

# **MORE ACCOUNTING CHANGES**

Financial Reporting through the  
Age of Crisis and Globalization

# **MORE ACCOUNTING CHANGES**

Financial Reporting through the  
Age of Crisis and Globalization

BY

**ROBERT H. HERZ**

*Columbia Business School, New York, NY, USA*



United Kingdom – North America – Japan  
India – Malaysia – China

Emerald Group Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2016

Copyright © 2016 Emerald Group Publishing Limited

**Reprints and permissions service**

Contact: [permissions@emeraldinsight.com](mailto:permissions@emeraldinsight.com)

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-78635-630-7 (Print)

ISBN: 978-1-78635-629-1 (Online)



ISOQAR certified  
Management System,  
awarded to Emerald  
for adherence to  
Environmental  
standard  
ISO 14001:2004.

Certificate Number 1985  
ISO 14001



INVESTOR IN PEOPLE

*To Louise, my sweetheart, best friend, and soul mate for the past 44 years and to our children Michael and Nicole. My profound thanks for all their love, patience, and support of my career in "numberland." And to Michael's wife, Heather, and Nicole's husband, Cameron, and to our grandkids, Raelle and Jack, who together with Louise and our children make "GrandBob's" life so rich and wonderful.*

# Foreword

## **More Accounting Changes: Financial Reporting through the Age of Crisis and Globalization**

Perhaps not since John L. Carey's two volume history, *The Rise of the Accounting Profession*, has an author contributed as much to the literature of "the historian as participant" and to providing institutional perspective than does Bob Herz, in his autobiographic revision "*More Accounting Changes ...*" a sequel to his earlier volume "*Accounting Changes: Chronicles of Convergence, Crisis and Complexity in Financial Reporting.*"

Herz provides important new insights into a variety of developments that have occurred in the standard setting community since the first volume, including the momentum and environment of global convergence. A dedicated internationalist Bob Herz is an original, the "real deal." Having grown up in cosmopolitan international circumstances, blessed with the intellect and disposition to address and envision the necessary ingredients to address change, uncertainty and even a financial crisis of unprecedented proportions, Herz demonstrates a skill to tolerate and overcome ambiguity that is remarkable.

A reading of the book, in its entirety, will reward the reader as to the benefits of having a "ground level" view of the process of financial accounting standard setting in the United States, which in this volume, after retrospective reflection, Herz affirms as the

finest financial reporting system in the world. Nonetheless, he offers a number of constructive and thought-provoking suggestions for improving our financial reporting system.

If you are curious as to Herz' s connection to Joe DiMaggio the famous New York Yankee "Clipper," you will want to read the book. If you are interested in the role which he played in the development of international standards, as an inaugural member of the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), you will want to read the book. If you are wondering how he managed to become both Chartered Accountant and a CPA, you will want to read the book. If you would like to learn about his post FASB career, his involvement as a board member of corporate entities and community or other foundations, and as a member of the board of directors of the recently established Sustainability Accounting Standard Board, you will want to read the book.

Bob is a "boomer" not only in generational terms but also in terms of the breadth and depth of his accomplishments. He walks quietly, but carries a presence that is known for its even temperament and intellect ... sorting out and establishing the positions about which he has chosen to accept responsibility.

Many new and important episodes and activities are detailed in this version of his history and memoirs, importantly updating the recent events and assessments of the status of the progress toward a significant goal of his career, global accounting standards. He also comments upon and evaluates candidly the state of adoption of the "codification" of the FASB's body of standards, an achievement he led and which coincided with his decision to retire from the FASB in 2010, after nearly a decade of involvement in standard setting at the IASB and the FASB, including eight years as FASB chair. Bob's involvement with the Sustainability Accounting Standards Board (SASB), of recent origin, and his growing interest in Environmental, Social and Governance (ESG) issues is related for the first time in this volume.

The benefits from reading the book may be improved by considering "where Bob is coming from" in his career, that is, having

an appreciation of what motivates him. He believes passionately in the importance of financial and corporate reporting in a dynamic global capital market. Having studied economics as an undergraduate in the United Kingdom, Herz approaches accounting from the perspective of portraying the economics of real world transactions. He's an avowed internationalist and a team player both in deliberation and by choice.

To those who have lived before, through and after the period of Bob's term as FASB chair, there is added insight and understanding to be gained by reading the new content and interpretations found in the seven chapters of his writings. For those who entered the profession during some time other than that entire period, and especially for those who are just becoming involved in the profession, this volume represents important background reading. The best of the first volume is retained and updated. That original volume, as observed by Professor Robert Colson, in a published review essay, "accomplished something almost unheard of: a book about accounting that grabs your interest from the first page and feeds the research mind with one idea after another."

The same can be said of the new volume.

Gary John Previts  
*E. Mandell de Windt Professor,  
Weatherhead School of Management,  
Distinguished University Professor,  
Case Western Reserve University,  
Cleveland, OH, USA*

# Preface

I retired as chairman of the Financial Accounting Standards Board (FASB) on September 30, 2010. For me, it marked the end of nearly a decade in accounting standard setting at the highest level — first as a member of the newly created International Accounting Standards Board (IASB) in 2001–2002 and then for over eight years at the FASB. It was a fascinating, challenging, and personally very satisfying part of my career and life and, more importantly, a period of significant change, challenge, and opportunity for financial reporting, both in the United States and internationally.

Soon after leaving the FASB, I was encouraged by a number of parties to write a book about my years as an accounting standard setter. Noting that I had been involved in, and had a “front row seat” on, many of the major developments affecting accounting and financial reporting over this period, including those emanating from the reporting scandals of 2001 and 2002, from the recent global financial crisis and with the efforts at international convergence of accounting standards, they said my perspectives on these matters would be both informative and interesting. Some even went so far as to say I had a responsibility to accounting history to share my insights and views on these events and developments.

Although such encouragement was both flattering and may have had the intended effect of engendering a bit of a sense of responsibility (or perhaps better said, guilt) in me to write a book, I thought long and hard before doing so. My prior experiences in

authoring books, papers, and articles had taught me that it can be a lengthy and consuming process. Moreover, upon leaving the FASB, I was very much looking forward to new and different challenges and experiences and had quickly undertaken various new roles and activities. I therefore wrestled for a while with the trade-offs in terms of my personal, professional, and business activities that would arise from committing myself to write a book. In the end, in early 2011 I decided to give it a go, believing I could provide, as the title suggests, a relevant and, hopefully, interesting “chronicle” of some of the major events, developments, and forces in the world of accounting and financial reporting over the past decade, along with my perspectives on these matters. As described later, the result of that decision and over two years of effort was the book *Accounting Changes: Chronicles of Convergence, Crisis, and Complexity in Financial Reporting* which was published in April 2013 by the American Institute of Certified Public Accountants. In 2015, based on the positive feedback I received from many readers of the first edition and strong encouragement by my friend and noted accounting historian, Professor Gary Previts of the Weatherhead School of Management at Case Western Reserve University, I decided to write a second edition of the book (which, as discussed further below, carries forward much of the material from the first edition but also contains a significant amount of new material that covers recent developments in accounting and reporting and additional new material based on feedback I received from readers of the first edition). Gary introduced me to the folks at Emerald Publishing Group, who enthusiastically agreed to publish an updated edition of the book.

Having made the decision back in 2011 to write a book, I then asked myself whether the book should cover more than my years at the FASB and IASB. In other words, should I get really ambitious and write a more complete autobiography covering my whole life and career to date? In contemplating that question, I thought that, on the one hand, I had some quite interesting experiences and adventures to write about relating to my childhood in the United States, my teenage years in Argentina, my years in England as a student and budding accountant, my many years as

a partner with Coopers & Lybrand and PricewaterhouseCoopers (PwC), and my family life. On the other hand, this would clearly be a much more major undertaking, and as interesting as some of these matters might be to some readers, they probably would be of little relevance to most of the likely readers of a book authored by me.

I therefore settled on a middle ground of trying to recount, in a summarized fashion in Chapter 1, “My First 49 Years,” my life before accounting (hard to imagine such a thing could exist) and my almost three decades in the profession before joining the IASB and FASB. I did so mainly in an effort to describe some of the key forces, experiences, and people that I believe have shaped a number of my perspectives as a professional and as a person. I believe we are, at least in part, products of our background and experiences, and so, understanding where a person has been is, I believe, important in understanding where he or she is at in terms of views, actions, and dealings with others. Certainly, my international background and many years in the accounting profession have impacted my thinking and perspectives. I must confess, however, that writing Chapter 1 was rather enjoyable. It gave me an opportunity to fondly reminisce about where I have been, the tremendous opportunities I have been afforded professionally, and the many wonderful people with whom I have been blessed to share life’s journey. Readers of the first edition told me that they really enjoyed my recounting of some of my experiences and adventures as a budding accountant in England in the 1970s. So Chapter 1 of this book expands on that period in my life and career. I also added an expanded discussion of some of the important early efforts to significantly improve and expand corporate reporting, starting with the Jenkins Committee over 20 years ago, ValueReporting at PwC, and the FASB’s Business Reporting Research Project, and my involvement in the latter two initiatives.

The core chapters of this book cover what I regard as some of the more noteworthy events and developments in accounting standard setting and financial reporting during my years as chairman of the FASB. In doing so and in order to try to capture and communicate key aspects of these matters, I selected numerous

passages from my own speeches and Congressional testimony and those of many others, as well excerpts from relevant articles and media accounts and other publicly available sources. I have also provided my perspectives on some of these developments and the key issues involved. Just as FASB Board and staff members state in the opening of speeches and presentations, I believe it is important for readers of this book to understand that, to the extent I have expressed personal views on particular subjects and issues, “the views are my own and do not represent official positions of the Financial Accounting Standards Board that are arrived at only after extensive public due process and deliberations.” Moreover, in order to try to be even-handed, I have also included the perspectives of others on some of the key issues discussed in the book. I have certainly found throughout my years in accounting standard setting and life in general that informed and reasonable people can and often do have differing views on particular matters. So, I apologize in advance to those readers who may have a different point of view than mine on particular subjects if you think I have not fully or fairly captured your perspectives on a particular issue discussed in the book.

The activities of the FASB are covered on a regular basis by a variety of media. Meetings of the Board are done “in the sunshine” and through webcast, and meeting minutes, project descriptions, summaries of Board decisions, FASB standards and proposals, and comment letters on Board projects are available on the FASB website. Thus, although the matters discussed in Chapters 2–6 are matters of public information and not intended as providing a comprehensive history of the activities of the FASB during my years there or of financial reporting developments over that period, my hope is that this book will contribute to the historical understanding of this period in accounting and financial reporting. Hopefully, it also makes for interesting reading.

So, which of the multitude of standard-setting activities of the FASB and events and developments in financial reporting during the past decade have I chosen to write about in this book? Chapter 2, “Charting Course,” deals with the key strategic objectives and resulting initiatives we developed early on in my

tenure as chairman of the FASB. Chapter 3, “Stock Option Controversies — Take Two,” recounts the background, controversy, and principal events relating to our exploration of the issues surrounding the accounting for employee stock options. Chapter 4, “International Convergence,” covers the many facets and milestones in our convergence efforts with the IASB, as well as some of the key events in the Securities and Exchange Commission’s (SEC’s) ongoing consideration of International Financial Reporting Standards. In Chapter 5, “The Financial Crisis,” I discuss the global financial crisis, focusing on the financial reporting issues emanating from it and our standard-setting actions in response to those issues. Chapter 6, “Complexity,” attempts to address the rather complex subject of complexity in accounting and financial reporting. Lastly, in Chapter 7, “Looking Back and Moving Forward,” I look both backward and forward on what has been, and what I believe will continue to be, a period of challenge, change, and opportunity in accounting and financial reporting and on my life after accounting standard setting. In doing so, I couldn’t resist the temptation to offer a few modest suggestions to those with continuing responsibility for accounting standards and the financial reporting system.

Since the publication of the first edition in 2013, there have been important continuing developments relating to a number of the matters covered in Chapters 4–7. And so readers of this book will find that Chapter 4 discusses the recent course of convergence efforts between the FASB and IASB, further twists and turns in the SEC’s consideration of the potential use IFRS in the U.S. reporting system. It also contains a whole new section titled “As the World Turns” which looks at the state of financial reporting across major parts of the globe. Chapter 5 contains an expanded discussion of the interrelationship between financial reporting and regulation of financial institutions, including the impact of the many new regulatory and reporting requirements that have come into force since the financial crisis of 2008–2009, matters that I have become quite familiar with as a member of the boards of directors and audit committees of two major financial institutions. In Chapter 6, I discuss and offer my views and suggestions on the FASB’s current

simplification effort, on the SEC's major initiative on disclosure reform and modernization, and on recent voluntary efforts by companies to make their SEC filings and other public disclosure documents more readable and understandable. I have also updated the discussion of private company reporting for recent developments. In Chapter 7, I added a discussion on the relationship between "independent" accounting standard setting and the accountability of the standard setters to those charged with overseeing their activities. In response to various recent questions and comments I received on whether the United States has the best reporting system in the world or is falling behind those in other parts of the world, I added a new section that provides my analysis and views on these important issues. Lastly, based on my continuing involvements in "integrated reporting" and as a member of the board of directors of the Sustainability Accounting Standards Board (SASB), I have significantly expanded the discussion of these important developments in corporate reporting. And finally, as suggested by readers of the first edition, we have added a detailed index.

As with the first edition, I hope that readers of this book will find it interesting, candid, insightful, and at times thought provoking. Underlying themes throughout are the critical importance of sound financial and corporate reporting to the health and vitality of the capital markets and the economy and of the role of "accounting changes" in advancing these goals.

Robert H. Herz

# Acknowledgments

As expected, writing both the first and second editions of this book turned out to be significant undertakings. I am indebted to many people at the AICPA who contributed to the development of the first edition, including Arleen Rodda Thomas, Senior Vice President, a long-time colleague in the profession, and one of the first to encourage me to write this book; Amy Plent, Director of Publications Product Development; Martin Censor; Andrew Grow, whose excellent comments and suggestions on my initial draft of the manuscript helped improve it greatly; Suzanne Morgen, who located numerous articles and other citations that added to the relevance and contemporaneous feel of my chronicles; and to the talented copyeditors and graphic designers at the AICPA. While producing this updated edition of the book was less arduous, I want to acknowledge and thank the key contributors from Emerald Publishing Group, Charlotte Maiorana, Book Publisher, and Brent Persun and Fiona Mattison, Editorial Assistants for all their help and guidance. I also want to thank Ms. Vinodhini (Project Manager, MPS Limited, Chennai, India) who oversaw the creation and editing of the proofs of the manuscript of this book.

Beyond the people directly involved with this book, I need to thank scores of people who were my mentors, colleagues, and friends during my career. In terms of my years at the FASB, that starts with those who served with me as FASB Board members — George Batavick, G. Michael Crooch, John (Neal) Foster, Thomas Linsmeier, Katherine Schipper, Gary Schieneman, Leslie Seidman,

Marc Siegel, Lawrence Smith, Edward Trott, Donald Young, and John Wulff — and those who served as FASB staff directors and assistant directors during this period: Suzanne Bielstein, Susan Cosper, Russell Golden, Ronald Lott, Linda MacDonald, Jeffrey Mechanick, Kim Petrone, Peter Proestakes, Lawrence Smith, and Kevin Stoklosa. Perhaps most of all, I want to express my heartfelt thanks to the members of the FASB technical staff for all their dedication and hard work. They include some of the finest professionals I have had the honor and pleasure of working with over my career. I'd like to personally thank each of them, but let me just mention some of the lead managers on key projects during my years at the FASB: Holly Barker, Ken Bement, Bob Bhave, Ron Bossio, Halsey Bullen, Jules Cassel, Regina Cafini, Nick Cappiello, Pat Donoghue, Phil Hood, Jeff Johnson, Todd Johnson, Nobu Kawanishi, Kim Petrone, Peter Proestakes, Brooke Richards, Chris Roberge, Kevin Stoklosa, Jenny Sullivan, Jill Switter, Michael Tovey, Bob Wilkins, Jeff Wilks, and Danielle Zeyher. I also need to thank the two FASB senior investor liaisons, Chandy Smith and Jeff Brickman, who work hard to make sure the Board receives input from investors and users of financial information on standard-setting projects. There were also many Fellows from the major accounting firms, industry, and academia who greatly contributed to the standard-setting efforts of the FASB and the Emerging Issues Task Force and the many post-graduate technical assistants who spent a year at the FASB after graduating from major universities with top accounting programs.

A very special thanks to Michele Kilcran, my absolutely invaluable and extremely capable assistant throughout my over eight years at the FASB; to other key members of the FASB support staff, including Len Tatore, Jane Gabriele, Judy Solo, Joanne Romas, Karen Kosminoff, Patty Lapolla, Mary Hyudic, Debby Monroe, Stacey Sutay, Joe Damico, Eileen Mishley, Steve Jaroszynski, J. R. Richter, and Joe Vernuccio; and to Jeff Mahoney, Chris Allen, Grace Hinchman, and Allen Weltmann in Washington, DC, and Ned Regan who also provided help and advice on a variety of matters. With great memories of being a

member of our Financial Accounting Foundation (FAF) softball and volleyball teams, I also want to thank everyone who participated in those after-work activities. We had some good years and some not so good years in terms of results but always a fun time and wonderful camaraderie. I had known Ed Trott for many years before joining the FASB but had not realized that, in addition to his accounting skills, he is also an excellent softball pitcher.

My sincere appreciation to Richard Swift and Dennis Chookaszian for very ably chairing FASB's principal advisory group, the Financial Accounting Standards Advisory Council, during my years at the FASB and to Terri Polley, Alicia Posta, Karen Guasp, and Roberta Small who coordinated the activities of our many advisory groups. Thanks to all who served on these advisory groups.

My thanks and appreciation to those who helped guide the FAF by serving as trustees under the leadership of Manley Johnson, Robert Denham, and John Brennan and to those who served as trustees of IASC (now IFRS) Foundation, which was chaired by Paul Volcker during my time on the IASB. Your public service, support, and stewardship of the FAF, FASB, the Governmental Accounting Standards Board (GASB) and the IASB are vital to private-sector accounting standard setting. Thank you to the terrific staff of the FAF, including Terri Polley, the late Joe La Gambina, Bob DeSantis, Jodi Dottori, Janet Brody, Roseann Plank, Ron Guerrette, Steve Getz, Doris Rogers, Elaine Blackman, Bob Kalina, Ginny Cintron, Charry Boris, Miriam Solomon, Laura Ferrera, Peter Spencer, Lisa Pittu, John Dreibelbis, John Alusik, Neal McGarity, Christine Klimek, and Gerard Carney. Thanks also to members of the IFRS Foundation staff under the leadership of Tom Seidenstein. Many thanks to all who worked on the Codification and eXtensible Business Reporting Language projects, including Tom Hoey, Ellen Crowhurst, Scott Logan, Denise Moritz, Jim Green, Debby Monroe, Susan Miller, Mary Hyudic, Vickie Lusniak, Neal Hannon, and Louis Matherne. I also very much appreciated the ability to interact with members and staff of GASB, our sister standard setter in Norwalk, CN, including Tom Allen, Bob Attmore, and David Bean.

Throughout my years at the FASB, we worked closely with our colleagues at the IASB. So, my thanks to my good friend David Tweedie and all his fellow IASB Board members, many of whom I served with on that board when it was first established, and to the directors and staff of the IASB, whose hard work, collegiality, and spirit of teamwork with our staff greatly contributed to the joint standard-setting activities of the FASB and IASB. I owe a very special thanks to Jim Leisenring, who has been a colleague and friend for many years and who, during my years as chairman of the FASB, served as the liaison between the two boards. Jim, together with some of the veterans of accounting standard setting at the FASB and the IASB, such as Jules Cassel, Todd Johnson, Ron Bossio, Bob Wilkins, and Wayne Upton were often invaluable to me and others in putting things in a historical context. From time to time, I would seek and receive wise counsel from former FASB Chairmen Ed Jenkins, Denny Beresford, and Don Kirk and from other former FASB members, such as Walter Schuetze and Bob Swieringa.

During my years at the FASB, I had the opportunity and pleasure to work with many people in various departments and agencies of the U.S. government, probably most notably with commissioners and staff of the SEC. I thank them for their dedication to investor protection and for their help and support of the FASB's mission and activities. I also thank the members and staff of the Public Company Accounting Oversight Board (PCAOB) with whom we worked on many matters involving the financial reporting system.

The first chapter of this book briefly covers my career at PwC and predecessor firms. There are literally hundreds of people I owe a lot to for whatever success I achieved at the firm and in the profession. Although there are far too many to acknowledge and thank in this Preface, I am glad I was able to mention a number of them in Chapter 1 and pleased and proud that many of them continue to be my friends to this day. My special thanks to my colleague, friend, and noted accounting historian Gary Previts for preparing the Foreword to this edition of the book.

In Chapter 7, I discuss the work of the Sustainability Accounting Standards. I want to thank my wonderful colleagues on the SASB Board of Directors, Jean Rogers, our dynamic CEO, and the terrific staff of the SASB.

Lastly and most importantly, I owe my deepest thanks to my family. That begins with my loving father and mother, both of whom passed away many years ago. They ensured that I received a good upbringing and solid education and enabled me to experience living in different countries. By far, my most profound thanks need to go to my wife, Louise, and our two children, Michael and Nicole. For nearly 30 years, my work had me on the road much of the time. Even when I was at home or on family vacations, work was a constant companion because I would frequently have to disappear into, and devote my attention to, as they termed it, “numberland.” Their patience, understanding, and constant support and encouragement have been my greatest source of strength over the years. Now, being able to spend more time with my family is my greatest source of happiness and satisfaction in life.