmatsu 2001).
Humphry, Richard	Managing Director and Chief Executive Officer at the ASX from April 1994. He became a member of the Trustees of the IASC Foundation in January 2005, as a Trustee from the Asia-Pacific region (International Accounting Standards Committee 2004). He was filling the vacancy left by the death of Ken Spencer. He is a fellow of the ICAA Australia and the CPA Australia. He was appointed as FRC member on March 2005, for 3 years which was nominated by the Australian Government (International Accounting Standards Board 2004a).
Jenkins, Edmund	Chairman of FASB from 1997 to 2002 (Financial Accouning Standards Board 2001).
Jones, Tom	Chairman of the Board of the IASC on 1 July 2000 and served as its last Chairman until 2001. He implemented the decision to restructure the IASC board (Camfferman and Zeff 2007). Prior to becoming Chairman, Tom Jones served as a vice chairman and member of the Executive Committee of the IASC Board from January 1998 to 2000. He was an IASC Board member representing the International Association of Financial Executives Institutes between 1995 and 2001. Jones became the vice chairman of IASB in 2001 (Deloitte Touche Tohmatsu 2001; International Accounting Standards Board 2004b).

Korman, Stanley	Stanhill Proprietary Ltd was a family company of Stanley Korman. He was the founder of the SDF (Stanhill Development Finance Limited) group including SCL (Stanhill Consolidated Limited), Chevron (Chevron Limited) and SD Pty Ltd (Stanhill Development Proprietary Limited) (Clarke et al. 2003; Clarke and Dean 2007). He died in 1988 in Los Vagas.
Leisenring, Jim	Director of research and technical activities from 1982. He was appointed as a member of the FASB in October 1987 and was the Vice Chairman of FASB from 1988 to 2000. He was the last chairman of the G4+1 group of standard-setters before it disbanded in January 2001. He was appointed to the IASB in January 2001. Before joining the IASB he was the first director of international activities at the US FASB from July 2000 (Deloitte Touche Tohmatsu 2001).
Levitt, Arthur	Chairman of the SEC from 1993 to 2001 (U.S. Securitues and Exchange Commission 2001).
Lucy, Jeffrey	Became by ICAA as a member of FRC in 1999. He served as a Chairman of the FRC from June 2001 to 2003 (Financial Reporting Council and Australian Accounting Standards Board 2001). He became the part-time Chairman of the FRC for a term of three years from December 2007. Mr Jeffrey Lucy was appointed as Chairman of the Australian Securities and Investments Commission (ASIC) on May 2004 (Company Directors 2006). He first joined ASIC as its Deputy Chairman on February 2003 and was appointed as Acting Chairman on December 2003 (Camfferman and Zeff 2007).
Macek, Charles	During 2000 to 2001 was Chairman of FRC and was nominated by Securities Institute of Australia. After 2001 he

	served as a member of the FRC and then in June 2003 became the Chairman of FRC for 3 years. He was reappointed as the Chairman from June 2006 to December 2007. He has been a director of Telstra Corporation Ltd since 2001 (Financial Reporting Council and Australian Accounting Standards Board 2001).
Murphy, Jim	Executive Director, markets Group, Department of the Treasury, Canberra. Nominated as FRC member in 2002 by the Commonwealth and was reappointed from March 2006 to March 2009 (Financial Reporting Council and Australian Accounting Standards Board 2003).
Parker, Colin	Appointed as the AASB member from December 2005 to February 2009. Before this appointment he was a member of the UIG from 1998 to 2000 and also a member of the Consultative Group to the AASB from 1995-2000 (Australian Accounting Standards Board n.d.). He was the inaugural Chairman of ICAA Audit Advisory Committee from 2002 to 2005. During 1995 to 2000 he was a member of the Accounting Bodies' briefing team for the Australian representatives to the IASC. He was member of the AICD from 2002 (GAAP: Excellence in Financial Reporting 2008).
Sharpe, Michael	President of ICAA from 1982 to 1983 responsible for the professional education of chartered accountants and the accreditation of accounting programs around Australia. He was named Australian Accountant of the year in 1994. Sharpe has been the director of ASX since December 1995. He joined the IASC board in 1990 and became the chairman of the IASC from 1995 to 1997. Sir Henry Benson was his mentor over many years and it was him who urged Sharpe to accept the invitation to represent Australia on the IASC (Camfferman and Zeff 2007).

Spencer, Ken	Mr Ken Spencer played a significant role in the development of international accounting standards. His career covered numerous roles, including as a former Trustee of the IASC since 1998. He was appointed as the Chairman of the AASB in 1995 and until December 1999. He was appointed on March 2003 for 3 years as a member of FRC which he passed away in March 2004 following a battle with lung cancer (The Sir Robert Menzies Memorial Foundation Limited 2003).
Thomson, Angus	Technical director of AASB from 2002 (Financial Reporting Council and Australian Accounting Standards Board 2002).
Turner, Lynn	Chief accountant of the Securities and Exchange Commission from July 1998 to August 2001. He was the principal advisor to the SEC. Chairman and the commission on financial reporting and disclosure by public companies in the US capital markets, as well as on related corporate governance matters (Smith 2002).
Tweedie, Sir David	First chairman of G4. In 1990 became the first full-time chairman of ASB in UK. After 10 year of serving as a chairman of ASB, became the chairman of IASB in January 2001. He has worked on international standards setting issues both as the first Chairman of the G4+1, a cooperative group among leading standard setters, and as a member of the previous IASC Board (Camfferman and Zeff 2007; International Accounting Standards Committee Foundation 2007).

CHAPTER 1

1. Introduction

The purpose of this study is to investigate the political environment during the period when international accounting standards were adopted in Australia. The attention of this research has predominantly centred on the Australian Stock Exchange (ASX). As will be demonstrated, the ASX sought to increase the number of company listings that it had (Humphry 1997). As a regulator and powerful political player, the ASX sought Liberal government support. The Government introduced the Corporate Law Economic Reform Program (CLERP) to reform Australia's legal framework for incorporated legal entities. As part of this process, CLERP 1 introduced the adoption of international accounting standards for reporting entities in Australia and reorganised the standard setting process in Australia. The Financial Reporting Council (FRC) was established, as an advisory body to oversee the accounting standard setting body (AASB). Despite the wholesale adoption of international accounting standards being rejected at this time, the proposal was pushed through in 2002. Based on the evidence from this thesis, it was clear that ASX was striving for the adoption of international standards by arguing that it would improve Australia's position in world financial markets.

Subsequently, the FRC announced in 2002 that the Australian Accounting Standards Board (AASB) had been directed to adopt a suite international accounting standards by January 2005. This study will challenge the decision to adopt international accounting standards without formal consultation between the government, FRC and AASB through an investigation and analysis of the political environment in which the decision to adopt International Accounting Standards (IASs) was made.

A central focus of this study, is to consider the way that accountancy bodies were established in Australia and how and when the process of standard setting was introduced. This study deals with general information about the standard setting process in Australia and how it was influenced by the activities of first, the UK profession and subsequently those of the US accountancy profession. There is extensive literature in relation to the history of standard setting in Australia and this study uses Actor Network Theory to distinguish it from previous studies in this respect. By introducing the history of professional accountancy in Australia, this study will illustrate how the profession has relied on external sources for setting accountancy standards and how it has been justified by the key players of the time that it has been to the benefit of the public. Where appropriate, the study has explained the US and UK professional accountancy bodies and their process for setting accountancy standards.

1.1. Information gathering for the study

This study has relied on archival information and secondary sources. The archival information has been from the Australian Parliamentary website consisting mainly the Hansard transcripts and proceedings of the Senate and the House of Representatives. The archival information has been supplemented by relevant arguments from existing scholarly debate throughout the study.

1.2. Theoretical framework

The story of Australia's accounting standard setting history including the adoption of international accounting standards will be told within the context of a critical approach. This approach will take into account the political, economic and social influences leading to the decision to adopt international accounting standards. Given that the standard setting process operates for the benefit of some groups in society and to the detriment of others (Cooper and Sherer 1984; Hopper et al. 1987), Actor Network Theory (ANT) is adopted as the theoretical framework. ANT was developed in the early 1980s as a contribution to the sociology of knowledge by French sociologists Michel Callon, Bruno Latour, and John Law (Sismondo 2004, p.65) as a way of helping to describe how actors form alliances and involve other actors and non-human actors (artifacts) to strengthen such alliances, as well as securing their interest. ANT has been used to examine accounting issues by Robson (1991), Ezzamel (1994), Chua (1995) and Spira (1999).

ANT focuses attention on the assumption that no one acts alone and actors create a network to interact. The process of building and changing a network is political in nature, as the actors use persuasive language to interact and influence other actors in the network. The theory is concerned with the influence of actors both within and between networks that form and re-form (Spira 1999). Accordingly, stability and social order are continually negotiated as a social process of aligning interests and the ongoing processes of translation, are key resources of social order. In ANT, translation is the mechanism by which the networks progressively take form, resulting in a situation where certain actors control others. The choice of the word "translation" derives from Callon (1986a), who defines it as "the method by which an actor enrolls others" (Callon 1986a, p.xvii). Callon (1986b) used the translation model in case studies to explain certain situations. For example, he demonstrates the cause for decline in the population of scallops in St. Brieuc Bay and the attempts of three marine biologists to develop a strategy to overcome this problem.

This thesis will examine the use of discourse in relation to the social, economic and political contexts of the standard setting process in Australia (Paltridge 2006). Discourse analysis refers to the notion that language assists humans in constructing their reality and giving meaning and identity to the world (Jorgensen and Phillips 2002; Fairclough and Wodak 1997; Paltridge 2006) while being shaped by the world and the context in which it occurs. Actors try to create a central network so that all the actors agree that the network is worth building and defending. According to Callon (1986a, p.26) "translation is a definition of roles, a distribution of roles and the delineation of a scenario" the actors try "to oblige an entity to consent to detour". For Latour the role of translation is central, since translation points toward the operation of language in creating equivalences between entities that are otherwise different (Robson 1991, p.550). Moreover, the translation model also permits an explanation of how a few obtain the right to express and to represent the many silent actors they have mobilised. According to Michel Callon (1986b) the process of translation, to create an actor network, consists of four moments, problematisation, interessement, enrolment, and mobilisation. Every moment of the translation process requires persuasive language for success and subsequent movement to the next moment. Every moment will assure that the newly created network will be sustained.

1.3. Format of the study

The following is a brief summary and outline of this thesis.

1.3.1. Chapter 2

Chapter Two will discuss in depth the methodological framework as well as the theoretical framework. The chapter will introduce the Actor Network Theory and Callon's translation model. This chapter will be used as the foundation for Chapter Four and Five mainly to illustrate the activities of the ASX in relation to the wholesale adoption of international accounting standards decision.

1.3.2. Chapter 3

Chapter Three gives brief background information in relation to the establishment of accountancy bodies in Australia based on literature from the beginning of the twentieth century. As the Australian accountancy profession has been influenced by its UK and US counterparts, an historical overview of their accountancy body formation will be provided. The chapter will examine how the standards in the form of guidelines and recommendations were published as well as the transition to the formal promulgation of accounting standards by the professional accounting bodies. Chapter Three will form the basis for the following chapters by demonstrating that the concerns and issues in relation to setting accounting standards in the early twentieth century have been carried forward by the accounting profession to the present time. The latter part of the chapter will illustrate the move towards harmonisation of accounting standards.

1.3.3. Chapter 4

Chapter Four will explain the move towards international accounting standards from 1970 to 2002 and the establishment of international accounting bodies. The chapter will examine the activities of the ASX during this period in relation to the harmonisation of accounting standards. The moments of the translation model will be used to explain the influence of ASX on the harmonisation process and also the introduction of CLERP by the Australian government to reform the accounting standard setting system in Australia. The study is limited to G100, AICD and AASB as the actors involved in the network that the ASX, as the primary actor, had created. The actors have been chosen based on review of literature, as well as the parliamentary hearnings. This chapter and the following chapter will utilise information from archival sources.

1.3.4. Chapter 5

The wholesale adoption of international standards by AASB will be examined in more detail in Chapter Five in relation to the translation model. The chapter will discuss in depth the role of ASX and the government in the July 2002 decision to adopt international standards for implementation in Australia in 2005. The decision was in line with the European Union decision. It was argued by the FRC Chairman, Mr Jeffrey Lucy, that

Australia should not lag behind (Financial Reporting Council 2002c). Australia and the EU were the only countries committed to a 2005 change to international standards making this a unique area to study. In spite of compelling measures by the ASX and government for adoption, equally persuasive counterclaims were made by stakeholders that the limitations and consequences of wholesale adoption would make implementations problematic.

1.3.5. Chapter 6

This chapter synthesise the findings from chapter's three to five and explains the adoption of international accounting standards within the context of translation model. The problem of lack of foreign investment potential was translated to a regulatory matter solved by the adoption of international accounting standards. The purpose of this chapter is to develop an overall explanation of the standard setting system in Australia and its reliance on other standard setting systems until today.

1.4. Editorial Note

There are a number of what may appear to be spelling irregularities in this study. A major reason is because the secondary documents and sources used in this study have originated from different countries. The most notable of these irregularities is associated with words such as 'problematisation'/ 'problematization' and 'organisation'/ 'organization'. The alternative way of spelling these and other words will only be used in the case of a direct quote.

In this study ‘convergence’ has been used interchangeably with the term ‘harmonisation’ and is consistent with the use of these two words by the authors of source documents. However a distinction between convergence and harmonisation was made in AASB Policy Statement 4, *International Convergence and Harmonisation Policy*, in 2002. The Policy Statement (AASB 2002, p.6) explains that

> “international convergence” means working with other standard-setting bodies to develop new or revised standards that will contribute to the development of a single set of accounting standards for world-wide use. “International harmonisation” of Australian accounting standards refers to a process which leads to these standards being made compatible with the standards of international standard-setting bodies to the extent that this would result in high quality standards.

1.5. Summary

This chapter has provided an introduction to this thesis, by presentation of the research question and the motive behind the selection of the question. The theoretical framework, Actor Network Theory, chosen for this study has been introduced as well as the research method. ANT has been incorporated within the analysis to examine the question in Chapters Four and Five to examine the research question.

CHAPTER 2

2. METHODOLOGY AND THEORETICAL FRAMEWORK

Robson (1991) states that the issues in sociology of science are relevant to the study of accounting in organizational and social terms.

2.1. Research methodology

Research methodology indicates the research methods that are considered to be appropriate for gathering valid evidence (Chua 1986a; Dillard 1991). Methodology is implicated by sets of assumptions where each one has important consequences in the way knowledge about the social world is being obtained. According to Gaffikin (2008, p.4) research methodology is dependent on the epistemology (the way we obtain knowledge), which in turn is dependent on ontology (the nature of reality). The ontological position determines what the researcher sees as valid knowledge. Different ontologies and epistemologies are likely to incline researchers towards different methodologies which frame the understanding of the researcher and the way one would focus on different issues and approaches (Burrell and Morgan 1979; Gaffikin 2008). According to Burrell and Morgan (1979, p.3) "[T]he principal concern is with an understanding of the way in which the individual creates, modifies and interprets the world in which he or she finds himself". As an individual's environment and their perception of their needs change, it modifies the way they think. This relationship invariably defines the researcher's perspective and the way they see and study the world (Chua 1986b, p.603-604).

2.2. Approaches to accounting research

Authors such as Cooper and Sherer (1984), and Baker and Bettner(1997) have argued that a positivist perspective has been the dominant approach with the majority of accounting research continuing to follow this mainstream paradigm. “Positive [accounting] tried to explain ‘what is’…accounting researchers know little about how accounting numbers do operate as opposed to how they are believed to operate” (cited in Chua 1986a, p.584). This approach has “limited the type of problems studied, the use of research methods, and the possible research insights that could be obtained” (Chua 1986b, p.602; Miller 1994). This is because accounting researchers need to quantify qualitative data (Baker and Bettner 1997) and believe in the notion of empirical and hypothesis testability. Therefore, the predominant methods used to collect and analyse data are statistical and mathematical (Chua 1986b).

In contrast, a critical approach to accounting starts from the premise that problems in accounting potentially reflect existing problems in and of society that need to be critically analysed (Cooper and Sherer 1984, p.222). Such an approach emphasises qualitative methods and the contextual nature of the inquiry and, to a lesser extent, quantitative methods of data collection and analysis (Burrell and Morgan 1979; Chua 1986b; Dillard 1991; Miller 1994; Baker and Bettner 1997). This approach has been introduced in accounting to assist accounting researchers to understand how accounting is used as a mechanism of controlling society and organisations (Baker and Bettner 1997). Consequently, there is a need for researchers to free themselves from the attitudes and orientations which result from their social and educational training and is reinforced by the beliefs held by the accounting profession and business community. Accounting is "concerned with a socially constructed world" (Hines 1988; Gaffikin 2008, p.16) and it operates in a "social, political and economic context" (Cooper and Sherer 1984, p.207).

> Any accounting contains a representation of a specific social and political context. Not only is accounting policy essentially political in that it derives from the political struggle in society as a whole but also the outcomes of accounting policy are essentially political in that they operate for the benefit of some groups in society and to the detriment of others (Cooper and Sherer 1984, p.208).

The aim of this research is to investigate the presence of political influence in the process of decision making regarding the adoption of international accounting standards in Australia. As outcomes of accounting standard setting are said to be political, not only because the process of standard setting is derived from the political struggles in society, but because they operate for the benefit of some groups in society and to the detriment of others (Cooper and Sherer 1984, p.208; Hopper et al. 1987). The argument is that there is a need to adopt a deeper understanding of the accounting standard setting process for accounting research from a critical perspective, since it involves an understanding of its impact on individuals, societies and organisations.

The methodology of this study is based on a critical approach for the purpose of taking into account the political, economic and social influences on the standard setting process. This can be explained by the four paradigm diagram devised by Burrell and Morgan (1979). The diagram as shown in Figure 1 below has four paradigms that "share a common set of features with its neighbors on the horizontal and vertical axes" in terms of one of the dimensions as subjective-objective or regulation-radical change.

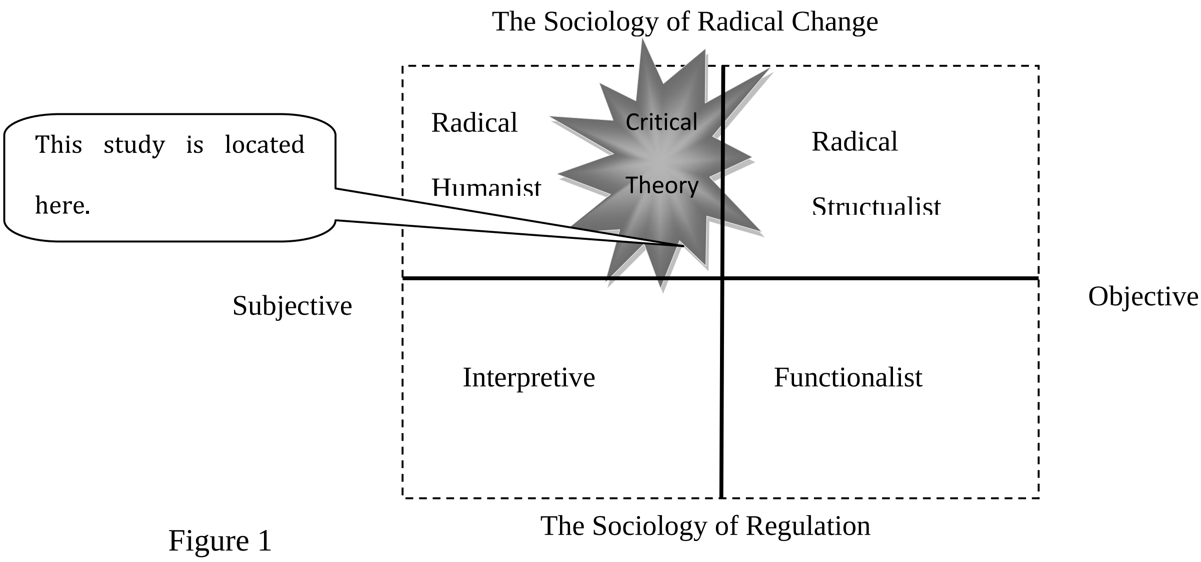

Figure 1

In relation to the chart, critical theory is one of the schools of thought within the radical humanist paradigm which is defined "by its concern to develop a *sociology of radical change* from a *subjectivist* standpoint" (Burrell and Morgan 1979, p.32). Critical theory is founded on the notion that "the individual creates the world in which he lives" (Burrell and Morgan 1979, p.279). This paradigm is based on the notion that, ontologically, "the individual creates [rather than discovers] the world in which he/she lives" and the way an individual understands the social world is dependent on the way he/she views reality (Dillard 1991; Chua 1986b; Burrell and Morgan 1979). Consequently, the individual gives meaning to the reality which is dependent on an individuals' unique understanding of a particular reality, and society does not exist independently of human activity (Chua 1986a; Dillard 1991; Gaffikin 2008). Based on this notion of social constructionist ontology, epistemologically a critical perspective takes into account the social world which can be understood from “the point of view of the individuals who are directly involved in the activities” under study (Burrell and Morgan 1979, p.5). Anti-positivism assumes that knowledge comes from experience from the social world rather than being viewed as an objective reality (Jorgensen and Phillips 2002). Thus, the social, political and economic context of this study are acknowledged (Chua 1986b; Dillard 1991; Burrell and Morgan 1979).

As Dillard (1991, p.13) states, the critical researcher seeks to enhance awareness of the dominant social system so that it may be challenged and overcome, since critical researchers want to change the social order thus overcoming the status quo. However, as is shown in Figure 1, not all critical theorists seek to overcome the social order. The aim of this study is to explain the political environment that existed when the decision to adopt international standards was made. In this regard, the study is not seeking to affect the social order.

2.2.1. Discourse Analysis

Discourse analysis refers to the notion that the language helps the human being in constructing the reality and giving meaning, identity, to the world (Jorgensen and Phillips 2002; Fairclough and Wodak 1997; Paltridge 2006) while being shaped by the world and the context in which it occurs. It can be argued that “language is a machine that generates, and as a result constitutes, the social world” (Jorgensen and Phillips 2002, p.9). The social context plays a fundamental role in the description and explanation of language written or spoken. For this reason, context influences discourse and discourse also defines or changes the context (van Dijk 1997). Discourse analysis, however, is not sufficient in itself for analysis of the wider social and political practice. On the other hand a critical approach to discourse analysis helps to reveal hidden and ‘often out of sight’ values, positions and perspectives (Paltridge 2006, p.178).

This study takes into account Fairclough’s three dimensional model for discourse analysis. Social practices are taken into account as discourse and discourse is considered in its literal and linguistic feature of text and pattern of interaction reflecting the social and political context (Jorgensen and Phillips 2002; Rogers 2004). The model takes into account the fact that people use language to produce text that shapes social practice and can be understood in relation to social and political contexts. The model provides an analytical framework for discourse analysis (Jorgensen and Phillips 2002) where “every instance of language use is a communicative event consisting of three dimensions” (Fairclough 1993, p.73), as shown in Figure 2:

1. It is a *text* (speech, writing, visual image or a combination of these);
2. It is a *discursive practice* which involves the production and consumption (interpretation) of text; and
3. It is a piece of *social practice*.”

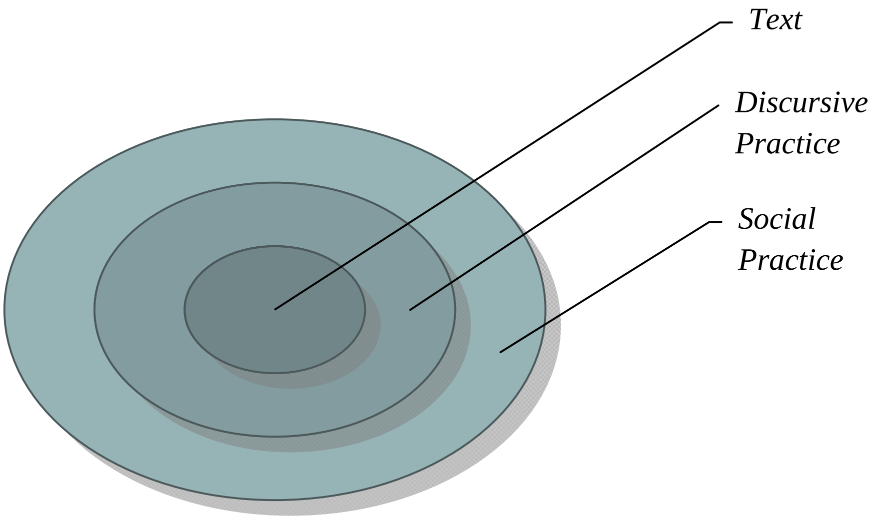

Figure 2 adopted from Fairclough 1993

2.2.1.1. Persuasive Discourse

It can be argued that rhetoric is one dimension of discourse which is the art or study of persuasive discourse (van Dijk 1997) which creates a "personality by the speaker through the act of communicating for the purpose of winning a certain effect or making a certain impression on a receiver" (Ehninger 1989, p.627). Rhetoric is the science of discourse, since it focuses on production of texts such as political speeches, letters and literature (van Dijk 1985) "to influence an audience toward some end" (Whedbee and Gill 1997, p.157). Rhetoric has been defined and described differently by different writers: "Any effort to persuade an audience contains a rhetoric whether or not the speaker or writer is so aware. It carries an argument, explicitly or implicitly" (Gusfield 1992, p.120); "the finding of suitable arguments to prove a given point, and the skilful arrangement of them" (Whedbee and Gill 1997, p.157). However, the main argument is that rhetoric is a type of instrumental discourse which is being allocated on a political stage (Whedbee and Gill 1997, p.157). For the purpose of this study the definition of rhetoric that has been adopted is that put forward by Burke (1950) being "the use of words by human agents to form attitudes or to induce actions in other human agents", meaning that people communicate in an attempt to eliminate divisions and differences between one another (Foss 2004). For this reason, actors attempt to describe the world in a way to direct the attention of others to a particular aspect of reality (Foss 2004; Whedbee and Gill 1997*)*. It has been argued by Summa (1992) that

> [t]hrough persuasion, significances and meanings are established in our lives, as well as in the more specialized arenas of politics and policy analysis, to predispose others to act in particular ways such as to adopt a specific policy, to abide by a law, to accept a research result, or to implement an accounting standard.

Persuasive language is used by political players because of its focus on persuasive devices. According to Burke (1950), it is rooted in an essential function of language and language serves political interests. In this regard, every author attempts to persuade (or seduce) readers into accepting his or her text as believable (Arrington and Francis 1989, p.4). Rhetoric promotes a single perspective and it shuts off the alternative definitions and assumptions and also, constructs a one way of looking at the phenomenon (Young 2003; Gusfield 1992). It is important to take into account that the function of rhetoric is not to provide acceptable proofs but to induce decisions and judgments, to move from relevant facts to promote action (Arrington and Francis 1989; Hooper and Pratt 1995; Young 2003).

While this study has not used specific rhetorical analysis of words and phrases it has taken into account the language and context of the source documents used in order to explain the environment that existed around 2002. The persuasive discourse used to promote the wholesale adoption of international standards has been analysed in conjunction with the theoretical framework that is going to be explained in the following section.

2.3. Actor Network theory

Actor Network theory (ANT) originates from the field of social studies of science and technology (Stanforth 2006). It rests in the belief that "the study of technology itself can be transformed into a sociological tool of analysis" (Callon 1987). ANT was developed in the early 1980s as a contribution to the sociology of knowledge by French sociologists Michel Callon, Bruno Latour and John Law (Sismondo 2004, p.65) as a way of help describing how actors form alliances and secure the interest of other actors and non-human actors[1] (artifacts) to strengthen these alliances. According to ANT, society consists of networks of heterogeneous actors, both human and non-human (Callon et al. 1986) which have variable forms and competencies (Callon 1999). Actor network theorists sometimes use the term *actant* to refer to the actors as it is difficult to separate humans and non-humans (Callon 1999).

ANT focuses attention on the notion that no one acts alone and actors create a network. Actors, human and non-human, have interests that need to be accommodated (Sismondo 2004), and are achieved by building networks. ANT recognises that actors build networks by combining technical and social elements. The elements of these networks, including those entrepreneurs who have engineered the network, are at the same time both constituted

[1] Non-human actors can be the physical location where the actors engage with each other or the communication devices that they use (Emsley 2008).

and shaped within those networks (Stanforth 2006, p.38). Furthermore ANT does not make any assumption about the actors beyond “assuming that they have some interest in being involved in the change process, which may be based on their hopes and/or fears for the consequences of such change” (Emsley 2008, p.378). In order to understand an actor there is a need to take into account the network and surrounding factors that define and influence the actor. It is important to take into account that the process of building and changing a network is political in nature.

ANT is concerned with how any actor, however large or abstract, comes to be and function like an actor (Fox 2000). In this regard, ANT is concerned with the generation of power in the network and also the influence within and between networks which form and re-form (Spira 1999). The theory explores how actor networks are formed, hold themselves together, or fall apart. ANT treats the world as a set of related bits and pieces and there is no social order. There are endless attempts at ordering through the formation and stabilisation of networks. According to ANT, stability and social order are continuously negotiated as a social process of aligning interests and the ongoing processes of translation are key resources of social order. This takes place in “the process that is called translation which generates ordering effects such as devices, agents, institutions, or organizations” (Law 1992, p.366). The choice of the word “translation” derives from Callon (1986a), who defines it as “the method by which an actor enrolls others” (Callon 1986a, p.xvii). In ANT, translation is the mechanism by which the networks progressively take form, resulting in a situation where certain actors control others. Since actors from the outset have diverse interests, actors try to translate, that is, re-interpret, and re-present others’ interests to one’s own.

2.3.1. Callon's translation Model

The actors try to create a central network wherein all agree that the network is worth building and defending. According to Callon (1986a, p.26) "translation is a definition of roles, a distribution of roles and the delineation of a scenario" by which the actors try "to oblige an entity to consent to detour". That is, with a translation one and the same interest or anticipation may be presented in different ways, but in the actors own language, thereby mobilising broader support. The translation model (Callon 1986b) presents a successful command resulting from the actions of a chain of agents, each of whom translates or shapes the interest according to their own objectives. Hence, to translate is to displace, but it is also to express in one's own language what others say and want, so to establish oneself as a spokesperson (Stanforth 2006, p.39).

The concept of translation, through the operation of discourse, refers to the way in which different claims, substances or processes are equated with one another (Callon and Law 1982). A translation presupposes a medium or a "material into which it is inscribed", that is, translations are "embodied in texts, machines, body skills [which] become their support, their more or less faithful executive" (Callon 1991, p.143). For Latour, the role of translation is central, since translation points toward the operation of language in creating equivalences between entities that are otherwise different (Robson 1991, p.550). Moreover, the translation model also permits an explanation of how a few obtain the right to express and to represent the many silent actors they have mobilised. Translation is not always successful. It often fails and may cease at any moment.

Actors define the relationships between each other by intermediaries: an actor authors an intermediary and often ascribes it with social meaning. Intermediaries both describe their networks and compose them by giving them form (Callon 1991). They are usually found in the form of text, technical artifacts, monies, or human skills.

2.3.1.1. Moments of the Translation Process

Translation, when an actor network is created, comprises four moments: problematisation, interessement, enrolment, and mobilisation (Callon 1986b). During the problematisation moment, the principal actor[2] promotes themselves to be indispensable to the other actors by defining the nature of the problem and problem faced by others, the solution and establishing roles and identities for other actors in the network. The principal actor forces other actors to accept a way forward. As a consequence, the primary actor tries to become as an obligatory passage point (Callon 1986b) between the other actors and the network that is being built, so that it becomes indispensable. The obligatory passage point is vital due to the existence of predators continually threatening the success of the translation process. It is this point that brings the actors together and thus helps minimise the threat of predators. As Callon (1986a, p.27) states, “the translation…maps out a geography of necessary points of passage for those elements who wish to continue to exist and develop” and “problematization describes a system of alliances, or associations, between entities [actors], thereby defining the identity and what they want” (Callon 1986b, p.206).

[2] In this study ASX has been chosen as the principal actor.

“Problematisation is the outcome of the process through which the aims, interests and objectives of the discourses are translated into the procedures and objectives of accounting techniques and calculations” (Robson 1991, p.551). The problematisation of accounting practice can provide the motive for altering the accounting conventions of recording and measurement, or producing new forms of accounting calculation.

The process of problematisation, however, does not of itself secure the process of translation. There is a need for the principal actors to persuade others that the problem exists and that the change is required. According to Callon (1986b) this moment is called interessement. At this moment the principal actor locks others into place by “build[ing] devices which can be placed between them and all other entities who want to define their identities otherwise” (Callon 1986b, p.208). In Callon’s (1986b, p.207-208) terms, at this moment the principal actor seeks “to impose and stabilize the identity of the other actors it defines through its problematization”. They try to persuade other actors by using different devices that the interests and the solutions defined by the principal actor(s) are in fact well in line with their own interests. They try to persuade other actors to see the problem and its solution in their way and for this reason “they [principal actors] carefully define the identity, the goals or the inclinations of their allies [other actors]” (Callon 1986b, p.208). As Callon and Law (1982) have mentioned, a particular group or institution (principal actor) may have to enrol other actors in their proposals by incorporating and translating the interests of others into their own suggested solutions. Accordingly, the importance of rhetoric is again central in defining shared problems, forming alliances, mobilising arguments translating the interests of other groups, institutions (actors) and enrol them towards a common interest (Latour 1987, p.108-121). This process involves creating incentives for actors, such that they would be willing to overcome obstacles in the way of becoming part of the network.

In this context Callon (1986b, p.211) notes, “no matter how constraining…convincing the argument would be, success is never assured” since each actor could choose either to submit to integration into the actor network defined or to refuse the translation. Consequently, if interessement is successful, enrolment occurs, however, “the devise of interessement does not necessarily lead to alliances…to actual enrolment” (Callon 1986b, p.211). Enrolment involves a definition of roles of each of the actors in the newly created network. During this moment the principal actors define “a set of interrelated roles” that are attributed to the other actors who would accept them (Callon 1986b, p.211). Enrolment according to Michael (1996, p.53) entails both the ‘capturing’ of the other and the other’s ‘yielding’.

The fourth and last moment of translation, mobilisation of allies, includes the actor or actors becoming representatives or spokespeople to act as a unit of force; and seeking continued support to the underlying ideas from other enrolled actors. At this moment the principal actors use a set of methods, such as persuasive language, to ensure that allied spokespersons[3] act according to the agreement and do not betray the principal actors’

[3] In the case of this study as it will be illustrated in chapter four and five, ASX turned FRC into the spokesperson to ensure that enrolled actors such as AASB would act in ASX interest.

interest (Callon 1986b). As pointed out by Callon (1986b, p.216) in order to be a spokesperson, to speak for others, there is a need to

> first silence those in whose name we speak…it is more difficult to speak in the name of entities [actors] that do not possess an articulate language: this supposes the need for continuous adjustments and devices of interessement that are infinitely more sophisticated.

The spokespeople become the leaders of the network. Without this network and the interests of leaders and the interests of other actors would be unfulfilled (Fox 2000). According to Cooper (1994, p.37), this final moment can be the most critical in the translation process. It effectively is the culmination of the prior moments, whereby the other actors interest is translated into that of the spokesperson and the actors have gained their temporary willingness to obey their commands.

2.4. The translation model and Australian accounting standards

According to Robson (1991, p.552) the "process of translation is common to many instances of accounting problematisation and accounting change". In the case of this study, the role of the accounting standard-setting process and the standards themselves were translated into "policy discourse as a particular technical problem" that needed addressing by the policy makers (Robson 1991, p.552). Just as Callon (1986b) used the translation model, to explain a certain situation in a case study format, the wholesale adoption of international standards by Australian standard setters in 2002 is explainable within the same model.

The persuasive solution to the problem of the reduction of potential and existing listings on the stock exchange in Australia was to modify or apply new forms of accounting standards and surveillance techniques. Accordingly, the decision in 2002, by policy makers to adopt international accounting standards by 2005 was the solution to the presented problem. The interest of the policy makers in the accounting standard-setting process and the standards themselves was "translated into the terms and objectives of the policy discourse, to stimulate action or change in the accounting domain in the name of that discourse and its associated rationales and objectives" (Robson 1991, p.552). This persuasive language was used to influence the key payers. The environment in which the translation process is argued to have begun, is reflected in the history of standard setting in Australia.

CHAPTER 3- 1940 to 1969

3. A HISTORY OF FINANCIAL ACCOUNTING AND STANDARD SETTING IN AUSTRALIA

If you would understand anything observe its beginnings and its developments (Aristotle cited in Edwards 1989, p.1)

3.1. Introduction

Accounting standard setting history can be traced back to the time when the Scottish and British settlers came to Australia in 1788 and brought with them the benefits of a formal education (Carnegie and Napier 2002, p.704). Australia[4] became a series of British colonies, inter-linked by trade, commerce, agriculture and culture (Linn 1996; Edwards et al. 1997). By the end of the eighteenth century, the need for accounting was raised in the affairs of the colonial settlers of Australia. Hence, "accounting development in Australia at least during the colonial period to 1900 was influenced by Britain as the dominant cultural and business conveyor[5]" (Edwards et al. 1997, p.49). According to Linn (1996, p.31) "[e]very British settler brought ideas, concepts and skills formed in Great Britain". Between 1853 and 1914 Britain exported, and Australia imported, not only accountants and accountancy profession qualifications but the concept of professional accountancy

[4] In 1901, federation of the colonies was achieved, and the Commonwealth of Australia was born, as a Dominion of the British Empire. However, before this time the colonies individually were managing most of their own affairs while remaining part of the British Empire.

[5] The knowledge of accountancy and professional services was spreading throughout the British Empire, because of an increase in the flow of British capital and commerce (Johnson and Caygill 1971).

(Carnegie and Parker 1999, p.77). Professional bodies in Australia were generally established by British immigrants who were members of the British accounting bodies, based on the British system. Also, Australia was dependent on British capital to start or run any business. This was evident in the nineteenth century when 20 percent of Britain's capital was exported to Australia (Davis and Huttenback 1986).

By the 1880s, professional accountancy bodies were formed in Australia based on British bodies to attain their objectives by following their footsteps in issuing guidelines for practicing accounting (Edwards et al. 1997). It is important to take into account that written accounting standards originated in the late 1910s in the form of recommendations, principles and concepts which were mandated in the mid-1960s (Lee 1996, p.167). For instance, ICAEW issued a series of Recommendation on Accounting Practice as a guideline to auditors and accountants for the needs of different times.

The first Australian accounting professional body was formed in Adelaide in 1885. Given Australia's close links with Britain, it is not surprising that Australian accounting bodies emulated their British counterparts by adopting the same objectives and guidelines for the practice of accounting. Australian professional accountancy bodies continued to follow their British counterparts well in the twentieth century. The Recommendations on Accounting Practice that were issued in Australia from 1946, for example, adopted the English Institute Recommendations word for word. The adoption of English Institute Recommendations was justified on the basis that widespread application of the recommendations in Britain over several years was proof "of their soundness and acceptance" (The Institute of Chartered Accountants in Australia 1966, p.3). As will be discussed in a later section of this chapter, the Australian Institute's adoption of the English Institute's recommendations can be seen as early evidence of the Australia's acceptance of 'international standards'. In relation to its theoretical framework of this study, given the Australian accounting profession's close link to its English counterparts, the adoption of the English Institute Recommendations was a rational alternative to developing, the Australian Institute's own recommendations.

The first movement towards international accounting professionalism started in 1904 with the International Congress of Accountants (Mueller 1979). During the period 1904- 1950s, efforts to unify standards were significantly impeded as a consequence of the two world wars[6]. The wars brought unexpected accounting problems that the accounting bodies had to address and less attention was paid to the move towards international standards (Stacey 1954). For instance during World War Two, there were bombardments in UK that brought destruction to properties. The accountants could not disclose these damages because it would have helped the enemies to identify the places where bombs had fallen and the amount of damages suffered (Howitt et al. 1966, p.96). Also, membership of accountancy bodies was reduced due to the fact that former members were serving in the army. The remainder of the "members of the accountancy profession were extensively involved in the conduct of government" (Shackleton and Walker 1998, p.15) providing assistance to the

[6] World War One happened between August 1914 to November 1918 and World War Two started September 1939 to August 1945.

"war-time task" (Australian Society of Accountants n.d., p.41). This chapter will trace the professionalisation of accounting in Australia, including the standard setting process, from colonisation to the formal advent of the harmonisation movement.

3.2. Professionalisation

In Britain, from the mid-nineteenth century, there was a move towards professionalisation[7] of accountants. This was underpinned by the rapid and vast expansion of commerce and the increasing need, due to legislation, for trained accountants to oversee aspects of commercial, municipal and personal affairs (Parker 1989; Lee 1996). In order for accountancy to be recognised as a profession in Britain "it was necessary to secure its status by regulating entry" (Stacey 1954, p.24). The outcome was the establishment of accountancy bodies during 1853 to 1914. For instance, the Institute of Chartered Accountants in England and Wales (ICAEW) was formed and incorporated by Royal Charter in 1880 and the Society of Accountants and Auditors (SAA) in 1885. The SAA was formed "to enhance the position of those who were unable to secure admission to the [ICAEW] under its Charter" in Britain and its Empire (Johnson and Caygill 1971, p.155). The organisational structure of the ICAEW was based on Scottish societies that had been formed earlier such as the Society of Accountants in Edinburgh, formed in 1853. Like Scottish chartered associations, the ICAEW was "an association of public accountants" (Johnson and Caygill 1971, p.157). According to Johnson and Caygill (1971) the major

[7] In Britain before the nineteenth century, "accounting was regarded simply as one of the necessary skills of a merchant" (Parker 1989, p.12).

difference between the SAA and ICAEW was that SAA drew its members from industrial and commercial accountants while the ICAEW catered solely to public accountants, recruiting purely from public practitioners. From its inception, the ICAEW was involved in influencing changes in legislation that was related to accountancy work. For instance Stacey (1954, p.25) refers to a series of ICAEW recommendations dealing with “the Bankruptcy Bill in 1881 and modification respecting the Bankruptcy Act 1883”.

In the United States (US), a similar pattern to the UK emerged in the 1880s, with the first professional accounting body founded in 1882 and modeled on the UK chartered accountancy model (Parker 1989; Lee 1996; Carnegie and Parker 1999; McMillan 1999)[8]. Even though accountancy bodies were based on the UK model, they were formed in a way that was adapted to their own needs. With the advent of the industrial revolution in the late nineteenth century, the US sought to industrialise its economy. British capital which bankrolled US economic development, brought the migration of British accountants to protect British capital and to provide reliable information to British investors (Carey 1970)[9]. At the time there was no organised American accounting profession and, as a result, many of the US accountants were trained by British firms. During this period, accountants were not perceived as members of a profession. However, by the end of the nineteenth century accounting bodies began licensing professional accountants who met certain

[8] “Professional bodies were formed in the third quarter of the nineteenth century, whereas, in the US, the process of professionalization began to develop only around 1900” (Macve 1996, p.53).
[9] At this time, due to physical distance and communication barrier between Australia and the UK, the US was the preferred immigration destination for the British (Carnegie and Parker 1999).

requirements, such as educational and residential requirements (Lee 1996)[10]. These requirements helped to create an economic monopoly over accounting services provided by certified public accountants. Each state had its own licensing arrangements and a barrier to export the qualification to other states and overseas was created. The US "managed to avoid a multiplicity of competing professional bodies" (Parker 1989, p.15). However, in the absence of similar requirements, the UK bodies were more freely able to export their qualifications around the world (Seidler 1969).

It is clear that the idea of establishing a professional accounting body in Australia was effected by the same factors that pushed the formation of UK and US professional bodies (Cooper 1994). In Australia, in the 1880s, resident accountants shared the enthusiasm of their British counterparts for establishing accounting bodies (Carnegie and Parker 1999, p.85). The SAA was interested in "exporting a British professional qualification, appointing recruiting agents in the major colonies of Victoria and New South Wales (Poullaos 1994; Carnegie and Parker 1999, p.82). The SAA, in comparison to ICAEW, had a great influence in Australia given that there was a conflict in Britain in relation to "guaranteeing the right of the 'qualified' accountants to a monopoly of 'accountancy work', which mainly referred to the work of the accountant in public practice" and keeping the profession open (Johnson and Caygill 1971, p.1168). During this time "the accounting profession in Australia developed along state lines" (Velayutham and Rahman 2000, p.695).The first professional accountancy body in Australia was formed in Adelaide during 1885. The body

[10] The requirements have been illustrated by Lee (1996) in Lee et al (1996) edition.

was called the Adelaide Society of Accountants, which was the first predecessor body of the Institute of Chartered Accountants in Australia (Morris and Barbera 1990). In 1899, its name was changed to The Institute of Accountants in South Australia. According to Carnegie (1993, p.61) "[t]his earliest body was quickly followed by the establishment of many other competing professional accounting bodies", importing the British model rather than the American model of the accounting profession. As illustrated, the US model was based on the UK model that was refined to the US needs such as the licensing authority that created a barrier for a certified public accountant to export their qualification to other countries.

In 1886 accountants in and around Melbourne were given the opportunity of choosing between membership of a UK body and founding a professional accounting body of their own. During this period, the SAA established its first branch in Victoria which according to Thomas Brentnall was organised and developed along the British lines (in Edwards et al. 1997). Brentnall was the founder of the Incorporated Institute of Accountants Victoria (IIAV)[11], and a founding father of the Australian accounting profession. The ICAEW and SAA became the preferred models for IIAV; however it adopted the objectives of SAA because it was considered as an SAA branch (Poullaos 1994). Brentnall wrote in his memoirs:

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[11] The formation of the Adelaide Society of Accountants was followed by the formation of the second association, the Incorporated Institute of Accountants Victoria (Velayutham and Rahman 2000, p. 695).

> We knew the position attained by the Institute of Chartered Accountants in England and Wales, which had been incorporated by Royal Charter in 1880, by the Society of Accountants and Auditors in 1885, as well as the three Scottish Institutes which had come into existence some years previously. With these examples before us, we had no difficulty in arriving at the conclusion that our object could best be attained by following in their footsteps (in Edwards et al. 1997, p.52).

Prior to the turn of the twentieth century every State in Australia had its own accounting institute, for instance the Queensland Institute of Accountants[12], the Sydney Institute of Public Accountants and the Federal Institute of Accountants[13]. However, there was no united Australian institute between the states (Parker 1989). In 1901 the Commonwealth of Australia was formed, by federation of the States of New South Wales, Queensland, South Australia, Tasmania, Victoria and Western Australia (Morris and Barbera 1990, p.245).

In 1901, the desirability of forming an Australasian institute of accountants was raised at a meeting in Sydney. IIAV, the largest and wealthiest Australian accounting association, was the driving force behind this initiative aimed at achieving both national organisation and a national strategy (Poullaos 1994). However, arguments about membership and conditions of the proposed institute followed. For example, the IIAV wanted the institute to be located in Melbourne with the restriction on members to be public accountants. Restricting membership to public accountants was based on the ICAEW model. It was aimed at differentiating between the professional accountant, those in public practice, and non-professional accountants, those not in public practice. This restriction, as well as the formation of a national body, was vital to the support of the ICAEW for a Royal Charter for

[12] The Queensland Institute of Accountants amalgamated with the CIA (ASA n.d.).
[13] The Federal Institute of Accountants incorporated in Melbourne during 1894 (Morris and Barbera 1990).

an Australian body. The IIAV had initiated the move for a Charter in the 1890s, however, the Charter attempt was put on hold pending the outcome of the IIAV proposal for a national body (Poullaos 1994).

The IIAV initiative for a national body with membership limited to public accountants failed. Subsequently, IIAV changed its strategy by promoting its image "as a public accountants' body" and accepting "the ICAEW's fundamental rule[s]" (Poullaos 1994, p.89). In 1905 following the failed Charter attempt, another movement towards formation of an Australasian institute of public accountants began in Sydney (Poullaos 1994). Once again this movement was based on the desire to make a distinction between accountants in public practice and those working in commercial ventures (Cooper 1994). The result was the formation of the Australasian Corporation of Public Accountants (ACPA) in 1908 (Poullaos 1994, p.117). The formation of ACPA was an effort to embrace all practicing accountants throughout Australia in one body (Steele 1950). The ACPA members were also members of The Institute of Accountants in South Australia[14]. Consistent with its desire to achieve ICAEW support for its Charter application, ACPA imitated "titles, styles and rules" of the ICAEW (Johnson and Caygill 1971, p.160; Linn 1996). The Royal Charter attempt, according to Carnegie (1993, p.72), "grew out of the failure to bring about the general amalgamation of accounting bodies".

[14] In 1925 an absorption agreement was executed by The Institute of Accountants in South Australia and the ACPA. However, the Institute did not go out of existence completely (Steele 1950, p.168)

The pursuit of a national accounting body led IIAV to announce in 1917, expansion of branches into every State. By 1921 “because of the extension of its services to all States” (Australian Society of Accountants n.d., p.ix), the name was changed to the Commonwealth Institute of Accountants (CIA). At this time CIA had more members than ACPA and was seeking to establish its position as “the finest institute in the whole of Australasia” (Linn 1996, p.108). In 1927 ACPA, in conjunction with the CIA, applied for a Royal Charter and finally succeeded with half of its members as CIA nominees (Zeff 1973; Linn 1996). According to CIA, this event was “the most important event in the history of Accountancy in the Southern Hemisphere” (Linn 1996, p.109). In June 1928, the Institute of Chartered Accountants in Australia (ICAA) was established as the first accountancy body outside the British Isles to receive a Royal Charter (Morris and Barbera 1990; Godfrey et al. 2006). The Royal Charter gave status and power to the profession to extend public practice in order to sustain a market monopoly for accountancy services (Lee 1996). According to Lee (1996, p.177) “the primary significance of…creation of institutions with royal permission [was] to self-regulate professional accountants and accountancy, and to describe their members as chartered accountants”.

3.3. Accounting standard setting in Australia

3.3.1. Professional bodies

Just as the Australian professional accounting bodies emulated the UK model, the early efforts to provide guidance to Australian accountants in preparing financial reports was also based on UK accounting profession guidance. These guidelines were the forerunner of today’s accounting standards (Godfrey et al. 2006). In England, the ICAEW started to issue the first series of Recommendations on Accounting Principles between 1942 and 1943 as a result of the Royal Mail case in 1931 that strived “for uniformity of practice” (Fitzgerald 1949, p.14). As De Paula mentioned, the case was like an atomic bomb that suddenly fell out of the sky and “shattered [their] self-complacency and startled and shocked the public” (1978, p.35). The Royal Mail case was the result of manipulation of reported earnings by hiding the decline in the company’s fortunes (Morris and Barbera 1990). Based on the views of professional accountants there was nothing wrong with the way the company had used reserve accounts as a way to transform its losses into profit. Prior to the Royal Mail case “accounting [in the UK] was essentially a matter of individual judgement in particular circumstances” (Fitzgerald 1949, p.14). According to Camfferman (1998, p.3) “[w]ithin the auditing profession, the existence of considerable differences of opinion hindered the emergence of an unambiguous reaction”. For this reason, the case drew attention to deficiencies in British financial reporting and auditing. As argued by Walker (1978, p.94)

> [t]he Royal Mail case was undoubtedly a turning point for the British accounting profession. It swept aside long standing assumptions about the right of management to decide what information should be made available to shareholders.

The trial Judge concluded that the case was “...put forward in such a form that although it stated every fact correctly fact by fact...yet the true effect of what was said was completely false and completely misleading” (cited in De Paula 1978, p.35). The case caused the profession to question the acceptability and satisfactory use of the “true and correct view” that meant that “the intrinsic position of a company must be not less favourable than that disclosed by Balance Sheet...” (De Paula 1978, p.1). The case started a move to redesign the form of presentation of the accounts to the shareholders to make it as “informative and easy to read as possible, and...[to] give a true and fair view of the state of a company’s affairs and the trend of its earnings (De Paula 1978, p.37). The awakening in Australia was much later.

In the 1940s, the senior members of the General Council of the ICAA had been among those who actively sought the Charter in the 1920s. In 1944, the General Council proposed issuing formal guidance and accounting principles as recommendations to members on accounting practice (Burrows 1996). In 1945 at the General Council’s meeting, it was decided to issue statements after examining earlier English Recommendations and making variations, where desirable, to bring them close to Australia’s needs as the “Australian company law was based on English legislation” (Zeff 1973, p.23). According to ICAA,

> The English Institute’s Recommendations are applicable to Australian practice, and their widespread application in Britain over several years is proof of their soundness and acceptance. The substantial adoption of the English Recommendations by the Australian Institute is of considerable significance because it is a step forward in developing international standards in these matters. In recommending what is regarded as the best practice the Institute recognises the variety and complexity of business enterprises which make absolute standardization of practice impossible (The Institute of Chartered Accountants in Australia 1966, p.3).

In 1946, the ICAA issued its first series of “Recommendations on Accounting Principles” (The Institute of Chartered Accountants in Australia 1966). The recommendations incorporated relevant provisions of the 1938 Victorian Companies Act (Burrows 1996, p.8). According to the ICAA “These recommendations had a powerful influence in raising the standards of accounting and reporting for business undertakings" (1966, p.3). The recommendation had three sections including,

1) Presentation of Balance Sheet and Profit and Loss account,

2) Treatment of stock-in-trade and work in progress in financial accounts and,

3) Accountant's reports for prospectuses.

During 1946 to 1948, five recommendations on Accounting Principles were approved for publication by the ICAA (Zeff 1973; Godfrey et al. 2006; ICAA 1966; Burrows 1996), and each statement was a virtual copy of similarly titled documents produced by the ICAEW. The Australian drafts retained the substance, and in most respects the detail, of the earlier English Recommendations (Walker 1987). Also, the titles of the Australian Recommendations and the cover of the booklet for the recommendations were identical to the corresponding English pronouncements (Zeff 1973). During this period, the decisions made by the General Council of the ICAA were identical to the Council of the English institute. In general, the ICAA followed the lead of the ICAEW footsteps due to "[T]he real and abiding influence of the English Institute... from its symbolic influence as the 'great parent body' holding a Royal Charter" (Johnson and Caygill 1971, p.160). Australia's decision to pursue the British model was evident when the General Council did not consider any further recommendations from the 1950s for almost a decade, despite concerns being raised, as early as 1948, regarding the high level of non-compliance with the ICAA's recommendations. However, no action was taken (Leo et al. 2004; Godfrey et al. 2006). Members of the general council believed that their role, like that of the Council of the English Institute, should be restricted to the administration of the Institute's affairs (Zeff 1973).

There developed a need for a more active program capable of providing guidance on accounting principles. For this reason there was a need for technical and research committees as part of the ICAA. In 1954, the Australian Chartered Accountants' Research and Service Foundation was inaugurated (Zeff 1973). As part of its duties it agreed to take care of the revision of the recommendations that were issued in 1946 and 1948 and an examination of possible additions in the issued series, which was occurring at the English Institute.[15] The English Institute also affected the way that the Foundation was structured. In 1967 Sir Henry Benson and Evan Jones, the President and Secretary of the English Institute respectively, visited Australia. In a meeting, held by the Australian Institute's Executive Committee, Sir Henry discussed in detail the English Institute's organisational structure and committee system as he had been instrumental in achieving a realignment of its priorities (Zeff 1973, p.13). The meeting was the starting point of the reorganisation of the ICAA structure and the management committee of the Research and Service Foundation which was divided between two committees known as Technical and Research. These titles were borrowed from the English Institute's committee structure.

[15] For more in depth details refer to 'Forging Accounting Principles in Australia' by Zeff (1973).

The Australian Society of Accountants (ASA), another professional accounting body, was incorporated in January 1953 when the CIA and the Federal Institute of Accountants amalgamated[16] (Godfrey et al. 2006; Burrows 1996; Linn 1996). ASA was formed with the assistance of the 1949 International Congress of Accountants. The ASA name was changed to Certified Practicing Accountant (CPA) in 1983 and also again in 1990 to Australian Society of Certified Practicing Accountants (ASCPA). According to Linn (1996, p.170) it was stated in the *Australian Accountant*[17] that

> This amalgamation of the two oldest and largest accountancy institutes in Australia represents the first important step towards obtaining unity of the profession in this country, and as such must be considered the most important development in organization of the profession since the first institute was registered in 1886.

During the late 1950s and early 1960s, a significant number of corporate collapses took place in Australia. As a consequence, there were criticisms of the profession in relation to their accounting practices. Accounting research was raised as the answer to these problems. In Australia as well as in the UK and US, there was a move towards re-evaluation of accounting practices to maintain public confidence, reducing the risk of outside intervention, and maintaining the profession's status through the establishment of research committees. To prevent government intervention[18] and in recognition of the significance of financial reporting as a means of communicating information to interested parties, the ICAA and the ASA took immediate action and established the Accountancy Research

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[16] Refer to Appendix A for the chart of the foundations and amalgamations of the accountancy profession in Australia

[17] Australian Accountant was a professional magazine of ASCPA.

[18] Due to the lack of quality and uniformity of disclosure there was a risk of government intervention (Rahman 1992).

Foundation that subsequently became the Australian Accounting Research Foundation (AARF) in 1966 (Zeff 1973; Walker 1987; Jones et al. 1995; Belkaoui and Jones 2000; Kurtovic 2000; Godfrey et al. 2006). According to Kurtovic (2000, p.142) the AARF establishment "was a strategic move on the profession's part to help restore faith in an increasingly mistrusted profession".

3.3.2. Establishment of AARF

The move to set up AARF was consistent with the UK and US moves toward establishing research committees. In the US the Accounting Principles Board (APB) was set up in 1959 to issue statements on generally accepted accounting principles that had been based on Accounting Research Division studies. The APB was formed "to consider a new approach to the means whereby accounting research should be undertaken, accounting principles should be promulgated, and adherence to them should be secured" (Kemp 1965, p.782). Also in the UK, in 1964 the ICAEW had set up a research committee to improve the standards of accounting practice and a research foundation was formed to finance its activities (Howitt et al. 1966; Kurtovic 2000).

The AARF was established in Australia to undertake a range of technical and research activities on behalf of the two accounting bodies in order to provide a solution to the problems that arose in the wake of company failures. According to Kurtovic (2000, p.148) the funds were donated to the ASA by Mr Stanley Korman to establish AARF and to aid research[19]. The purpose of his donation was to have Australian accounting standards accepted overseas and form an international relationship. Korman declared that "…I find the necessity of having such principle of international understanding of accounting so desirable to the welfare of our country" (cited in Kurtovic 2000, p.150). The principal objective of AARF was "…improving the quality of financial reporting…in Australia…" (ASCPA & ICAA 1992, p.3) and "…to conduct research into international methods and standards of accounting to study developments in accounting both in Australia and overseas…" (Burrows 1996, p.21). In order to achieve this objective, there was a need for a body to develop and maintain statements of accounting standards to be issued by the ASA and the ICAA (ASCPA and ICAA 1992; Anonymous 1993). Hence, the Accounting Standards Board (AcSB)[20] was formed in 1981 within the structure of the AARF. It is clear that the accounting bodies dominated the standard setting process through control of the AARF, which provided technical support in the development of approved accounting standards (Kurtovic 2000, p.56). "The AARF played no role in monitoring or enforcing compliance with the standards, they rarely gained wide acceptance" (Godfrey et al. 2006, p.373; Belkaoui and Jones 2000).

[19] The then Chairman of Stanhill Consolidated Limited that was a real estate company.

[20] AcSB was the accounting board of the ICAA and ASA, within the AARF structure, issuing accounting standards on behalf of the profession but without legislative backing and enforcement (Collett et al. 2001, p.173).

In 1970, the AARF issued its first research effort as ‘A Statement of Australian Accounting Principles’. The idea of the study came from the American Institute of Certified Accountants that had published Accounting Research Study No. 7 in 1965. According to Zeff (1973, p.24-25), the addition of younger members to the General Council, looking for new ideas and approaches, was one of the factors that changed the attitude of the bodies in Australia to take into account the American pronouncements. In addition, there was an increase in the amount of direct US investment in Australia and multiplication in the number of Australian subsidiaries of US corporations. The US was replacing the UK “as Australia’s main trading partner and source of...knowledge of...accounting” (Parker 1989, p.22). For instance, in 1967 an exposure draft entitled ‘Treatment of Income Tax in Accounts of Companies’ was issued. The title of the exposure draft was identical to the English Institution Recommendation published in 1958, however the exposure draft included two key sentences which were adopted in the bulletin issued by the American Institute. The US influence was also evident in 1969 when, the Research Committee published three exposure drafts entitled “Net Income, Prior Period Adjustment and Disclosure of Extraordinary Items”. The basic ideas in these drafts came from the US Accounting Principles Board (APB), issued in 1966 (Zeff 1973).

In line with Australia’s adoption of the US model, the need for a Conceptual Framework (CF) and a statement of the basic accounting concepts was raised in Australia by AARF in the1970s and 1980s. AARF was looking at US developments and progress on CF and it was using FASB materials because “of the problems associated with identifying and recognising the key elements (assets, liabilities, revenue and expenses) when preparing standards" (Burrows 1996, p.160). The CF was developed in the US to overcome the problem of failures in financial reporting and company disclosures. As well as reducing "the tension that exist[ed] in the US between the accounting profession and the government" in the accounting regulatory process (Gore 1992, p.6). Briloff (1972, p.16) had mentioned

> The accounting profession is in a serious state of disarray – involved in litigation of new seriousness and magnitude, with its principles seriously challenged...and its function confronting a credibility crisis.

The accounting profession in the US, in undertaking the CF project and facing the accounting standards issues, wanted to establish its major role as standard setters to retain its credibility. The accounting profession wanted to retain their status as a profession. As Larson (1977, p.x) put it,

> professions are occupations with special power and prestige. Society grants these rewards because professions have special competence in esoteric bodies of knowledge linked to central needs and values of the social system, and because professions are devoted to the service of the public, and above and beyond material incentives.

In this way the CF helped the profession prevent political interference in setting accounting standards. It could be argued that this was a reason for the Australian accounting profession finding a need for the CF. In relation to ANT, the CF became the solution to the problem of inadequate accounting standards, as part of the problematisation process.

3.3.3. The establishment of ASRB and AASB

In January 1984, the Accounting Standards Review Board (ASRB) was established by the government as a public body financed by the Australian Treasury. ASRB was a government sponsored body that had neither separate legal identity nor formal terms of reference (Rahman 1992; Belkaoui and Jones 2000). The body was capable of developing or participating in the development of accounting standards while being independent of the accounting profession (Rahman 1992, p.318; Collett et al. 2001, p.173). According to Walker (cited in Rahman 1992, p.40)

> In fact, one of the reasons for which the ASRB was established was to ensure that the accounting rules which were to be imposed on the corporate sector should have some legitimacy, [legal backing], in the eyes of preparers of the financial statements, auditors, shareholders and other users of accounting reports.

As indicated by Rahman (1992, p.43) "the ASRB…was created separately from other company financial disclosure rule setters, such as the…AARF" in order to solve and clarify the dilemma of monitoring company reporting under the "true and fair view" concept[21]. This concept was introduced in the UK Companies Act in 1947 and also in 1948 and was brought into the Victorian Companies Act in 1955[22]. It was a substitute, which was recommended by the ICAEW, for the true and correct view that was a requirement of the

[21] Company regulators of NSW introduced the idea of the ASRB as a solution to the dilemma to the absence of definition of true and fair view.

[22] A uniform Companies Act across all Australian States was established during 1960 and 1961.

1929 Act. However, the ‘true and fair view’ concept has never been defined in the legislation in which it was/is incorporated[23]. Lee (1973) defined true and fair view as

> It is generally understood to mean a presentation of accounts, drawn up according to accepted accounting principles, using accurate figures as far as possible, and reasonable estimates otherwise; and arranging them so as to show, within the limits of current accounting practice, as objective a picture as possible, free from wilful bias, distortion, manipulation, or concealment of material facts. In other words, the spirit as well as the letter, of the law must be observed.

In 1981, the Companies Act requirement in relation to true and fair view was refined “as an overriding concept” (Kirk 2006, p.209). The statutory override meant that if compliance with accounting standards did not produce financial statements that showed a true and fair view, the necessary additional information needed to be included in the accounts or in the notes of the accounts (Alexander 1993)[24]. In other words non compliance with the standards was permitted if the accounts provided a true and fair view and it was a matter of professional judgement (Cooper 1994). However, in 1991, the Corporate Legislation Amendment Bill required

> the preparers of financial statements to comply with requirements of the Corporations Law [1989] and approved accounting standards and if it is considered that a true and fair view will not result, additional information is to be provided in the notes to the accounts (cited in Cooper 1994, p.317)

This amendment meant that the true and fair view statutory override was replaced with a requirement to comply with accounting standards. In the event that compliance with

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[23] in 1992 when three of the UK’s senior accountants were “asked to define the true and fair view” on a television program, and none of them accepted the challenge (cited in Walton 1993, p.50).

[24] Compliance with accounting standards was not required as long as non-compliance was disclosed in the accounts or in the notes.

accounting standards did not present a true and fair view, a note to this effect must be provided disclosing what is considered to be a true and fair view. Also, it was required to disclose in the note, the impact that non compliance would have on the financial position of the company.

Overall, the ASRB was created "as a result of political pressure to improve the enforceability of Australian accounting standards" (Belkaoui and Jones 2000, p.82).[25] Also, since the standard setting process is a political process, there was an argument that the accounting profession should not be solely responsible for determining accounting standards (Cooper 1994). The main function of ASRB was to establish and monitor financial disclosure standards recognised under the Companies Act 1981 (Rahman 1992). In regards to the CF, the ASRB was responsible for "sponsoring or encouraging the development of a conceptual framework for accounting standards in Australia" (Burrows 1996, p.164). The ASRB recognised AARF as the main source of proposed accounting standards and in accordance with its objectives, its principal function was

> to review accounting standards proposed by AARF or those proposed by other bodies. [However]…the primary responsibility for the development of accounting standards remain[ed] with the accounting profession (Rahman 1992, p.32). [26]

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[25] For more information regarding the political pressure for establishment of ASRB, refer to Rahman (1992) from page 407 to 424.
[26] ASRB and the AARF were merged in 1988.

Hence, when the accounting standards were reviewed and approved by the ASRB, it had the force of law. Accounting bodies were opposed to any government intervention in the preparation and enforcement of accounting standards; and for this reason started “lobbying for a board compatible with its needs” (Raham 1992, p.399; Walker 1987). Accounting bodies were looking for a board that would only review those standards that were prepared and proposed by the AARF[27]. The AARF started to influence the ASRB activities after it was established, as the ASRB wanted to retain control over the accounting standard setting process (Walker 1987; Rahman 1992).[28]

Australia effectively had two standard setting bodies and this was seen as an inefficient use of the profession’s resources (Anonymous 1993). Furthermore, it led to “differences between decisions on key accounting issues made by the profession’s own AcSB…on the one hand, and the ASRB on the other hand, created a rift between the profession and the ASRB” (Collett et al. 2001, p.173). In September 1988 the ASRB and AcSB of the AARF merged, establishing a joint venture between the profession and the government. By this time, AARF and the ASRB were responsible for the development and promulgation of accounting standards.

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[27] The profession wanted only a review board and that the ASRB had to seek comments from the AARF on standards proposed by others according to Rahman (1992, p.400).

[28] The details regarding the ASRB activities and responses of the accounting profession is beyond the scope of this thesis, for further information refer to Walker (1987) and Rahman (1992).

Despite these developments, the newly reconstituted ASRB "lasted only one full term before political pressure led to its replacement" (Collett et al. 2001, p.173). In 1991, by virtue of the Australian Securities Commission Act 1989, the ASRB was replaced by the Australian Accounting Standards Board (AASB) which was a more powerful body in respect of setting standards rather than just approving them[29] (Anonymous 1993). As noted earlier, the overriding concept of true and fair view was withdrawn from the Corporate Legislation Amendment Bill in 1991 and subsequently enacted by amendment to Corporations Law 1989. This made AASB powerful, as the standards had the force of the law.

Also, the AASB was established to extend the membership of ASRB from seven to eleven members for "the need to provide greater representation from user groups" (Cooper 1994, p.332). This replacement was partly due to pressure from the profession regarding the structure of the ASRB and loss of control over the standard setting process. The functions of the AASB were considered to be more extensive than those of the ASRB (Godfrey et al. 2006; Belkaoui and Jones 2000); since AASB status was formalised in legislation and it was harder to change (Burrows 1996; Curran 1996).

> The AASB makes accounting standards which, under the Corporations Law, have the force of law in relation to companies; consequently preparers and auditors have no discretion in relation to the application of those standards to company financial reports (Anonymous 1993, p.9).

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[29] ASRB was not in charge of designing and developing accounting standards, but to review accounting standards set by the accounting bodies and sponsoring the development of standards (Cooper 1994). As already noted, AARF and accounting bodies were in charge of setting the accounting standards and ASRB had the power to consider these standards for approval (Cooper 1994).

During the 1990s, the AASB developed a conceptual framework, based on previous conceptual frameworks developed during the 1970s and 1980s in the US (Leo et al. 2004).

In summary, until the 1970s no national standard setting body or accounting standards existed in Australia.[30] Instead, individual accounting institutes issued statements of accounting practices. For instance, in the UK, the ICAEW issued a series of Recommendations on Accounting Principles in pursuing accounting practice. However, the recommendations were not mandatory, did not oblige Institute members to comply or to accept their advice, and contained different options for the users. In the early 1970s, a new era of regulation was introduced in the UK and US (Street 1996, p.71). A fear of government regulation and public discontent led to the formation of the Accounting Standards Committee (ASC)[31] in the UK and the Financial Accounting Standards Board (FASB) in the US. The new era brought an understanding that the primary purpose of financial statements was to provide useful information for making economic decisions (Kurtovic 2000). Thus the FASB started to work on a conceptual framework to develop the guidance for developing accounting standards. Australia followed the US reporting practices, which represented a departure from its previous practice of adopting the British model.

[30] In US, UK in 1939 and 1942, respectively, the institutes were the first to initiate programs to give official guidance on what constitutes accepted accounting practice, which eventually became known as 'generally accepted accounting principles' (Camfferman and Zeff 2007). It was not until 1974 when the Australian professional accounting bodies first instigated attempts to regulate accounting by means of the adoption of accounting standards (Carnegie and Varker 1995).

[31] Which in 1980s the Accounting Standards Board (ASB) was setup, since ASC could not ensure its standards were being obeyed (Camfferman and Zeff 2007).

3.4. A move to harmonisation

The harmonisation of accounting standards in Australia is discussed in detail in Chapter Four. This section explains the events that led to establishment of the International Accounting Standards Committee (IASC).The rise of multinational companies and the increase in cross-border listing and the need to report the activities of these companies provided the impetus for harmonisation (Street 1996). As economic integration between countries increased, the need for accounting harmonisation became more urgent, although it became more difficult to achieve (Camfferman and Zeff 2007). According to Nobes (1994, p.33) harmonisation “is the process of increasing the consistency and comparability of accounts in order to remove the barriers to the international movement of capital and exchange of information by reducing the differences in accounting and company law”. Sharpe (1998, p.16) stated that

> Investors are attracted to those markets they understand, trust and have confidence in. For this reason, countries which adopt internationally, recognised and, understood accounting standards for financial reporting will be placed at a significant advantage to those who do not.

Nevertheless, harmonisation of international standards should not lead to financial reports which are misleading and less reliable for users. This happens because the reporting requirements adopted, are less appropriate to a country’s culture and environment (Tarca 1998, p.18-19).

The first move toward international accounting professionalism was in 1904 when the International Congress of Accountants took place in St. Louis as a “forum for the exchange of thoughts and experiences” (Mueller 1979, p.2). The congress was the place for accountants to present their papers and exchange ideas regarding different accounting topics such as depreciation problems, inflation accounting, and “to reach broad conclusions on desired common aims” (Sempier 1979, p.22). The International Congress of Accountants led to a call for a movement towards harmonisation of accounting practices which was parallel with the growth of national accountancy bodies in the late 1950s. The US accountancy profession was trying to achieve harmonisation with other major accounting standard setters in very few areas (Street and Shaughnessy 1998b). According to Camfferman and Zeff (2007) the US accountancy profession became the first in the world to formally adopt a more internationalist approach to accounting standard setting in 1962. Nonetheless, it was the president of the ICAEW, Sir Henry Benson[32]that initiated the formation of the Accountants International Study Group (AISG) in 1966. AISG comprised representatives from institutes in the UK, the US, and Canada (Thomas 1970; Braithwaite and Drahos 2000; Camfferman and Zeff 2007, p.27). In February 1967 the AISG was formed (Carsberg 1996), with the purpose of “institut[ing] comparative studies as to accounting thought and practice in participating countries, to make reports from time to time which…would be issued to members of those institutes” (Thomas 1970, p.60). According to Camfferman and Zeff (2007, p.34) consideration was given to AISG membership of other countries, including Australia, but Benson argued “that if this exercise

[32] According to Thomas (1970) Sir Henry Benson as one of the leading accountants in Britain, was the father of AISG

was to get off the ground, the maximum number of nations who should initially be involved was three, and they should start with the advantage of all speaking a common language". As a consequence Australia's invitation to join the AISG was withdrawn (Camfferman and Zeff 2007).[33] AISG began to publish booklets in relation to accounting and auditing issues every few months and created an appetite for change (Camfferman and Zeff 2007). While the details of the booklets are beyond the scope of this study[34] many of these papers led the way for the international standards that followed. By 1973, it was finally agreed to establish an international body setting accounting standards for international use.

In the 1960s, the European Union (EU) commenced a program to harmonise company laws (Carsberg 1996; Brown and Tarca 2001; Reid et al. 2003),

> The harmonization of financial accounting within the EU has been the main concern of two directives of the Council of Ministers: the Fourth Directive on the annual accounts of companies (July 1978) and the Seventh Directive on consolidated accounts (June 1983). These have been implemented in the national laws of all EU member countries (Thorell and Whittington 1994, p.217).

According to Brown and Tarca (2001, p.275) "The EU harmonization effort succeeded in raising the level of information disclosure, but…it did little to remove difference in accounting measurement practices". Also, setting the directives was "a lengthy political process" (Carsberg 1996, p.79), consequently there was a need for a more flexible process

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[33] However, in 1977 the AISG was disbanded to become the International Federation of Accountants (IFAC), to develop and enhance the coordination of accountancy profession around the world for achieving harmonised standards (Samuels and Piper 1985; Cummings and Chetkovich 1986; Chandler 1992).
[34] For further details refer to Camfferman and Zeff (2007) page 32-36 and also Thomas (1970).

that would take into account a broader international level. In 1995, establishment of a European accounting standards board saw the introduction of harmonisation of European Accounting Standards used across member countries of the EU. The EU was also looking to establish a European accounting body to administer the harmonisation of accounting standards. However, as argued by Carsberg (1996, p.79-80) “harmonization within the EU [was] not likely to be significantly easier than harmonization on a worldwide basis”. This is because, formation of a new body would be expensive and time consuming in reaching an agreement regarding setting accounting standards. The inherent difficulties of the establishment of a body in charge of establishing accounting standards as a basis for harmonisation led EU to join the IASC.

In the UK, the move towards harmonisation started in the early 1970s as the UK began the attempt to join the EU, gaining membership by 1973 (Alexander 2007). In 1973 the International Accounting Standards Committee (IASC)[35] was formed in London. According to Hopwood, (1994, p.243) it was unlikely to be a coincidence that IASC was formed the very year the UK gained entry to the EU. As Hopwood argues the creation of IASC “…was intended to give a strong signal of Britain’s role in what no doubt was perceived as a global accounting community rather than a more narrowly circumscribed European one” (1994, p.243).

[35] IASC formation is being discussed in detail in chapter 4.

3.5. Conclusion

This chapter has focused on the history of the standard setting process in Australia from 1800 and explains how Australia adopted standards and recommendations that were issued in the UK and later on in the US. The move towards professionalisation resulted in establishment of accounting bodies in Australia that was along the British model of accounting bodies such as the ICAEW.

The move towards industrialisation and formation of multinational companies raised the need to establish an organisation which would be able to carry out the objectives of international accounting harmonisation. One of the moves in this regard was the establishment of AISG with the objective of publishing comparative studies in accounting practices in the member's countries. In the next chapter, the details of the working parties that were established to study the proposal for formation of IASC are discussed. Given that the main focus of this study is on Australia, the next chapter will focus on how Australia was involved in the IASC formation as well as its attempts to harmonise its accounting standards at the international level. According to Miller and Leo (1997, p.2) the "…harmonisation with international accounting standards [became] a very high priority for Australian standard-setters", since "there [was] no future in Australia being an island of accounting purity" (Wood 1996, p.92). Accordingly, the idea of harmonisation program and eventual adoption of international accounting standards was imposed on AASB.

CHAPTER 4- 1970 to 2002

4. Harmonisation of Accounting Standards in Australia

Accounting standards are the foundation of fairness in financial reporting. Without such rules the investor would stand unprotected, uninformed and unaware of misleading or deceptive disclosures by those who may seek to distort financial reality (Levitt 1997).

4. 1. International Accounting Standard Committee

Chapter Three outlined the history of standard setting and establishment of professional bodies in Australia from 1788 to 1991. It also illustrated the move towards the harmonisation of accounting standards which started in 1904 at the first International Congress of Accountants in St. Louis, Missouri (Mueller 1979). Calls for uniformity of accounting standards gained momentum in the late 1950's (Chandler 1992), when national accountancy bodies including those in the UK, US, Australia and Canada were pressed to be involved in the process of harmonisation (Street and Shaughnessy 1998a; Camfferman and Zeff 2007).

As indicated in Chapter Three, the period between 1904 and the 1950s saw activities towards uniformity of standards reduced to a minimum as result of the two world wars. The wars brought unexpected accounting problems and required the involvement of the accountancy profession in government tasks. The members of accountancy bodies were reduced due to the fact that many were serving in the army. Consequently, less attention was paid to the harmonisation of accounting standards. By 1967, however, the AISG[36] was formed in response to calls for uniformity of accounting standards. This body was disbanded in 1977 to become the IFAC to develop and enhance the coordination of the accountancy profession around the world for achieving harmonised standards (Cummings and Chetkovich 1978; Samuels and Piper 1985; Chandler 1992).

The move towards harmonisation started in the EU with the introduction of a series of directives to harmonise accounting standards. In 1995, establishment of a European Accounting Standards Board together with the development of harmonised European Accounting Standards was introduced to be used across EU member countries. However, this plan had its shortcomings such as the cost of the establishment of the board and getting the EU members to agree with the developed standards. It was acknowledged that "harmonization within the EU would not likely to be significantly easier than harmonization on a worldwide basis" (Carsberg 1996, p.79-80) by joining the IASC.

This chapter will examine the trend towards the harmonisation of accounting standards mainly from 1972 to 2002 and the establishment of the IASC. It will examine the harmonisation process that started in Australia in 1996 followed by the push towards adoption of IASC standards. This process will be analysed using Callon's moments of translation -problematisation, interessement, enrolment, and mobilisation (Callon 1986b). It

[36] Details regarding AISG is discussed in chapter three, section 3.4, page 68.

will be demonstrated that the ASX was the principal actor in the establishment of a network that enrolled the G100, AICD and AASB. The role of FRC as the *spokesperson* is also examined.

4.2. Establishment of the IASC

4.2.1. National accounting standards setters

The call for achieving international uniformity was answered by the creation of the International Working Party (IWP), which was initiated by Sir Henry Benson (Camfferman and Zeff 2006)[37]. As noted in Chapter Three he was the guiding spirit behind formation of the AISG. In 1967, the IWP was in charge of studying the proposal for an international secretariat to report the outcomes at the International Congress of Accountants in Sydney in September 1972. The Institute of Chartered Accountants in Australia and the Australian Society of Accountants (known today as CPA Australia) were among the representatives of the IWP (Camfferman and Zeff 2006). At the congress, the IWP advised that "it would be premature to set up an international secretariat. Instead…leadership in the development of [professional] standards must come from individual countries" (Camfferman and Zeff 2006, p.38). However, Sir Henry Benson at the congress stated that "the widespread demand for internationally accepted standards became clear in a way that was almost telepathy" (Camfferman and Zeff 2006, p.45). At the congress, accounting leaders

[37] IWP was formed during the Ninth International Congress of Accountants in 1967, held in Paris (Camfferman and Zeff 2006). As part of the congress were "devoted to the international harmonization of accounting principles" and establishment of an international secretariat (Camfferman and Zeff 2006, p.37).

conceived the idea of forming the IASC to develop and publish a comprehensive set of accounting standards that would produce high-quality financial statements to encourage wider use throughout the world (Sharpe 1998).

At this time the IWP was transformed into the International Co-ordination Committee for the Accountancy Profession (ICCAP) to continue its work with its existing members and new members such as Canada and Germany.[38] During an informal and confidential meeting of high-level representatives from the AISG that was arranged by Benson, the role of the AISG was expanded to formulating international accounting standards and assurance of the world wide acceptance of the standards. Australian bodies sponsoring the congress were also invited to the informal meeting to "put in a token appearance" as the hosts of the International Congress of Accountants (Camfferman and Zeff 2006, p.43)[39]. This was the starting point for the International Accounting Standards Committee (IASC); and at a meeting in London in June 1973, the text of the agreement to establish IASC was finalised and Benson was designated the first chairman. IASC was characterised as a "major step towards the harmonization of international accounting practice" (cited in Camfferman and Zeff 2006, p.54). One of the IASC objectives was

> …to work generally for the improvement and harmonization of regulations, accounting standards, and procedures relating to the presentation of financial statements (Street and Shaughnessy 1998a, p.133).

[38] The IWP recommended the formation of ICCAP at the Sydney Congress (Chetkovich 1979). The major efforts of ICCAP "were devoted to and culminated in the establishment of IFAC" (Chetkovich 1979, p.15).
[39] As mentioned in chapter 3, Australia was not AISG member as its invitation from US for joining the AISG was withdrawn.

The IASC was established at a time when private-sector standard setting had been a function found entirely within professional accountancy bodies. The primary purpose of the IASC was to issue generic standards that would have multiple options as guidance to professional accountancy bodies in developing countries (Zeff 1998b). The international activities of the accountancy bodies were organised under the International Federation of Accountants (IFAC)[40], an organisation developed parallel to the IASC (Rivera 1989). The United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD)[41] began discussing accounting and disclosure policies in the 1970's and invited the IASC to participate and to share views (ASCPA and ICAA 1992). The Consultative Group comprised the UN and the OECD. Suggestions of the Consultative Group were a vital part of the IASC standard setting process. In Australia in November 1976, the ASA and the ICAA issued the first official policy in the form of statement K3, *Comparability of Australian Accounting Standards and International Accounting Standards Statement*, which was reissued as APS 3, *Compatibility of Australian Accounting Standards and International Accounting Standards*, in 1979 (ASCPA and ICAA 1992; ASCPA and ICAA 1993).

During the period 1973 to 1995, the IASC had no enforcement power. Furthermore, its standards were full of options and of distinctly limited influence (Stevenson 2007). It has

[40] IFAC was formed in 1977 at the time when the AISG was disbanded (Chandler 1992). The duty of IFAC was to issue the international guidelines and to arrange the International Congress of Accountants.
[41] The harmonisation of accounting standards would enable UN and OECD to gain greater control of multinational corporations (Nobes 1980).

been argued by Camfferman and Zeff (2006, p.181) that none of the members of the IASC, including Australia, had reported by 1988, to have adopted any of the IASC's standards as their national requirements. For instance, Australia was only taking into account IASC standards, in so far as a given standard did not exist as part of the national standards. According to Henry Benson

> …Nationals of every country prefer their own ways just as they prefer their own food, wine and customs…No government will willingly give up its sovereignty and yield the right to decide what happens in its own country (cited in Camfferman and Zeff 2006, p.182).

In line with this argument, Colin Parker[42] argued that some of the Australian Accounting Standards were subject to more rigorous due process, in comparison to IASC standards, and were drafted in "a tougher style" (ASCPA and ICAA 1992, p.29; ASCPA and ICAA 1993).

4.2.2. International Organisation of Securities Commissions (IOSCO)

Between 1987 and 2000, the International Organisation of Securities Commissions (IOSCO), of which the SEC is a member, occupied the centre stage in the IASC's aims and deliberations (Camfferman and Zeff 2006). Companies seeking listing in the US were required to prepare secondary financial statements in accordance with US GAAP (Camfferman and Zeff 2006). The IASC was seeking SEC approval, so that foreign

[42] Colin Parker at the time was a fellow of the ASCPA (1992), ICAA (1991). During 1992 he was an advisor to the joint ASCPA and ICCA Task Force on "The Financial Reporting and Audit Expectation Gap" (ASCPA and ICAA 1992).

registrants could adopt IASC standards without reconciling to US GAAP when seeking listing on US stock markets.

For international standards to be recognised by SEC there was a need for IASC to eliminate most of the alternatives in the standards, and to enhance the quality. In doing so, it would ensure comparable reporting, and assist companies to be listed on US stock exchanges (Camfferman and Zeff 2006). However, there was motivation for the SEC to push for a movement towards harmonising international accounting standards. A technical committee was set up by IOSCO during 1987 to develop a comprehensive set of standards that would enhance disclosure. During 1988, the IOSCO held its annual conference in Melbourne. Henry Bosch, then chairman of Australia's corporate regulator, was the host of the conference. An important paper[43] on 'Harmonization of Accounting and Auditing Standards' was presented at this conference urging "IOSCO to support IASC as the appropriate standard setters and to support their acceptance by IOSCO's members" (Camfferman and Zeff 2006, p.301). The paper was significant in that it tried to explain that international standards were not of a quality required by the SEC and consequently, there was a need for progress in development of international accounting standards that were acceptable to both the SEC and IOSCO. This paper contributed "to the start of the process by which IOSCO formally looked to the IASC for progress towards the international harmonization of accounting standards" (Camfferman and Zeff 2006, p.304). It was during

[43] According to Camfferman and Zeff it was an important paper since the author of the paper in the previous conferences had sensed that "the accounting discussions lacked direction and a sense of purpose" (2006, p.301).

this time that the involvement of national standard setters such as the FASB and the UK Accounting Standards Board (ASB) was increasing. The direct involvement of the members of national standard setters helped IASC increase the level of technical discussions at the meetings. This enhancement led to collaborative work on accounting standards between national standard setters and IASC. However, the involvement of two powerful national accounting boards, the FASB and ASB, in the collaborative work, caused the IASC to take different positions at different times. This was described by Camfferman and Zeff (2006, p.355) as "IASC sometimes veer[ing] towards the one, and sometimes towards the other".

During 1995, the IASC made an agreement at the Sydney meeting[44], Work Program 1995-1999, with IOSCO that assisted the IASC in promoting international accounting standards and set a 1998 deadline for completion of core standards (Sharpe 1999; Camfferman and Zeff 2007; Godfrey and Keryn 2007; Stevenson 2007). The agreement was welcomed by the EU which announced that it was planning to "examine the possibility for European companies…to prepare their consolidated accounts on the basis of International Accounting Standards" (Carsberg 1996, p.80). The beginning of this section illustrated that, as part of the listing requirements on the US stock exchanges there was a need for companies to prepare secondary financial statements in accordance with US GAAP. US GAAP was developed without any European input (Camfferman and Zeff 2006). In this respect, the

[44] The venues of the IASC board meetings were rotated around the world. During 1987-2000, 2 meetings were held in Sydney.

European Commission[45] (EC) strengthened its presence at IASC's board meetings in November 1995. The EU announced a change in its policy on accounting harmonisation by allowing European multi-national companies to use IASC standards. According to Flower (1997, p.281), "European accountants, both academics and professionals, have noticeably failed to appreciate the significance of the European Commission's proposals" and have seen the policy as a setback for the European Union. However, not everyone was against the revised policy since it was seen as a way for the EU to be influential in the world (Flower 1997). The announcement included a proposal to set up a committee that would "examine and seek" future Exposure Drafts (ED) published by the IASC, so

> an agreed Union position on [ED] can thus be conveyed to the IASC. This will allow the Union progressively to gain a position of greater influence on the IASC's work, including the determination of its agenda, so that its output will increasingly reflect the EU viewpoint (Commission of the European Communities 1995, p.6).

At this time, during 1995, Michael Sharpe was the Chairman of IASC. Sharpe, as the president of The Institute of Chartered Accountants in Australia and a member of the Australian Securities and Investments Commission's Takeover Panel, was urged by Benson to accept the invitation to represent Australia on the IASC board (Camfferman and Zeff 2006, p.215). Sharpe encouraged nominees from national accounting bodies to the board. David Tweedie, chairman of the ASB and the first G4[46] Chairman, was one of the nominees from the UK. Also, the IASC increased its interaction with national standard setters such as G4. G4 was a working group formed by national standard setters of the UK,

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[45] European Commission is the executive branch of the EU, as explained in the list of abbreviations.
[46] For details regarding G4 refer to list of abbreviations.

US, Canada and Australia. The primary objective of the G4 was to discuss solutions to accounting issues and ensure that accounting standards were of a high quality (Camfferman and Zeff 2006; Street 2006). Consequently G4 invited the IASC to participate in the G4 working group and attend its meetings. The invitation was accepted and the group as formed became known as G4+1 (Street and Shaughnessy 1998a; Godfrey and Chalmers 2007). The initial purpose of the G4+1 was to ensure standards were harmonised amongst members and the development of a common conceptual foundation on which to base accounting standards (Street and Shaughnessy 1998a; Godfrey and Chalmers 2007). It was clear that "the G4+1 did not seek to set accounting standards but, alternatively, attempted to agree to broad principles" (Street 2006, p.111). The working group, G4+1, contributed significantly to accounting thought and practice through the publication of their discussion papers addressing a variety of accounting issues facing each of the national standard setting members (Camfferman and Zeff 2006; Street 2006).

While progress towards harmonisation was being achieved, international accounting standards lacked authority. This point is clear from the following statement:

> Standing alone, neither the IASC nor the accountancy profession has the power to enforce international agreement or to require compliance with International Accounting Standards. The success of IASC's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdictions (cited in Curran 1996, p.9).

As discussed earlier, the authority of the IASC was strengthened by IOSCO recognising IASC standards[47], thus making it acceptable to use the standards for cross-border listing on stock exchanges (Howieson 1998; Ravlic 1999a; Street et al. 2000; Godfrey and Keryn 2007). Sharpe (1998, p.17) stated that "the IASC is the appropriate international organisation to set and interpret international accounting standards for use throughout the world". The agreement prompted the European Commission to look to the IASC as the source of a comprehensive set of international accounting standards. Also, the Australian government was considering proposing legislation to tie its standard setting body more tightly to the standards that were issued by IASC (Zeff 1998b). According to Sharpe (cited in Camfferman and Zeff 2006, p.327)

> The whole matter of the [IASC-IOSCO] announcement really says that the IASC is going to be the leading standard-setting body in the world…Companies should now feel confident the IASC and IOSCO are fully committed to developing IAS that will be acceptable everywhere in the world and recognize the efficiencies that may be obtained from using IAS.

Sharpe (cited in Camfferman and Zeff 2006) believed that there would be no need to have national standard setters and that international accounting standards needed to be adopted in full without amendment. According to Ravlic (1999a, p.25) "IOSCO recognition is seen as the first essential step to convince the US Securities and Exchange Commission that IASC accounting standards are an acceptable alternative to US GAAP". At this time stock exchanges around the world began to recognise harmonisation, for standards had been reviewed and amended appropriately. However, Ken Spencer, AASB and G4Chairman,

[47] Which was agreed by IASC to complete its core standards by December 1998 as noted earlier in this section.

warned that the quality of some of the standards issued by the IASC was doubtful. This was because priority was given to meeting IOSCO's needs. These needs determined the IASC's priorities and work plan (Anonymous 1998a). For instance at a meeting in 1997, the IASC agreed on an exposure draft of an 'interim' financial instruments standard[48]. As the interim step, the FASB standard on financial instruments was considered for adoption to improve financial reporting worldwide in the short term (Cairns 1997). As Sharp mentioned in his progress report

> Because of the urgency of a solution on accounting for financial instruments, the IASC Board will consider at its forthcoming meeting the possibility of adopting the substance of US standards on Financial Instruments as an International Accounting Standard, as an interim measure. ...[which] would enable the completion of the core set of standards during 1998 and represent an improvement in financial reporting by companies which follow International Accounting Standards (Sharpe 1999, p.74).

However the interim solution was not accepted by major national standard setters from Australia, Canada and the UK. In this regard, "The United States did support the interim solution but against the advice of the FASB"(Anonymous 1998a, p.3). Nevertheless, the IASC accepted the ED to meet the 1998 deadline[49] for completion of core standards agreed with IOSCO (Anonymous 1998c).

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[48] An exposure draft in the recognition and measurement of financial instruments.
[49] According to the Work Programme 1995-1999.

4.2.3. The Securities and Exchange Commission (SEC)

Sharpe was confident of the SEC's[50] support and acceptance of the IASC accounting standards. During 1996, however, (1996, p.3-4), SEC Chairman, Arthur Levitt, said

> There's no doubt in my mind that [the IASC standards'] acceptability to US investors will depend on how well those standards measure up to our own…international standards must produce financial reporting with the same credibility and integrity produced by US standards….Acceptance of IASC standards by SEC is not a foregone conclusion.

Adding to Levitt's comments, *The Economist* (Anonymous 1998b, p.58) reported that

> the FASB claims that the standards are too flexible, giving firms too much discretion over what they report; that their meaning is often ambiguous; and that there are big uncertainties about how, if at all, they will be enforced.

According to FASB vice chairman, Jim Leisenring, "IASC is sacrificing quality for the sake of convergence[51]" (Anonymous 1999, p.9) since the IASC in its their current form did not have the right structure to be a global standard-setter such as FASB or G4+1 and the quality of the standards was not high. He continued arguing that "…an international enforcement mechanism is essential. If one is not created soon, the US SEC will jump into the vacuum, which is not necessarily the best solution" (Anonymous 1999, p.9). The FASB had the vision that there might be a time when there was no need for national standard setters and a body built on IASC with the qualities and characteristics of FASB, or an internationally modified FASB would be required (Nobes 2000). Moreover during 2000,

[50] SEC has been a key member of IOSCO.

[51] Convergence/ harmonisation has been used interchangeably as noted in Chapter One.

John Morrissey, deputy chief accountant of the SEC announced the comments and issues that were made on international accounting standards. According to Morrissey there was a uniform view "on the issues of whether or not IAS are now of sufficiently high quality and whether the SEC should accept IAS without reconciliation to US GAAP, most Europeans say 'yes, definitely' while most US respondents say 'not yet'" (Morrissey 2000). For this reason, the SEC encouraged the IASC and the FASB to converge their standards to move towards standards of a higher level quality. This concept, according to Europeans within IASC, was evidence of SEC not being satisfied. The SEC wanted to be assured by the future plans and visions of the IASC. To be acceptable to the SEC, the IASC was required to be structured as a standard setter producing 'high quality' standards and being "an independent decision making body, an active advisory function, a sound due process, an effective interpretive function, independent oversight representing the public interest, and adequate staffing" (Camfferman and Zeff 2006, p.469).

4.3. International Accounting Standards Board (IASB) formation

The need for the support of IASC came into play when the Asian Crises arose in 1997-1998 according to Zarb point of view (Zarb 2003). Many countries either adopted IASC standards in their entirety or with minor changes in their own standards[52]. By 1999 the call for IASC to become the predominant international standard setting body, rather than functioning as the harmoniser or catalyst for convergence, was noticeable (Dunk and

[52] Developing countries that were setting their accounting standards, adopted the IASC standards in their entirety. However, the standards were modified based on their needs and environment.

Kilgore 1999)[53]. This idea was mainly supported by the SEC, UK ASB and AASB. This was the start of the turning point for the IASC's restructuring plans and the SEC played a key role in accepting and supporting the proposals. The IASC held a five day meeting during November 1999 to discuss the restructuring proposals. The third day of the meeting was open to the public. According to Anthony Cope, a member of the FASB since 1993, (cited in Camfferman and Zeff 2006, p.491) the board was not given anything in writing and a series of bullet points was outlined in the meeting. The terms of the outline were fixed and non-negotiable and were supported by the SEC. The board had to vote up or down and according to Nobes (2000, p.11) "this is rather like getting turkeys to vote for Thanksgiving". On one hand, Europeans were not comfortable with the board being confronted with the proposal on a 'take it or leave it' basis. On the other hand, the board members were concerned that their questions were not answered and that they did not have the opportunity to consult with their corresponding national boards (Camfferman and Zeff 2006, p.492). In the end, the proposal was accepted by the board members. It is important to note that the actual proposal was not presented during the meeting nor was it known to the chairman, however it was supported by the following representatives of the G4, David Tweedie, the FASB, Anthony Cope, and SEC Chief Accountant, Lynn Turner (Camfferman and Zeff 2006).

In March 2000, the IASC board unanimously approved the new constitution for the restructured board. The objectives of the new board were to develop, in the public interest,

[53] Since IASC standards were not enforceable by law and compliance was voluntary by national standard setters.

a single set of high quality, transparent, comparable and enforceable global accounting standards "which will help participants in capital markets and others to make economic decisions" (International Accounting Standards Committee 1998, p.6). Also, to promote the use and rigorous application of these standards "to bring about convergence between national accounting standards and International Accounting Standards" to high quality solutions (International Accounting Standards Committee 1998, p.6). During this time Arthur Levitt, Lynn Turner and FASB chairman, Edmund Jenkins, asked David Tweedie to become the first chairman of the newly structured IASC. He accepted the offer during one of the meetings in June 2000. The new members of the board were appointed during this meeting to launch the board by January 2001. The new structure was based on the SEC proposal to have twelve full time members and two part time members (Godfrey and Chalmers 2007). Out of the fourteen members of the board, nine came from G4 countries. According to Walton (2004, p.11) "the key strategic issue...[with acceptance of the SEC proposal] was that financial statements prepared...[utilizing international standards] should be accepted on stock exchanges all over the world without modification". In May 2000, the IOSCO assessment of IAS was completed and it announced a recommendation to its members "to allow multinational issuers to use IAS for preparation of their financial statements for cross-border offerings and listings" (Commission of the European Communities 2000, p.4). Meanwhile in June 2000 the EC announced a "proposal to introduce the requirement that all listed EU companies report in accordance with (endorsed) IAS and provide an option to allow (or require) unlisted companies to report in accordance with IAS" (Commission of the European Communities 2000, p.9). The proposal required all listed companies to prepare their consolidated accounts in accord with the IAS that was applicable to the EU environment and legislative framework (Commission of the European Communities 2000). It was argued that

> EU authorities must have the means to exercise the necessary regulatory oversight and correct any material deficiencies or concerns in relation to IAS…to oversee the adoption of new standards and interpretations, intervening only when these contain material deficiencies or have failed to cater for features specific to the EU environment (Commission of the European Communities 2000, p.7).

The proposal was going to be introduced by the end of 2000. This was a step towards the achievement of one set of worldwide standards and the acceptance of the EU as an active member of the international body, IASC, in setting the accounting standards.

In April 2001 the IASB took over the IASC's responsibility for setting international standards, which were re-named, International Financial Reporting Standards (IFRS)[54]. The primary difference between IASs and IFRSs was that IFRSs referred to the new standards issued by the IASB. The International Accounting Standard Committee Foundation was established to oversee the IASB in accord with the new constitution. The new constitution as explained by Sir David Tweedie "was actually written for us by the Americans, the SEC and the FASB, and it was about one single set of high-quality global standards, worldwide" (Sawers 2008). In this regard, the IASB announced that it was committed to developing, in the public interest, a single set of high-quality, global accounting standards that required transparent and comparable information in general purpose financial statements

[54] The standards that was issued by IASC is called IAS and the standards there were issued by IASB is called IFRS.

(International Accounting Standards Board 2001). The IASB objective was to develop accounting standards that were consistent, comprehensive, and based on clear principles to enable financial reports to reflect underlying economic reality (Tweedie 2006).

4.4. Australia's Harmonisation Program

4.4.1. Australian Accounting Standards Board (AASB)

During the 1990s, Sharpe wrote an article regarding the progress of the IASC, mentioning that to reach the ultimate aim of convergence between national and international standards the "…national standard setters need to have a stake in International Accounting Standards, to see harmonization as their objective and to see IASC partly as their organization" (Sharpe 1999, p.78). In Australia, the idea of international harmonisation was introduced by the Australian accounting profession, The Institute of Chartered Accountants in Australia and CPA Australia. According to Sharpe (1998, p.18) harmonisation with IASC standards was vital, "since foreign users of financial information have no time or desire to understand Australian accounting standards". It is clear that Australia's isolation, small size and need for competitive advantage in attracting foreign investment became the reason for harmonisation of accounting standards. Hence, the AASB adopted an approach to harmonise standards in accordance with international standards and in May 1994, Policy Discussion Paper No.1 '*Towards International Comparability of Financial Reporting*' was released by AASB (ASCPA and ICAA 1995; Parker 2002). The purpose of the paper was to describe the AASB approach to international comparability, provide an explanation for the existence of diversity in accounting standards in different countries and the identification of means by which international comparability could be achieved (ASCPA and ICAA 1995). The discussion paper was descriptive with no comparison of the quality of Australian Accounting Standards (Parker 2002). After this paper, the AASB developed Policy Statement 6 'International Harmonisation', which was agreed on in 1995 and released in April 1996. This policy was developed "to formalize [its] international harmonization objective and the strategies that [were] employ[ed] in pursuing that objective" (ASCPA and ICAA 1997, p.37). However, the "moves to link Australian accounting standards to those of the IASC [were] built on shaky ground" and "there [was] little evidence to suggest that this necessarily [would] improve international product and financial relations for companies reporting under Australian requirements" (Dunk and Kilgore 1999). The AASB defined international harmonisation as "a process which leads to…standards being made compatible, in all significant respects, with the standards of other national and international standard-setters" (ASCPA and ICAA 1997, p.38).

For the AASB this policy was an interim step towards making Australian standards consistent, but not identical to, IASC standards (Spencer 1998). The objective of the statement was to "pursue the development of an internationally accepted set of accounting standards which can be adopted by Australia" (ASCPA and ICAA 1997, p.39). The objective according to Haswell and McKinnon (2003, p.10) was worded ambiguously and implied that "Australia might be able to seriously influence IASB deliberations". In addition, only the benefits of international harmonisation were stated in the statement and interestingly the costs were not explicitly stated (McCombie 2005, p.13). Overall, the harmonisation of standards was beneficial to the AASB since, in addition to providing compliance with IASC standards, it preserved a strong Australian structure and focused on meeting Australian requirements.

4.4.2. The moments of translation and the introduction of actors in relation to Actor Network Theory

As discussed in Chapter Two, ANT focuses on the criteria that actors employ to create a network to interact and to accommodate their interest. Accordingly, ANT treats the world as a set of related 'bits and pieces'. The purpose here is to analyse these in relation to harmonisation in Australia. In ANT, *translation* is the mechanism by which certain actors control other actors' in order to form a network. The four moments comprising the translation model are problematisation, interessement, enrolment, and mobilisation (discussed in detail in Chapter Two). Problematisation explains how actors enrol and influence other actors into believing that a problem exists and they portray themselves as the dominant actors that have the solution to the defined problem. They try to translate or reshape the problem in accordance with their own objective. The second moment, interessement, is to secure the process of translation by locking the actors (allies) into place (Callon 1986b). Also by interesting and attracting the other actors support is gained for the introduced problem. During this moment, the dominant actor tries to persuade others to see the problem and its solution in a particular way that one sees it. If interessement is successful then enrolment occurs which is the crucial moment in the translation model. Enrolment is similar to the process of interessement where the dominant actor makes sure of an alliance between the actors in the established network. The last moment, mobilisation, involves ensuring that the enrolled actors seek to secure the network by staying within the alliance. During this stage, the principal actor turns one of the actors into a spokesperson to secure continued support from the enrolled actors. The applicability of the translation model becomes evident by taking into account that ASX was the principal player in the harmonisation program introduced in 1996. Here, it is argued that the ASX enrolled the other actors, the AASB, AICD, G100 and, at later moments, the Government and FRC, to form a network. The FRC as the spokesperson ensured that the translation was successful, during the moment of mobilisation.

The ASX was created in 1987. In 1996, became a corporation and in 1998 it became a public company, listing its shares on its own exchange. In this regard, the ASX is both regulator and one of the regulated. As a member of IOSCO[55], the ASX introduced the harmonisation program in Australia following the agreement made between the IOSCO and the IASC in 1995 that was noted earlier in this chapter. The agreement, the IASC Work Program, was about IOSCO assessing the international accounting standards and recommending its members, such as ASX, to allow existing and possible listed companies to use these standards[56]. Prior to completion of the IASC Work Program, compliance with Australian GAAP guaranteed compliance with the IASs (Street and Shaughnessy 1998b, p.135). However after the IASC Work Program, there were significant differences between Australian GAAP and the IAS (Street and Shaughnessy 1998b).

The harmonisation program was launched in September 1996 by the AASB with the agreement of the ASX, as the first major national standard setter to embark on such a program. In relation to ASX, its objectives, interests and aims were translated into the

[55] IOSCO has a Self Regulatory Organisation Consultative Committee, with members drawn mainly from major securities markets around the world such as ASX.
[56] Because the international standards were going to be recognised by the SEC, as discussed in section 4.2.2.

alteration and production of a new accounting standard setting process. The identified problem was the reduction of possible and existing listings on the ASX because of the cost of capital for the companies. The aim of the ASX was to increase the flow of capital to Australia, to benefit the economy and to increase the attractiveness of ASX listing to foreign companies to retain its current listings (Spencer 1998), as well as "establishing high quality accounting standards for the purpose of cross-border listing" (Ravlic 1999b, p.33). This solution to the assumed problem was proposed by ASX to be accepted by other actors and accordingly remain consistent with their interests. The role of the ASX in the translation process was, as the dominant actor, to convince the other actors who were involved in the standard-setting process that they all had a vested interest in solving this problem. A desired solution could only be achieved if they all worked together and the solution could benefit them. For instance, Mr Humphry (1997, p.29), the Managing Director of the ASX, argued "the harmonization program has benefits that go much wider than ASX and its listed companies,…it will have a significant effect on the competitiveness of [the] financial services industry and of [the] internationally competing companies".

One of the actors, the Group 100 (G100) strongly supported the harmonisation program. It was in the G100 interest to influence the standard setting process and achieve its objective of "…cross-border capital raisings and international listings without the need to prepare reconciliations of financial statements" (Group100 1999). According to the problematisation moment of the translation process, ASX was trying to align its solution to the other actor's interest which as Richard Humphry, stated

> Australia needs not only to maintain, but to increase…[the] level of overseas participation if it to hold its place in the world in the face of the fast-growing markets of Eastern Europe, China and India….this issue…focused ASX's mind on accounting standards, which affect international competitiveness in a number of ways (Humphry 1997, p.28).

The G100 has been a "strong supporter of the process of harmonization" and it enlisted the support "of [the] business community for the international harmonization activities" (Australian Accounting Standards Board 2001). The Australian Institute of Company Directors (AICD), an organisation that represents the interests of company directors, also supported the concept of international harmonisation in their submission to the Treasury in 1997 (Australian Institute of Company Directors 1997) as one of the actors of the ASX network. According to Stoddart (2000, p.726) AICD support of the ASX view of accounting standard setting was based on a desire, "…to protect the position of company directors and reduce exposure to liability". In other words, AICD support of international harmonisation can be translated as "seeking to reduce the amount that directors are required to disclose and in increasing their freedom to present financial statements in any format" (Stoddart 2000, p.726).

Furthermore, the AASB as another actor adopted a stronger policy of international harmonisation whereby compliance with Australian accounting standards would ensure compliance with IASs (Collett et al. 2001, p.175) thereby aligning itself with the primary actor. The harmonisation program gave the AASB the opportunity of enhancing Australia's accounting standards, as well as receiving funding for setting standards. As Ravlic (1999a, p.25) has stated,

> A central factor leading to the harmonisation program for Australia's accounting standards was the issue of funding… Australia's standards had no funding coming from the corporate community… The lure of funding for a project that would fulfill several objectives was irresistible.

Thus the ASX imposed a levy based on listing fees on listed companies in 1997 and 1998 for the funding of a two year period of the harmonisation program (Parker 1997; Collett et al. 1998; Ravlic 1998; Stoddart 2000). The funding was facilitated by the G100 as the "most influential" actor (Collett et al. 1998, p.9). Taking into account the translation model, the harmonisation program was the obligatory passage point, the only introduced passage by the ASX to solve the identified problem for the mentioned actors. Figure 3 below, explains the movement accepted by other actors, a movement that could not have been attained by themselves (the figure has been adapted from Callon 1986b).

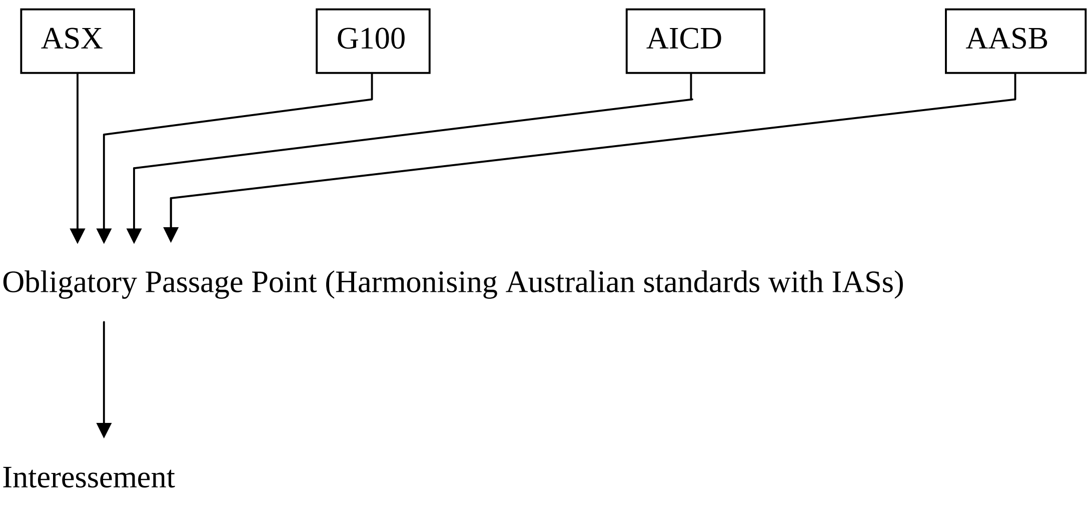

Figure 3- **Harmonisation as the obligatory passage point between problematisation and interessement**

The obligatory passage point is vital to the translation process, as it helps to minimise the threat of predators. This point locks the allies into the network that leads to the interessement moment. During this stage the principal actor seeks to enrol or interest other actors to be part of the network by attracting other actors to participate in the solution. In order for the solution to be desirable for all actors, the objectives of the harmonisation program were argued to be two-fold “to change Australian Accounting Standards and to influence the development of the IASC standards” (Parker 1997, p.44). First, the program would help the AASB to review outdated standards those not improved and internally inconsistent, leading to enhancements in the quality of financial reporting in Australia (Collett et al. 1998; Collett et al. 2001). Second, the program was introduced in a way to align the interests of the actors by ensuring that Australian standards reflected a perception of and required best international practice (Collett et al. 1998), as well as assuring them that it was in their best interest and to their benefit. Consequently, the benefits for AASB included the option to adopt those standards where Australia lagged behind the IASs, such as where no Australian standard existed, whilst keeping those Australian standards that were higher in quality than IAS pronouncements (Ravlic 1999a).

ASX put the deadline for the harmonisation program as 1998 at which time IOSCO would endorse IASC standards for use in cross-border listings (Parker 1997; Spencer 1998; Dunk and Kilgore 1999). From the ASX perspective, the IOSCO decision “gave greater urgency to removing the incompatibilities between Australian and international standards” (Humphry 1997, p.29). Accordingly the ASX funded the IASC for its work on international standards (Humphry 1997). In order to monitor the harmonisation program and its progress, a harmonisation monitoring committee was established by ASX (Brown and Howieson 1998; Howieson 1998). Two members of the harmonisation monitoring committee represented the G100 and the ASX. In terms of the translation model, it can be argued that the ASX set up this committee to make sure that the actors' interests were aligned and that actors were passing through the obligatory passage point and following what was advocated by ASX. This committee was trying to push the preferred path of the ASX toward the adoption of international standards by the AASB (Ravlic 1999a) at a time when "aggressive support for complete adoption of IASC standards" was wavering (Ravlic 1999b, p.33).

The ASX was threatening to withhold funding to the AASB if it did not yield to its demands. According to Ravlic (1998), in December 1997 funding issues arose following a meeting between the AASB and the ASX. The ASX was funding the harmonisation program but the AASB was refusing to adopt options contained in IASC standards. Indeed the AASB was identifying its goals, motivation and interest in a manner contrary to the ASX expectations that was expecting a particular result since it was funding the harmonisation program (Ravlic 1998). The particular motivation for ASX supporting the harmonisation program was the underlying goal of adoption of international accounting standards which was not fulfilled by AASB. According to an ASX survey conducted in 1996, other groups such as the Australian Investment Management Association, the Securities Institute of Australia, the G100 and Australian Shareholders' Association supported the harmonisation process rather than immediate adoption (Spencer 1998)[57], since the IASC standards were not enforceable by law and compliance was voluntary in the 1990s. Also, according to a survey published in IASC's *Insight*, the few countries that had adopted the IASC standards were not significant in terms of world market capitalisation (Spencer 1998). David Cairns, the secretary-general of the IASC, in an interview with Colin Parker, the ASCPA's director of accounting and auditing, regarding the move solely towards the IASC standards mentioned that

> IASC cannot address issues to the same degree of detail as national bodies can and need to do. The IASC cannot address all the issues that might be important here in Australia but which are not important internationally…it is important that countries continue to have their own national bodies…the role of national bodies will be to apply international standards in their own particular environment and to deal with issues of national importance because priorities are different in different countries (1994, p.26).

This point that IASs were developed primarily for application where national standards did not exist has been argued by Collett, Godfrey and Hrasky (1998, p.14). The pervading theme was that it was wiser for the national standard setters to apply international standards in their own particular environment and to deal with issues from their own perspective, since priorities vary between nations.

[57] During 1996 a questionnaire was sent by ASX to its listed companies to find out about their opinion on accounting standards to be harmonized or adopted. Out of the 300 responses (about 25% of all listed entities), about 87% were in favor of the option to harmonise Australian standards with international benchmark (Warrell 1999, p.310).

4.5. Government and Corporate Law Economic Reform Program (CLERP)

The move towards international harmonisation in Australia became most obvious in September 1997 (McCombie 2005) when it also became the centre stage of government discussions. During this time the Australian Federal Government (AFG) published a proposal to reform Australia's accounting standards system. It has been argued by Brown and Tarca (2001, p.271) that setting standards is a political process, since modified or new standards carry the potential for wealth transfers between individuals. Therefore, potential losers and winners in the wealth stakes, ultimately the government, have the incentive to influence the outcome of the standard setting process.

The Corporate Law Economic Reform Program (CLERP) was introduced by the Liberal-Coalition government and subsumed the previous Labor government's Corporate Law Simplification Program (Miller and Leo 1997; Stoddart 2000). CLERP Paper 1, entitled *Accounting Standards: Building International Opportunities for Australian Business*, was initiated by the Treasurer, Peter Costello, and the Minister Assisting the Treasurer, Senator Ian Campbell, in March 1997 (Corporate Law Economic Reform Program (Australia) 1997, Part 2; Brown and Tarca 2001); and became legislation in November 1999 (Jones et al. 2004). Peter Costello in 1997, after CLERP was launched stated

> CLERP is a program to modernise Australia's Corporations Law and give it an economic focus. Our aim is to introduce world's best practice in business regulation. It is part of the Government's broader goal of making Australia a leading financial centre in the region (Costello 1998b).

According to Stoddart (2000, p.714), the Howard Government introduced CLERP because there was a need on its part to be seen to be doing something positive for the business world and something achievable in a fairly short time frame.

> The regulatory environment had failed to keep pace with changes occurring in financial markets and commercial practices. The Howard Government recognized that the regulatory environment needed to continue to respond and adapt to these challenges (Slipper 2004).

The government undertook a major movement to restructure institutional arrangements affecting the involvement of the business community and user groups in setting financial reporting standards (Collett et al. 2001). CLERP helped the government to expand its role in the accounting standard setting process (Jones et al 2004). This reform program was influenced by ASX[58], as the primary actor, and a powerful political player and pressure group in the accounting standard setting process (Collett et al. 2001). ASX was pushing and enrolling the government to its own aim of movement towards adoption of international standards and improvement of Australia’s standing in world financial markets (Warrell 1999). The ASX was attempting to lock its allies into place (Callon 1986b) by interesting and attracting the government as one of the actors and gaining support for the announced problem stage. In relation to the AASB which was not yielding to its demands, there was a need for the ASX to enrol another actor to be placed between itself and AASB. By strengthening the relationship with the government during the interessement moment of the translation model, ASX wanted the government to become eventually the spokesperson in

[58] According to ASX annual report, it has been a strong supporter of CLERP (ASX annual report 1999)

the process of adoption of international standards; as well as finalising what the ASX created during problematisation. As argued by Callon (1986b, p.211) "…no matter how convincing the argument, success is never assured. In other words, the device of interessement does not necessarily lead to alliances, that is, to actual enrolment". Thus in promotion of the adoption of IASs Mr Humphry stated:

> The trouble is that few things are more parochial than the national accounting standards which decree how these financial statements are presented. We see verbal wars on the issue between major economies such as UK and the US, both of whom think their standards are the best. That's fine for the United States. Their stock market accounts for 40 per cent of the world capitalization. They can afford to be parochial for a while yet….But where does Australia stand with its 1.5 per cent? (cited in Warrell 1999, p.311)

The ASX wanted AASB to issue EDs and standards that were identical to those issued by the IASC, as soon as IOSCO endorsed the use of IAS for cross boarder offerings and other foreign listings (Anonymous 1997a). The main concern of the ASX was the reduction in the amount of overseas investment and Australian-domiciled corporate listings on the ASX. As noted by Richard Humphry

> The International mobility of companies and investors…means that we are probably getting very close to a situation where not even the Australian Government, let alone the Stock Exchange, can impose Australian accounting standards even on Australian companies. If our major companies find such a requirement is an impediment, because international standards are in use elsewhere, they can react by taking themselves and their primary listing elsewhere, and retaining a secondary listing in Australia as an overseas company with the right to use international standards (cited in Howieson 1998, p.4).

The first set of proposals introduced by CLERP in September 1997 was "reform of setting accounting standards" (Stoddart 2000; Collett et al. 2001). The reforms proposed in

CLERP 1 were "aimed at promoting investor confidence in Australia's financial reporting framework" and facilitated "access to capital by Australian business" (Treasurer Press Release 1997). The aims and objectives of the CLERP 1 proposal were in line with ASX interests indicating that the government had become one of the actors of the network. It was mentioned in the CLERP paper that

> …there have been criticisms made to the Government from time to time about the content of accounting standards, the processes involved in setting them and the funding arrangements underpinning the standard setting process … The Government considers that in light of the criticisms mentioned … the Australian accounting standard setting framework should be reviewed, and reformed where necessary, to remove perceived impediments in the process of standard setting, make it more accountable to stakeholders and better equip it to meet the challenges of the future (Corporate Law Economic Reform Program (Australia) 1997, p.11-12).

CLERP 1 responded to concerns that the existing arrangement for setting Australian accounting standards was 'confusing, inefficient and not conducive to stakeholders' participation' and the process was perceived to be 'dominated by the accounting profession with no real accountability to its users' (cited in Anonymous 1997b, p.9). However, as mentioned in the CLERP 1, the criticisms have only been occasional and ad hoc, and it was unclear how well-informed or widely held the criticisms were.[59]

Stoddart (2000, p.470) demonstrated that the harmonisation program was introduced by the Howard Government to illustrate the ownership of the program by introducing new issues.

[59] Brown and Tarca (2001, p.289) have stated the criticisms that were stated in CLERP 1 proposal and have explained how there was little evidence to back up the reform proposal.

CLERP 1 raised issues regarding Australian accounting standards and the standard setting process (Brown and Tarca 2001), but "offered no clear cost-benefit, social or economic justification for the thrust of its proposals" (Collett et al. 1998, p.12). According to the CLERP 1 view, the major role of accounting standards was improvements for Australian business and ensure that the accounting standards were interpreted "from a commercial perspective" (Collett et al. 1998, p.11). In the submission by the AICD in response to CLERP, it was argued that

> …the CLERP proposals constitute drastic revision to the existing accounting standard setting structure and careful consideration needs to be given to the succession and transitional arrangements in order to ensure continuity of the existing harmonization program and no appreciable loss of momentum (Australian Institute of Company Directors 1997, p.3).

CLERP 1 contained various proposals such as adoption of the standards of the International Accounting Standards Committee by January 1999, a push for a single set of accounting standards for worldwide use, and the establishment of an advisory body, the Financial Reporting Council (FRC), to oversee accounting standard-setting (Stoddart 2000; Brown and Tarca 2001; Collett et al. 2001).

4.5.1. Adoption of International Standards

Since only one year had passed since the harmonisation program had began, Brown and Tarca (2001, p.280) argue that the most controversial initiative in CLERP 1 was the introduction of the proposal to adopt international accounting standards promulgated by the

IASC and the discontinuation of issuing accounting standards by the AASB. According to the CLERP 1 proposal (1997, p.2):

> From 1 January 1999, the AASC[60] should issue identical exposure drafts of standards for public comment to those issued by the IASC with the objective that final standards issued by the AASC would be consistent with Australian law and be the same as those issued by the IASC, unless the Government, upon advice from the FRC, determines that to do so would not be in Australia's best interests.

This view was not uncontested. According to Zeff (1998a), for the world standard setting community, the adoption of IASs by the AASB would have been most unfortunate as Australia would lose its independent voice. Furthermore, at the time of the CLERP 1 proposal, the IASC did not have sufficient funding, a developed structure, or the necessary intellectual support since the members were part-time. The quality of the international accounting standards was not high (Australia 2004a, p.24063; Zeff 1998a). There were difficulties in interpretations based on personal judgment and application because of the complexities inherent in the standards (Ravlic 2000). Mr Boymal in the Joint Committee on Corporations and Securities in 1998 noted that

> The problem with international standards at the moment is that you have got a set of words there but it is damn hard to know what they mean… You cannot get answers to any of these basic questions…as the AASB has found, as it has tried to harmonise… The standards are not really satisfying the object of comparability between companies (Australia 1998, p.33).

For example IAS 12, the income tax standard, was not adopted by any of the countries that were adopting IASs. Accordingly, it would have been premature for Australia to adopt this

[60] Based on CLERP 1 proposal AASB was going to be renamed as the AASC, which was dropped.

standard without extensive editing. According to Zeff (1998a), because of the inconsistencies and the future of IASs, there were uncertainties in the acceptability of IASC in major capital markets as replacement for their own standards. Alternatively according to Parker (Australia 1999, p.9855) the Director of Accounting and Audit for the Australian Society of Certified Practicing Accountants,

> the international landscape is quite fluid as to who will be the driving force for the development of truly international accounting standards. Therefore the legislation should not lock us into the verbatim adoption of any one set of accounting standards.

In addition, David Cairns, the Secretary-General of IASC, argued that it was unrealistic to have just one international body setting the standards for everyone as there was a variety of reasons for each country to have its own national body (Anonymous 1994). According to him, the IASC would be unable to address all issues in detail, while the national bodies have the ability and need to do so. In Australia, the adoption of international accounting standards was introduced at a time when the capital markets such as U.K. and U.S. had not accepted the IASs. It seemed to be premature to move before these major capital markets (Harrison 1997; Addison and Hoggett 1998), especially given that Australia, before the adoption decision, was perceived as having high quality accounting standards (Godfrey and Chalmers 2007). According to top accountants, the adoption of IASs would weaken the quality of financial reporting and Australia would lose its reputation as a well-regulated financial market (Ravlic 1998). Australia would join countries such as Cyprus, Malta, Papua New Guinea and Malaysia as a group of countries that did not have their own local standard setting bodies. This was considered a backward step as Australian accounting standards, and those who set them, were already highly regarded internationally (Collett et al. 1998, p.15; Zeff 1998a). Mr Boymal stated that,

> there were interest groups who had suggested that the quicker we get to copy these things [IASs], the better for us all… I believe there still is an objective to adopt international accounting standards, because the FRC has to specifically advise the minister on whether or not this ought to be done (Australia 1998, p.30).

Boymal's insight regarding the 1 January 1999 proposal to adopt IASs became clear in 2003 at a senate hearing, when Senator Campbell, the parliamentary secretary stated that

> The ASX…have been one of the leading institutions in driving international accounting standard harmonization in the first place. ...the initiative and enthusiasm of the government was encouraged by the leadership, particularly by Richard Humphry...they [ASX] are very committed to getting to international standards as soon as possible (Australia 2003a, p.E 167- E 168).

However, Senator Conroy subsequently accused Senator Campbell of attempting to pass the proposal to adopt international standards via CLERP 1 without due process by stating

> You [Senator Campbell] tried to mug the rest of the country by foisting your view about the accounting standards Australia should adopt. You tried to move it in parliament. There was no process. You had been convinced by a few mates at the Stock Exchange that this was what we needed to do (Australia 2004a, p.24063).

One of the other shortcomings with adoption of IASs would be "the effectiveness of Australian representation at IASC meetings" and the ability to take a strong leadership position at the meetings (Zeff 1998a). As the Companies and Securities Advisory Committee commented in regard to CLERP, "increasing Australia's reliance on IASs will erode its accounting intellectual capital base" (Zeff 1998a, p.7). However, it has been argued by the supporters of IASs that by being part of the first countries who adopt IASs, there would be a great chance for Australia to have its voice on IASC meetings and approve standards that are favourable to Australia. Also, the adoption would give Australia the chance to take a leadership position in accounting as stated by Paul Volcker, the trustee board chairman of IASB (Ravlic 1999a, p.2). The other point that needs to be taken into account is that were two powerful countries, the US and UK, represented on the IASC board. If they disagreed with the accounting methods introduced in a standard, both methods would appear in the international standards resulting in further choice in interpretation (Australia 1998).

4.5.2. The oversight body, FRC

As indicated by Brown and Tarca (2001, p.284) "the proposal to appoint a committee to oversee the Australian standards setters followed the lead of the U.S. and U.K.". With the new structure that was proposed for the AASB in CLERP 1, AASB would become an arm of the government with no influence from other interest groups. Accordingly, in order to overcome this problem, there was a need for another body, such as the FRC, to represent the interest groups and the business leaders. However, according to Stoddard (2000, p.720) the FRC was informally appointed before the Bill was passed. "Off the record, Treasury officials admitted that the major decisions had been made and the probability of approval of any significant deviation was remote" (Stoddard 2000, p.721). The key function of the FRC was to monitor and "…to advise the Government on the accounting standard setting process and the development of international accounting standards, and to determine the broad strategic direction of the AASB" (FRC and AASB financial report 1999, p.2).

As argued in the previous section, the ASX needed to enrol an authoritative spokesperson to ensure the AASB commitment to the adoption of international standards. In response to lobbying by the ASX, the government established the FRC with members chosen by the Treasury. It gave the ASX a better opportunity to disassociate any factor that would threaten the established network. The CLERP 1 proposal states that “[T]he Treasurer should identify bodies to be represented on the FRC and appoint persons to sit on the FRC from nominated representatives” (Corporate Law Economic Reform Program (Australia) 1997, p.3). The key interest groups had the authority to ‘nominate representatives’ as FRC members. These ‘key interest groups’ included the government, ASX, G100 and AICD; the same actors that were involved in the network setup by the ASX. By involving these actors to be part of the FRC, it was a way of making sure that the definition of roles and alliances between these actors had been achieved. In other words, it is “the group of multilateral negotiations, trials of strength and tricks that accompany the interessements and enable them to succeed” (Callon 1986b, p.211). Also, for secretarial services the FRC was reliant on the government, which may have resulted in the government exercising power over the processes of FRC (Australian Institute of Company Directors 1997). However, the actors were not happy with the FRC arrangements. The AASB considered the proposal to allow the FRC to approve priorities of the standard setter would compromise the AASB’s independence and may relegate the FRC to a lobbying forum (cited in Brown and Tarca 2001, p.285). FASB commented that this structure of power would remove any real authority from the AASB (Brown and Tarca 2001, p.286).

The extension of FRC power over the standard setting process and in setting the priorities in comparison to its UK counterpart was too much. In terms of the theoretical framework, the ASX was successful in achieving the interessement and moving on to the next moment in the translation model, enrolment, for it wanted to eliminate any possibility of the interessement failing by enrolling all the actors in the newly created network. The FRC was responsible for "overseeing the operations of the AASB, including:

- appointing its members (other than the Chair, who is appointed by the Treasurer);
- approving and monitoring its priorities, business plan, budget and staffing arrangements;
- determining its broad strategic direction;
- giving it directions, advice or feedback on matters of general policy and its procedures..." (Financial Reporting Council and Australian Accounting Board 2000, p.10).

As stated by Senator Campbell there was a reason for this empowerment, as he argued

> The parliament empowered the FRC …for a very sound reason, and that was we wanted to ensure that the process was not just captured by one section - that is, the accountancy industry. We wanted to ensure that it was reflective of the needs of users and preparers…In fact, if you look at what happened in [the] United States with Enron…and the political corruption of the accounting process in United States, Australia's move to an FRC model…has basically been widely applauded as a good model (Australia 2003a, p.E 174).

According to Brown and Tarca (2001, p.281) after the announcement of the CLERP 1 proposal, "reactions were invited to the CLERP proposals and thirty two written submissions were made to Treasury. They almost unanimously opposed a move to 'wholesale adoption' of international standards from January 1999". One of the submissions to the Treasury was from the Australian Institute of Company Directors (AICD) mentioning that

> The adoption of overseas regulation cannot be undertaken piece-meal, as any adoption of a single standard or clause from overseas into Australian regulation is dangerous and may lead to nonsensical or impractical results…" (Australian Institute of Company Directors 1997).

While adoption was supported, the ASX and the IASC were the only organisations supporting the immediate adoption of international standards (Collett et al. 2001, p.180). "The ASX submission strongly supported the timing and content of CLERP 1 wholesale adoption proposal" (Brown and Tarca 2001, p.284). Before CLERP 1 was passed by the parliament in 1997, the proposal to adopt International Standards by 1 January 1999 was dropped by the government as the written submissions to treasury had objected this proposal. The movement towards adoption of International Standards as part of CLERP 9 was raised again and will be discussed in the next chapter.

4.6. Conclusion

The formation of the International Congress of Accountants was the first step towards an international exchange of ideas (Hoskins 1994) which came to fruition through the establishment of the IASC, in 1972. The focus of the IASC was on a worldwide harmonisation of accounting standards. However, during the early life of the IASC, its standards did not have enforcement power and were not recognised by the SEC. Accordingly IOSCO came into play to ensure the enhancement and acceptability of the international standards by the SEC. Subsequently an agreement, known as the Work

Program, between IOSCO and the IASC was established and required the latter to revise the international standards until 1998 and in 2000 IOSCO announced a recommendation to its members that allowed IASs in cross-border listing. During 2000 the IASC was restructured, based on the SEC proposal, as a step forward towards the achievement of one set of worldwide standards. The following chapter will explain the formation of the IASB in 2001 as the restructured IASC.

In Australia, the harmonisation of standards started with AASB development of Policy Statement 6. On the other hand, the ASX, as a member of IOSCO, started to promote harmonisation and later adoption of international standards in Australia. The ASX, consistent with the ANT translation model, found the harmonisation of international standards an answer to the problem that it pictured as the possible reduction in the listing of international and domestic companies. In order for the ASX to be successful in applying its solution to the Australian standard setting process, it needed actors with the same interest as itself. The G100, AICD and AASB have been identified as the actors that the ASX enlisted in its network. The ASX introduced the harmonisation program in 1996 to be undertaken by the AASB as the solution to the problem, with funding for two years of the program provided by the ASX and G100 to ensure its progress. However, by 1997, the way the AASB was harmonising the standards was not meeting ASX expectations. AASB adoption of international standards was not possible, consistent with the ANT model the ASX enrolled the government as an actor to ensure that the ultimate adoption of international standards objective would be safeguarded.

The Government's CLERP 1 proposed the FRC as an oversight body for AASB, and adoption of the international standards by AASB. The establishment of the FRC gave the ASX a better opportunity to disassociate any factor that would threaten the network, since the FRC members were chosen by the Treasury. Additionally, as part of the CLERP proposal, the FRC members had to be *friendly*, representatives of the ASX, G100 and AICD.

Adoption of international standards was dropped, but the ASX was one of its supporters, and in 2002 convinced the Government adoption of international standards by AASB would be beneficial to Australia to keep up with the EU regardless of the process it undertook.

CHAPTER 5- 2002 to PRESENT

5. Adoption of International Standards in Australia

As early as a decade ago, some people noted that if we cannot get the world to agree about on what side of the street to drive, what chances do they have of harmonizing international accounting standards – an area where too many nations have vested interest in maintaining their own standards and policies? (Jacob and Madu 2004, p.356).

5.1. International Accounting Standards Board Formation

In 2001 the IASB took over the IASC's responsibility for setting international accounting standards. After formation of IASB, the board met with the chairs of national accounting standard setting bodies that had a liaison relationship with IASB, including Australia, UK and US, to begin the coordination of agendas and setting the convergence goals. The G4 announced that it would no longer meet but alternatively work in partnership with the IASB. According to Stevenson (2007), "…the IASB is a private sector entity, orphaned at birth, with a small complement of people, no equity and no long-term finance. Moreover, it has no authority over any auditor, preparer or regulator". Within the theoretical framework of this study this chapter will analyse the FRC decision made in 2002 in relation to wholesale adoption of international standards.

5.1.1. Convergence between FASB and IASB standards

In July 2002 a board member of the IASB, Robert Herz, was appointed as the chairman of the FASB, with the mandate to achieve convergence of US GAAP and international standards. This resulted in the IASB and FASB jointly issuing a memorandum of understanding known as the Norwalk agreement, which led to the two boards pledging convergence of their accounting standards and coordination of their work program (Godfrey and Chalmers 2007). The convergence project was aimed at minimising the differences between IFRSs and US GAAP. The production of high-quality standards to improve the consistency and quality of financial reporting worldwide was a way of developing new solutions to accounting issues where standards failed to provide sufficient transparency to make informed economic judgments (Larson and Street 2006, p.37; Tweedie 2006). Tom Jones, vice-chairman of the IASB, said: "I am one of the extreme optimists about convergence because I see a very strong desire around the world to get the one set of standards. The world is desperate for this to happen" (cited in Anonymous 2005). Also, Sir David Tweedie, remarked,

> This underscores another significant step in our partnership with national standard setters to reach a truly global set of accounting standards. …I am extremely confident now that we can eliminate major differences between national and international standards, and by drawing on the best of U.S. GAAP, IFRSs and other national standards, the world’s capital markets will have a set of global accounting standards that investors can trust (Financial Accounting Standards Board 2002).

In consultation with the SEC and the European Commission, the IASB and the FASB agreed that trying to eliminate existing differences between two standards in need of significant improvement was not the best use of the FASB’s and the IASB’s resources. Instead a new common standard should be developed that improves the financial information reported to investors (Tweedie 2006). Related to this point, the IASB had been modifying several of its standards in line with US GAAP. For instance, regarding consolidated accounts and business combinations, the IASB had proposed an exposure draft for IFRS 3 that is almost identical with of SFAS 141[61] (Haswell 2006, p.56). So, countries that are under pressure to harmonise might either adopt the US standards directly, with the problems attached[62], or adopt them through US influence over IFRS.

5.2. Australia's move towards adoption of international standards

The Commonwealth Department of Treasury of Australia launched the reform plan, CLERP in 1997. CLERP generally "endorsed a US-FASB style approach to accounting standard setting" (Jones et al. 2004, p.380) and sought to provide a simplified and modernised structure for the industry (Costello 1998a). Peter Costello in a speech in 1998 stated that

> In March 1997, I announced a comprehensive new Corporations Law Economic Reform Program which brought a new and fresh approach to corporate law. It is focused on promoting business, bearing in mind the economic purpose of the corporation….we are improving our corporate laws at a strategic time. We are taking action because we want to make Australia a better place to do business. Now is the time to press our reputation for good, sound, solid corporate practice so that we can capture a competitive advantage in our region.

CLERP 1 included substantial changes regarding the accounting standard setting process with one of the proposals being the movement towards the rapid adoption of IASB standards by the AASB. However, in 1999 this proposal did not eventuate, because lobby

[61] Statement of Financial Accounting Standards (SFAS) No. 14 is the present standard in relation to the Business Combinations.

[62] For instance SFAS 141 did not have a definition of 'control' as part of the explanation for the business combination standard (for further details refer to Haswell 2006). Overall the standard gave rise to similar problems that have been associated with the US GAAP that led to abuses by corporations such as Enron.

groups opposed the movement towards the early adoption of International Standards. According to Brown and Tarca (2001, p.268)

> …had the proposal come to fruition Australia would have been the first economically developed nation with a strong standard setting tradition to commit to the adoption of International Accounting Standards as a matter of course, with potentially profound consequences that were not widely understood at the time.

As argued by Senator Conroy (Australia 2004a, p.24063) "…in 1998 the International Accounting Standards Board was a joke. It had no funding. It was a part-time operation and the quality of the standards that existed in 1998 was considered to be a joke". According to Senator Conroy, this was an international perspective. The adoption of IASs was subsequently dropped from the CLERP 1 proposal.

After CLERP 1, however, the push for the adoption of IASB standards did not come to an end. The ASX had initiated the idea of adoption of international standards to the other actors, since it saw the use of International Standards as a way of protecting and expanding its business (Brown and Tarca 2001). The ASX was building a network by enrolling the initiated actors in the process of solving the problem of Australian companies taking their listing and investments to other markets, where countries had adopted the international standards such as developing countries (Howieson 1998). However,

> …whether the adoption of IASs in Australia will significantly reduce this threat, firms needing finance go where the money is….firms will seek a listing on a market that can provide the required funds whether or not Australia adopts IASs (Howieson 1998, p.6).

The ASX tried to convince and align the interest of the government with its solution. Even though, based on the survey that was held during 1996 by the ASX, the majority of companies favoured the harmonisation program over wholesale adoption.[63]The ASX argued that adoption of international standards was the best option for Australia as it would improve Australia's position in world financial markets (Brown and Clinch 1998; Brown and Tarca 2005).

> The ASX tried to paint a picture of inevitability in terms of fully adopting IAS, and argued that the only real reason that the US, the Japanese, and the UK had yet to join the program, was due to political reasons, and nothing to do with the quality of IAS standards (McCombie 2005, p.16-17).

According to Senator Conroy the ASX convinced Senator Ian Campbell that the adoption of international standards was needed (Australia 2004a). Besides the ASX, there was no sign of users of financial information arguing for the adoption of IFRSs. Collett, Godfrey, and Hrasky (1998, p.11) argued "standard-setting should be concerned primarily with users needs" and there is a need for users to have their voice in the standard setting process. The problem was that

> CLERP reflected a move towards a preparer focus and an interest in the benefits to corporate business that might accrue from accounting regulation…. [According to CLERP] the major role of accounting standards was to facilitate Australian business (Collett et al. 1998, p.11).

Accordingly there was no extensive consultation with academia or major professional associations with respect to the CLERP proposals (Jones and Higgins 2006).

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[63] For the detail of this survey refer to chapter 4.

5.2.1. Financial Reporting Council decision for Wholesale Adoption

The interessement was successful after enrolling the government and the FRC as part of the actors network that ASX had created with G100, AICD and AASB. As part of the enrolment moment, in April 2002, AASB revised Policy Statement 6 '*International Harmonisation Policy*', to

> [P]articipate in and contribute to the development of a single set of accounting standards for world-wide use, and the harmonisation of Australian accounting standards with those issued by the IASB…and other IASB liaison member standard-setting bodies (AASB 2002, p.4).

It was renamed Policy Statement 4 (PS 4), '*International Convergence and Harmonisation Policy*' with the primary objective of improving the quality of the financial reports in Australia so that the users would be able to make and evaluate their decisions in regard to their investments (AASB 2002) and also participate in the activities of IASB[64]. Jeffrey Lucy, Chairman of the FRC, welcomed the Policy Statement in May 2002 (Financial Reporting Council 2002a), even though the proposal for this policy was endorsed by FRC at its meeting in March 2002. According to Mr Lucy

> New or amended standards issued by the IASB will continue to be exposed in Australia by the AASB, and Australian stakeholders (including the AASB) would have the opportunity to influence the outcome. However, once a standard is made by the IASB, Australia would adopt it even if it did not fully agree with it. This is the essence of convergence to an internationally agreed set of standards (Financial Reporting Council 2002a).

[64] Making the AASB standards compatible with International standards.

The ASX initiated the harmonisation program to reach its ultimate goal of adopting IFRSs, to achieve this goal, the ASX had to transform enrolment of the FRC to active support. By involving the FRC in the adoption of international standards, the ASX turned the FRC into its spokesperson and was also to maintain its control over the FRC. On 28 June 2002, the FRC announced a strategic direction by overturning its support of PS 4 (McCombie 2005). Instead, the AASB was directed to work towards the wholesale adoption of accounting standards issued by the IASB, including interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), by 1 January 2005[65] (Financial Reporting Council 2002c; Howieson and Langfield-Smith 2003). The FRC announcement was less than four months after PS4 was finalised and it was followed by the EU decision to adopt IFRS by listed companies. Nevertheless the EU, as discussed in Chapter Four, decided to examine the possibilities of only using international standards for preparing consolidated accounts (Carsberg 1996). In 2000 it announced the proposal to adopt IASs to modernise the EU Directives to bring them in line with modern accounting developments (Commission of the European Communities 2000).

According to the Treasury Department "The FRC's announcement was fully consistent with long-standing government policy under CLERP 1, as reflected in the 1997 paper and subsequent legislation" (The Treasury n.d.-b). Later on, the FRC stated that the adoption

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[65] Australia became the first country with a history of accounting standard setting to announce a requirement that its companies use IFRS for all reporting entities, single and consolidated companies, from 1 January 2005.

“marked a significant milestone for the development of financial reporting in this country” (Senator Coonan 2002). As mentioned by Senator Campbell, Australia would not have taken “a constructive role” nor leadership “in this international effort to get to a single, global set of accounting standards. ...If this parliament had not taken the lead (Australia 2004a, p.24062).

In another Senate hearing in 2003, Campbell argued that the decision for the timing of the wholesale adoption could not have been left with the accounting profession since it liked their old way of setting standards. However, the move was made by “those of us who believe that we should move diligently, sensibly and democratically towards international accounting standards” (Australia 2003c, p.E 790).

The FRC decision was supported by David Tweedie’s visit to Australia and based on Howieson and Langfield-Smith (2003, p.25) “mandating of IASB’s standards by a major standard-setting country like Australia was an important political coup for the IASB” and reflected “the leadership role that Australia continues to play in standard setting” (Financial Reporting Council 2002c).[66] In a joint letter written on 20 October 2003, Jeffrey Lucy and Charles Macek mentioned that the adoption of international standards was a strategic management issue and not simply a technical accounting issue (FRC Report). Yet, Jim Murphy argued that

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[66] According to Ravlic the decision was publicised in 2002 as, “we were praised by Europeans...Sir David Tweedie, for taking the decision to adopt international...standards at that time” (Senate 2004, p.CFS 15).

> …there has been controversy over international accounting standards and whether we should move to the international accounting standards being developed by the IASB or whether we should move towards US GAAP…even back in 1997-98, we had to make the choice: do you go with the international accounting standards, although they need further development, or do you go with US GAAP? (Australia 2003c, p.E 794).

The FRC, speaking on behalf of the other actors involved at different stages of the process, such as the AASB, announced the decision even though it contradicted publicly stated views of some of those actors. Illustrating such contradiction, paragraph 6 of Policy Statement 4 stated "A single set of internationally accepted accounting standards is not likely to be achievable in the short term". Also the objective of the AASB harmonisation project (Howieson and Langfield-Smith 2003) was not to eliminate existing AASB standards where there was no IASB equivalent (Allens Arthur Robinson n.d.). Keith Alfredson, the then AASB Chairman stated that "the decision of the FRC to adopt international standards was like signing a blank cheque. …the strategy [of the FRC] was: adopt these standards on the assumption high-quality financial reporting would result" and not giving AASB the right to make the decision regarding "whether the standards were high quality or…transparent financial reporting would result" (Australia 2003c, p.E 789-E 790). The FRC decision failed "to articulate the role, if any, of the AASB in the lead-up to 2005 and beyond…the FRC made an in-principle decision without a full consideration of its implications" (Howieson and Langfield-Smith 2003, p.19). When the decision was made Alfredson argued that

> I do not recall a comprehensive paper [from FRC] that set out the arguments for and against, and the issues and implementations. … All I am saying here that I think the

whole process lacked robust and formal consultation (Australia 2004b, p.CFS 22; Australia 2004a, p.24060).

In order for the last moment of the translation process, mobilisation, to be successful there was a need to retain the interest of the membership, silence the actors that were part of the network, and overcome the criticisms of the decision. Criticisms were related, for instance, to the decision being made without appropriate consultation with the organisations involved, such as the AASB, or consideration of the benefits and the costs of adopting international standards in Australia. It was argued that any kind of change would involve costs and there is a requirement to conduct research to evaluate the costs and benefits of the change, even though it would be difficult to quantify the findings.

Criticisms were raised regarding the way the decision was made and how the enrolled actors were not involved. Cameron (2006, p.31) for example, stated the FRC did not set aside any funding for evaluation of direct and indirect costs and benefits of adoption of IFRSs.[67] G100 members were not formally asked about their opinions on adoption of international standards during 2002, when the decision was made (Australia 2004b, p.CFS 6), even though they were strong supporters of the harmonisation program and international harmonisation and convergence (Australian Accounting Standards Board 2001).[68] According to Senator Conroy (Australia 2004b, p.CFS 22), the FRC did not issue any paper

[67] In regard to FRC decision no major study was done. In contrast, in US eight separate research studies were funded when the Sarbanes-Oxley Act was proposed.
[68] It has been stated in chapter 4 that G100 also helped in the funding of the harmonisation program through ASX.

summarising the benefits when the decision was made. Also, the FRC did not go through any kind of due process or consultation before making the decision in 2002 and that Senator Campbell was "…convinced by a few mates at the Stock Exchange that this was what we needed to do" (Australia 2004a, p.24063). Senator Conroy argued that there was no need to have a definite dollar cost-benefit, but to show that there was a process for the decision to be made. However, Senator Campbell argued that there was a process in which the decision was taken and that "to say that the FRC came up with some uninformed, bizarre, secret…decision is an insult to the people on the FRC…" (Australia 2004a, p.24062). In order for the network to achieve stability, there was a need for the FRC to argue for the benefits of the decision and in this regard the FRC argued that its strategic decision was based on sound judgment and it made a

> persuasive argument…that this would reduce the cost of equity capital for Australian companies, stave off the exodus of capital from Australia by Australian companies listing on other countries' stock exchanges, and encourage international companies to list on the ASX (Chalmers et al. 2007, p.52).

The argument was supported by Senator Campbell, on behalf of the government as an actor, by stating that "the benefits of full adoption of the standards far outweighed any difficulties associated with the transition" (Parliamentary Secretary 2002). The reasoning for this argument has been that, even though Australia used to have high quality standards, it represented less than two per cent of the world's capital market leading to less incentive for businesses to invest in Australia (Senator Coonan 2002). Also Sir David Tweedie, supporting the argument, stated "…that Australia's leadership in promoting the benefits of international standards was widely recognized in the UK, Europe and United States" (Campbell 2002a).

The government as one of the enrolled actors in the network and committed to the adoption of international accounting standards needed to demonstrate its commitment in assisting the FRC. In June 2002 in order to demonstrate this commitment, the government announced

> …that an additional $2 million over two years would be provided to boost Australia's contribution to the setting of these standards sourced from the Financial Industry Development Account maintained by the Australian Stock Exchange (Coonan 2002; Corporate Law Economic Reform Program (Australia) 2002).

The fund did not easily provide for standard setting "out of a grant from a government pool" (Australia 2004b, p.CFS 22) and was "subject to certain conditions" (FRC and AASB annual reports 2001-02, p.10). According to the Senate hearing in 2003, Senator Campbell was involved in setting the conditions. Senator Campbell sought and retained ASX agreement to provide the funding. However, under that agreement "the funding was tied to the introduction of international accounting standards" (Australia 2004b, p.CFS 22). Despite the ASX passing through the moments of problematisation, interessement and enrolment, there still remained a danger to the success of the translation process. Consequently the ASX used the funding as a method to ensure that the FRC, the enrolled actor, would act accordingly and not betray the initial actor, the ASX. The ASX was securing the continued support to the underlying idea of adopting IFRS. It was argued by Senator Conroy

> …the conditions the ASX put to the FRC are the ones that Senator Campbell imposed. …the ASX wrote to you [Senator Campbell] suggesting they would like to make a contribution towards the international accounting standard setting process. You wrote back to them and outlined a set of conditions under which the funds

> could be released to the FRC. Then the ASX wrote to Mr Lucy. (Australia 2003a, p.E 167-E 168).

The FRC would receive the funding only if it agreed to the introduction of international accounting standards. As Senator Campbell made the argument clear

> They [the ASX] came to me from time to time with proposals about how to use the money. ...I have approved most of the proposals…over the years. I knocked back one of them. You have to be careful, now that the ASX has competitors, that the funds are being used for general market development and not just promotion of the ASX (Australia 2003a, p.E 167).

In the Senate hearing, Senator Campbell explained the conditions of the funding that he included in his letter to ASX. One of the conditions was "the FRC agreeing to the goal of adopting IAS within Australia by January 2005" (Australia 2003a, p.E 168). In Senator Campbell's opinion the adoption of the EU deadline of January 2005 was a "good goal" (Ravlic 2003). However, Lucy argued that "…we were not on notice of any direction from the government to the ASX for the FIDA moneys to adopt 2005. We were not aware that was a condition" (Australia 2003a, p.E 173). In June 2002, Senator Campbell approved the $2 million funding to the FRC. He stated

> …the funds would enable Australia to make a significant and historic contribution towards the international accounting standards-setting process. This is a major step towards our objective of having Australia adopt one international set of standards which I would like to see in place across all major financial centres by no later than 2005 (Campbell 2002b).

This funding doubled the government's contribution to the standard setting process (Corporate Law Economic Reform Program (Australia) 2002) to secure the adoption of international standards through FRC.

5.2.2. Government/ Regulation

Consistent with Callon (1986b), even though the moment of mobilisation has been reached, the success of the translation process can be threatened. Hence, actors move through the four moments continuously to ensure that the threats are eliminated. In order to safeguard the FRC decision, in September 2002, the Treasurer published CLERP 9[69] '*Corporate Disclosure: Strengthening the Financial Reporting Framework*'; which was "designed to strengthen the regulatory framework in the key areas of corporate accountability, continuous disclosure, and the protection of shareholder interests" (Slipper 2004). The proposal included the adoption of IFRS for all reporting entities including listed and non-listed entities for the reporting periods beginning on 1 January 2005 (Coughlin 2006, p.54). This was one significant achievement of the Howard Government in promoting the adoption of IFRSs and its support demonstrated its "capacity to engage with and develop the financial reporting framework in an international context" (Slipper 2004). The CLERP 9 proposal, according to Howieson and Langfield-Smith (2003, p.19), was "most peculiar, since the decision had already been made by the FRC". Nevertheless as Murphy stated in the Senate hearing in 2003

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[69] Which was under Senator Campbell's approval

> The wording of the decision [by FRC] was not to adopt them. The direction of the AASB …was in effect to work towards the best accounting standards for Australia going into the future, and the best standards are not to have standards developed solely for the Australian market but to take into account of and move towards international accounting standards (Australia 2003c, p.E 791).

However, the actors within the network were questioning the decision since their interests were not met. The AICD made a submission to Treasury pertaining to CLERP 9 mentioning that

> The adoption of the international standards needs to be properly examined (including the potential costs to companies) and implemented in an orderly manner, with a minimal detrimental impact to Australian companies and the broader community, and integrated with other changes including those arising out of other elements of CLERP 9. However, AICD reserves its full opinion on the matter until the release of the related IASB exposure drafts and subsequent standards. AICD is also concerned that blanket approval of standards yet to be written could damage Australia's negotiating position in seeking provisions in standards, which meet our particular conditions, and suggests that conditions be attached to this policy (Australian Institute of Company Directors 2002).

The same argument was made by the AICD when they made a submission concerning CLERP 1, back in 1997.[70] Also, G100 made a submission stating their support for the CLERP 9 proposal however arguing that they had concerns regarding the proposal. One of the concerns they had was

> The time available to companies to prepare for and implement the year 2005 target for the adoption of IASB standards. At this stage the final provisions of a number of standards which will have a significant impact on Australian financial reporting are unlikely to be issued by the IASB and the AASB until 2003 and 2004 (Group100 2002).

[70] For further details regarding the AICD submission on 1997, refer to chapter 4.

However, these submissions did not change the timeline of the decision or any announcement on whether any analysis on the IFRS would take place to see if they are appropriate for the Australian corporate environment.

5.3. European Union decision for adoption of international standards

When the decision was made in 2002 to adopt IFRS there was no analysis of the impact of the standards on Australian companies and also how the adoption process would take place. The cost of the process for business unclear and the only argument made was that the future benefits of the decision would outweigh its costs. However, the benefits that were supported by the FRC and the government had been "persistently questioned in published works" such as Brown and Clinch (1998), Haswell and McKinnon (2003), and Collett et al (1998) according to Jones and Higgins (2006, p.631). It is worth noting that the benefits that were illustrated did not explain how it would have improved the Australian accounting standards (Clarke et al. 2003).[71] In a study conducted by Jones and Higgins (2006, p.650) it was concluded

> …the government's rapid timetable for the wholesale adoption of IFRS is not only precipitate and perhaps misplaced, but is also unlikely to deliver substantive benefits to the majority of Australian reporting entities. …The many claimed

[71] As argued by Clarke, Dean and Oliver, this circumstance applied to the IFRSs. "A warped logic dictates that having companies' financial statements that are equally misleading worldwide is an improvement" (2003, p.302).

> benefits…touted in the government's CLERP agenda were not supported by the majority of respondents.

Regarding the timeline, both EU and Australia adopted January 2005 as the compliance date for international standards. However, there were several fundamental differences that have been examined in this section. Looking closer at the January 2005 timeline decision Lucy, in July 2002, said that the adoption by 2005, was based on the decision of the European Union and "Australia could not afford to lag Europe in this regard" (Financial Reporting Council 2002c). This timeline was argued by David Boymal, the AASB chairman from 2003, as unique, since it was "only Australia and the EU who were committed to a 2005 change to the international standards" (Australia 2004a, p.E 103). However, this announcement was not based on any form of widespread consultation with key stakeholders, or an outcome from a long-term strategy (Cameron 2006). "Any accounting regulatory change requires consideration of the benefits and costs to the economy, report prepares and users" (Chalmers et al. 2007, p.52). In contrast, the EU undertook an extensive and public consultation before making the decision about 2005 adoption (Howieson and Langfield-Smith 2003, p.17). In Chapter Four it was noted that, in the year 2000, the EC published "EU Financial Reporting Strategy: the way forward" to announce a detailed proposal for the adoption of international standards. The paper included the procedures, timing, and the companies that were going to implement the international standards and how they were going to implement them. As a necessary requirement of this new strategy, it was stated that

> This strategy will need to take full account of public policy interest. …to achieve legal certainty for users of IAS in the European Union, international standards must

> be integrated into the EU financial reporting legislative framework (Commission of the European Communities 2000, p.7).

On one hand, the EU decision for adoption of IFRS "was in direct response to this call to develop a single, more transparent European capital market" (Picker 2007, p.100; Carsberg 1996; Thorell and Whillington 1994)[72]. On the other hand, only listed companies had to prepare their consolidated accounts in accordance with the relevant IFRS. In Australia, all reporting entities had to adopt IFRSs (Europa 2001; Alfredson 2003). According to Larson & Street (2006) the EU has a 'two-standard' system; which means IFRSs are used only for listed companies' consolidated accounts, while national standards are required for individual accounts.

Moreover, the EU required the listed companies to use just those IFRSs that "the EU has specifically determined to be suitable for use in the EU". For this reason an accounting technical committee, the European Financial Reporting Advisory Group (EFRAG) composed of accounting experts, was setup to "…provide technical expertise concerning the use of IAS within the European legal environment" (Europa 2001; Larson and Street 2006). The EFRAG "technically assesses each new standard and interpretation approved by IASB" (Larson and Street 2006, p.39) and reports to the European Commission (EC). The EC would then submit the revised standard to the European Parliament. After the approval

[72] The EU introduction of the Euro also was another response to develop a single market (Commission of the European Communities 2000).

of the parliament, EC formally decides on the use of the new international standards[73] (Europa 2002; Larson and Street 2006). Basically the EU endorses standards one by one rather than as a package. In Australia, the AASB re-labelled the standards' titles and numbering as Australian standards in a way consistent with IASB. The AASB thus "...accepted that adoption of IFRS meant exactly that, the same standard, with no modification or additions" (Picker 2007, p.102).[74] Accordingly, standards that have had unnecessary complexities and (or) poorly devised principles have been imported virtually intact. In the event that Australia disagrees with a standard, it can only advise the IASB to that effect, and if the criticism is not accepted by the IASB, the AASB has to accept and adopt the standard (Picker 2007).

By 2004 Australia had 'Australianised' all of the 40 standards that IASB had issued. However, two of the standards, IAS 39 and IAS 32, were not formally accepted within the EU. "…the IASB had flagged that there were pending changes. The pending changes were being proposed because of the European Union" (Australia 2004a, p.E 93). This demonstrates that the Australian decision was distinct from the EU, and that only 38 standards were to be adopted by EU and Australia by January 2005. According to the discussion between Boymal and Senator Conroy, Australia and EU were the only countries committed to a 2005 change to the international standards and being unique in their

[73] The detailed process of acceptance of IFRSs is beyond the scope of this study, please refer to Larson and Street (2006) for further details

[74] However, AASB added paragraphs in the standards, for instance, for not-for-profit organisations that was not covered by IFRS and application paragraphs for additional guidance regarding the standards (Picker 2007).

decision. However, according to David Tweedie, there were more countries using international standards but not adopting the standards (Australia 2004a). In 2005 IAS39 was approved by IASB after the elimination of perceived "controversial provisions" (Larson and Street 2006, p.40). The amendment to the standard was "applauded by many Europeans and was officially approved by EU in December 2005" (Larson and Street 2006, p.40). Another example would be IFRIC 3, *Emission Rights*, which "EFRAG officially recommended that the EU [would] not endorse" as the standard would affect EU businesses by requiring "emission rights for pollutants granted by governments be recognized as intangible assets" (Larson and Street 2006, p.40). In June 2005 the IASB withdrew IFRIC 3. This example shows how the EU was able to make a decision on either adopting the whole package of the standard or to pick standards that were beneficial to EU. However, Australia does not have the same power as the EU and "…Countries such as Australia…are regarded in international circles as not being all that important by virtue of…size and population and …gross national product. It is very difficult to make your voice heard" (McGregor cited in Anonymous 2002). One of the arguments for wholesale adoption was to have a voice in the standards that are being set by IASB. As Senator Campbell argued "We are confident that we can play our part in developing a single set of global accounting standards which will be very good for Australian shareholders and investors" (Australia 2003c, p.E 792).

5.4. Limitations of Adoption

Taking into account the above arguments, Alfredson maintained that the whole process lacked robust and formal consultation (Australia 2004b, p.CFS 22; Australia 2004a, p.24060). This point was conceded by Charles Macek, the FRC chairman in 2002, who stating that he would not accept the adoption of international standards (Australia 2004a, p.24064) if the decision was to be made again. As Haswell and McKinnon (2003) stated, Australian authorities hoped, but did not know for certain, that IFRS improvements would proceed in a direction desirable to them. However, “[b]y late in 2003, many were doubtful that the Board could produce the standards that were needed for 2005” (Stevenson 2007).

According to the annual research lecture by Cameron (2006, p.12-13), with the adoption of international standards, there is a need to recognise the consequences of the decision. However, such consequences were not taken into account when the wholesale adoption decision took place. This section will explain the implementation of the decision of the FRC and how it affected Australian companies. The proposal for adoption of IFRSs did not mention anything concerning the cost to companies of implementing the standards. To illustrate, the IASB issued documents in 3 sections for individual accounting standards;

1. The standards that consist of the mandatory requirement,
2. The implementation guidance that is helpful commentary on how to do it,
3. The basis for conclusion, which outlines the IASB’s views and how they came to arrive at the standard (Australia 2003b, p.E 25).

At a senate hearing in 2003 Angus Thomson, the technical editor of the AASB stated that the standards alone were freely available for everyone to use, however, the implementation guidelines and the basis for conclusion needed to be purchased from the IASB. He further argued that if the AASB reproduced these documents they would also be required to sell them to users to "pay royalties" to the IASB (Financial Reporting Council 2002b; Australia 2003b, p.E 25; Australia 2004b, p.CFS 74). IASB had made the assumption that the standards without interpretation would be sufficient for implementation. According to Senator Conroy

> It is not realistic, is it, to suggest that someone CAN look at the bald standard and understand how to implement it? ...It is regrettable. You can understand that…the concept of Australians having to pay money to be able to understand our laws is a foreign concept (Australia 2003b, p.E 25-E 26).

Thomson explained that

> the European Commission wants it. That really is a benchmark by which the IASB is operating. They struck a deal with Europeans that only the standard would be freely available…It is the standard established by a European benchmark (Australia 2003b, p.E 27).

The arguments suggest that the decision for wholesale adoption was taken without even looking at the implementation shortcomings and how the differences in country laws can affect the process.

5.5. Consequence of IFRS adoption in Australia

CPA Australia conducted a survey in 2005 regarding the first time adoption of IFRS. It found “that many accounting professionals are questioning whether [IFRS] will deliver the proposed benefits, with 57 percent of survey respondents indicating they do not expect their organisation to benefit from the transition” (Pacter 2003; Confederation of Asia and Pacific Accountants 2006, p.9). This can be because for the management and company directors “an IFRS- reported result does not reflect what is really happening in the business” since “the volume of disclosures required by companies is too great” (Ernst & Young 2007, p.8). Further, IFRS results are confusing for the directors, shareholders and analysts arguing that “they cannot understand the business through the financial statements” and for this reason management has been using “media releases and other investor information packs” to get their message through (Ernst & Young Australia 2007, p.8).

The FRC wanted the AASB to accept the standards that were issued by the IASB, even though they do not fully agree with the standards. As stated by Alfredson “given that implementation is dependent on the IASB’s timetable and output” it is “out of the hands of the AASB” (Carroll 2003, p.65). It is the IASB’s responsibility to take into account its objective, which seems to be unsatisfactory. In 2006 EFRAG wrote to the IASC Foundation to complain about the IASB’s recent products stating that:

> the standards issued by the IASB have become increasingly complex, more voluminous and more prescriptive as to details, and we shall therefore urge the Trustees to work for simpler and more understandable standards that can be implemented in practice in regions where adoption of IFRSs is a giant step (Haswell 2006, p.55).

Another problem that is being faced by standard users is that the standards lack coherence or rigorous principles and have too many choices. This is evident in IAS 1, *Presentation of Financial Statements*, which exhibits loose terminology and lacks clearly defined principles, namely the definitions of financial reporting elements, even though it was re-issued in 2003 (Haswell 2006). For instance IAS 1 does not clearly distinguish between income, gain, and revenue. As revenue is referred to ordinary activities and these activities are not defined clearly in the standard. Gain, nevertheless, is defined as non-ordinary activities and exceptions are allowed in both definitions. According to Haswell (2006, p.55), "IAS 1 does not seem to be a step forward".

5.6. Conclusion

After the IASC was restructured and renamed as the IASB in 2001, an agreement known as the Norwalk agreement between the IASB and FASB was made. The agreement made the road towards the adoption of international standards aligned to ASX interests. The argument by ASX was that the adoption of international standards would strengthen Australia's position in world financial markets. By bringing the government into the network, the translation process became successful. As part of CLERP, the government introduced FRC which announced in 2002 the decision to adopt international standards by all reporting entities by January 2005. The decision was supported by Sir David Tweedie, the Treasury Department and the ASX. According to the FRC, supported by the government, the adoption decision was beneficial to all companies and outweighed the difficulties and costs associated with the adoption. In accordance with the theory, the translation model was successful and the ASX managed to solve the problem that was initiated by it.

In relation to the adoption of international standards, as argued, there was no process involved and the timeline of January 2005 was chosen while no investigation had taken place. The ASX succeeded in getting what it wanted without even considering any analysis in relation to the impact of the wholesale adoption on companies. It was clear from the survey conducted by CPA Australia in 2005, that companies were not happy about the end result of the decision because the proposed benefits were not being reached.

CHAPTER 6

6. Conclusion

This chapter will present the conclusion of this study in relation to methodology and the theoretical framework. By using a critical approach has explained the adoption of international accounting standards in Australia by taking into account the translation process moments. Following this section, limitations of this study will be presented.

6.1. Overview of the argument

The purpose of this thesis was to closely study the decision that was made by the FRC in 2002 to adopt international accounting standards in relation to the translation model. In order to examine the FRC decision, there was a need to look at the establishment of the standard setting system in Australia as the historical background. Chapter Three focused on the history of the standard setting process in Australia by looking at the move towards professionalisation that resulted in establishment of accounting bodies in Australia. The accountancy bodies in Australia were established along the British model of accounting bodies such as ICAEW. These accountancy bodies adopted standards and recommendations that were issued in the UK as their English counterpart's Recommendations had widespread application in Britain over several years as "proof of their soundness and acceptance" (ICAA 1966, p.3). During the 1970s the Australian accountancy bodies started to adopt US accounting principles and standards, as the US investment in Australia as well as the Australian subsidiaries of US corporations started to increase. This shift occurred following the Second World War when the US economy expanded, and was replacing the UK as the Australia's main trading partner and source of accounting knowledge.

After World War Two the move towards industrialisation and formation of multinational companies raised the need to establish an organisation that would be able to carry out the objectives of international accounting harmonisation. The move towards international accounting standards having commenced in 1904, was delayed through the advent of the first and second world wars, resulting in less attention being paid to developing international accounting standards.

One of the moves in this regard was the establishment of AISG in 1967 with the objective of publishing comparative studies in accounting practices in the member's countries. AISG published booklets in relation to accounting and auditing issues every few months and created an appetite for change. Many of these papers led the way for the international standards that followed. In 1973, in an informal meeting of AISG representatives, a decision to establish an international body in charge of harmonisation of accounting standards in the world was made. The meeting led to the establishment of IASC to issue generic standards that would have multiple options as guidance to professional accountancy bodies in developing countries (Zeff 1998b). In 1977, AISG was disbanded and was replaced by IFAC as a body in charge of developing and enhancing the coordination of the accountancy profession around the world for achieving harmonised standards.

The focus of the IASC was on the worldwide harmonisation of accounting standards. However, until 1995 IASC standards did not have enforcement power and the standards were not recognised by the SEC. This recognition was important as the companies who were seeking listing in the US were able to prepare their consolidated accounts on the basis of international standards. Accordingly IOSCO came into play to ensure the enhancement and acceptability of the international standards by the SEC. An agreement, known as the Work Program 1995-1999, between IOSCO and the IASC required the IASC to revise the international standards until 1998.

In Australia the need for harmonisation became a high priority as "there [was] no future in Australia being an island of accounting purity" (Wood 1996, p.92). Accordingly the harmonisation of accounting standards started with the AASB development of Policy Statement 6. The ASX, as a member of IOSCO, promoted harmonisation and later adoption of international standards in Australia. In relation to the translation model, ASX found the harmonisation of international standards an answer to the problem it portrayed as the possible reduction in the listing of international and domestic companies. In order for the ASX to be successful in applying its solution to the Australian standard setting process, it needed actors with the same interest as itself. In this study the G100, AICD and AASB were identified as the actors that were part of ASX network.

The ASX introduced the harmonisation program in 1996, to be undertaken by the AASB, as its solution to the problem. The ASX and G100 provided funding for two years of the program to ensure the progress of the program. However, in 1997, the AASB was not fulfilling the ASX expectation of harmonised accounting standards and the ultimate adoption of the international standards. The ASX enroled the government to ensure that the ultimate aim of the adoption of international standards would be safeguarded. In 1997 the government introduced CLERP that generally “endorsed a US-FASB style approach to accounting standard setting” (Jones et al. 2004, p.380) to provide a simplified and modernised structure for the industry (Costello 1998a). In Australia, professional accountancy bodies in Australia were adopting standard setting systems of other countries mainly UK and US. This trend can be noticed in the new program that was introduced by the government as CLERP.

The introduction of CLERP was an indication that the translation model was successful, as the ASX had aligned the interest of the government with its solution. CLERP Paper 1 proposed the introduction of the FRC as an oversight body for AASB, as well as the adoption of international standards by the AASB. The establishment of the FRC gave the ASX a better opportunity to disassociate any factor that would threaten its network, since FRC members were chosen by the Treasury. Also, as part of the CLERP proposal, the FRC members had to be representatives of the ASX, G100 and AICD. In 1999, when CLERP Paper 1 became legislation, the proposal to adopt international accounting standards by AASB was dropped as the ASX and IASC were the only organisations that supported the proposal.

The ASX was looking for an argument to convince the government that the adoption of international standards by AASB would be beneficial to Australia. This became evident as IOSCO in 2000, announced a recommendation to its members that allowed the use of IASs for cross-border listing. The announcement was in conjunction with the IASC restructuring, based on the SEC proposal, as a step towards the achievement of one set of worldwide standards. The IASC restructuring was beneficial to the ASX since following the restructuring and renaming to IASB in 2001, an agreement known as the Norwalk agreement was entered into by the IASB and the FASB. This made the road towards the adoption of international standards further aligned to ASX interests. The argument by the ASX was that the adoption of international standards would strengthen Australia's position in the world financial markets.

The ASX persuaded the actors that the adoption of international standards was in their best interest. The FRC, as the new actor established by the government, was primarily in charge of monitoring the activities of the AASB. Therefore, the AASB had to align its interest to the ASX ultimate goal of adoption. In 2002, the FRC announced the decision to adopt international standards by all reporting entities by January 2005. The decision was supported by Sir David Tweedie, the Treasury Department and ASX. According to the FRC and supported by the government, the adoption decision was beneficial to all companies and outweighed the difficulties and costs associated with the adoption. In accordance with the theory, the translation model was successful and the ASX managed to solve the problem that was initiated in the problematisation moment.

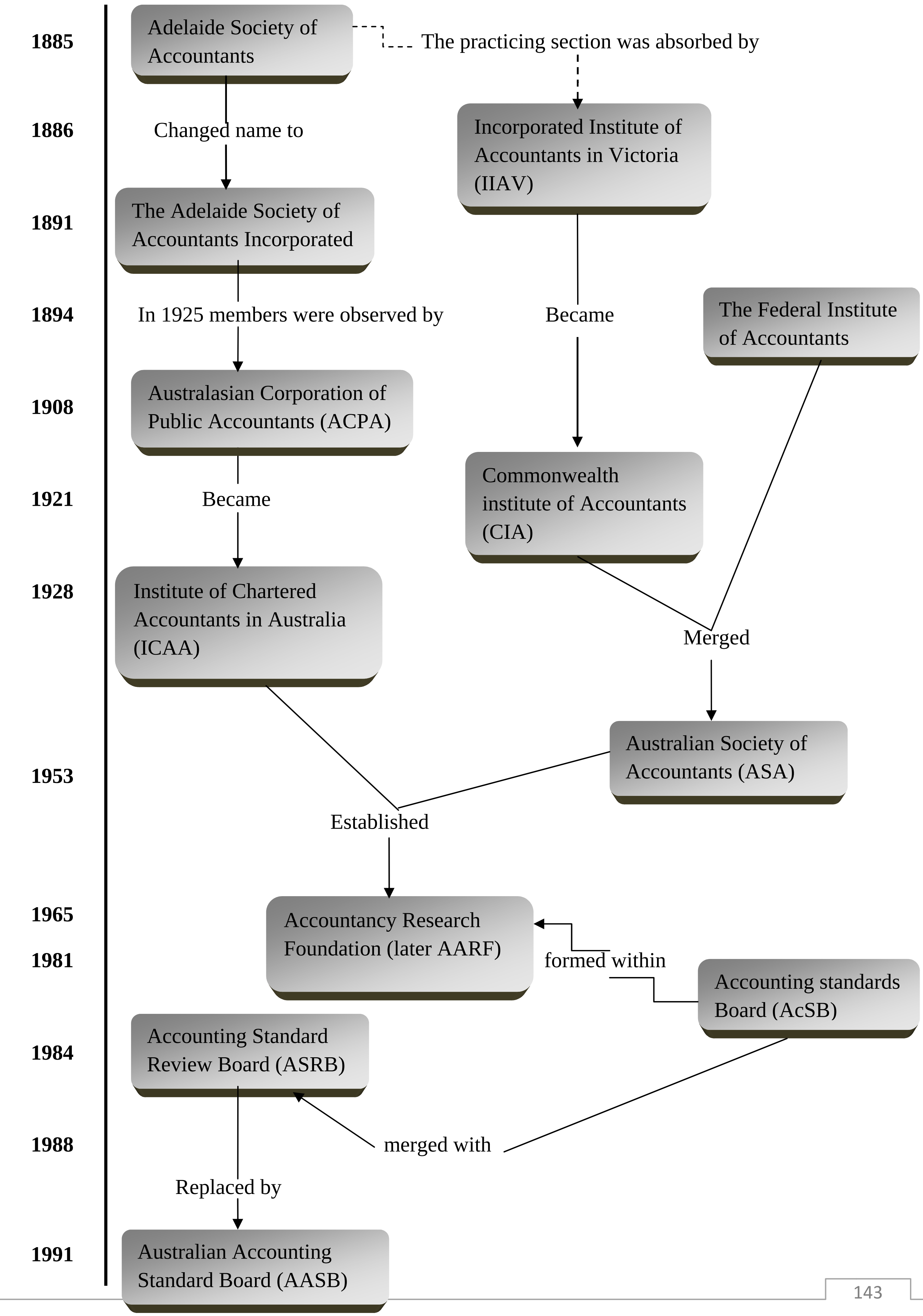
However, in relation to the adoption of international standards, there was no consultative process and the timeline of January 2005 was chosen while no investigation had taken place. As the FRC Chairman of the time mentioned, the adoption of international standards was a strategic management issue and not simply a technical accounting issue (FRC Report). In relation to the January 2005 deadline, it was argued that the decision was based on the decision of the European Union and "Australia could not afford to lag Europe in this regard" (Financial Reporting Council 2002c). The ASX succeeded in getting what it wanted without even undertaking any analysis in relation to the impact of the wholesale adoption on companies. It was clear from the survey concluded by CPA Australia in 2005, that companies were unhappy about the end result of the decision because the proposed benefits were not being reached.

6.2. Limitations of this study

In the introduction to Chapter Four noted that, as part of the translation model the G100, AICD and AASB have been analysed as the actors that the ASX involved in the network it created. Clearly there were other players who were involved in the process of persuading for the adoption of international accounting standards, but because of the time limit for this study, only these actors the discussion has been limited to as part of the network.

Finally, Chapter Four argued that the wholesale adoption decision by the FRC was made with no formal consultation with the AASB. As part of limitations of this research, it was not possible to find any written letter from the FRC or the Treasury to the AASB in this regard. During 2002 the FRC meetings were not held in public and the details of the meeting and what was argued or discussed, was not mentioned in the bulletins for the meetings provided on the FRC website. Because of the short time of this study, further investigation of this aspect of the adoption of international standards was not undertaken and no interview with the key players was undertaken. However, this represents an opportunity for further research to seek out archival and other information that may explain more fully why the FRC made the decision to adopt international standards.

Appendix A



1885
Adelaide Society of Accountants
The practicing section was absorbed by
1886
Changed name to
Incorporated Institute of Accountants in Victoria (IIAV)
1891
The Adelaide Society of Accountants Incorporated
1894
In 1925 members were observed by
Became
The Federal Institute of Accountants
1908
Australasian Corporation of Public Accountants (ACPA)
Commonwealth institute of Accountants (CIA)
1921
Became
1928
Institute of Chartered Accountants in Australia (ICAA)
Merged
1953
Australian Society of Accountants (ASA)
Established
1965
Accountancy Research Foundation (later AARF)
1981
formed within
Accounting standards Board (AcSB)
1984
Accounting Standard Review Board (ASRB)
1988
merged with
Replaced by
1991
Australian Accounting Standard Board (AASB)

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