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Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2015 academic literature

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ABSTRACT

In this paper, we synthesize in annotated bibliography form, recent regulation-related findings and commentaries in the academic literature. This annotated bibliography is one in a series of bibliographies that summarizes regulation-related academic research. We reviewed articles published in *The Accounting Review*, *Journal of Accounting Research*, *Journal of Accounting and Economics*, *Contemporary Accounting Research*, *Accounting Horizons*, *The Journal of Accounting, Auditing & Finance*, *Journal of Accounting and Public Policy*, *Journal of Business, Finance & Accounting*, *Auditing: A Journal of Practice and Theory*, and *Research in Accounting Regulation*. We annotate results of regulation-related research studies and key points from regulation-related commentaries. The literature featured some strong regulation-related threads in 2015 including the foundations of financial accounting and reporting, international financial reporting standards, Sarbanes–Oxley and the Public Company Accounting Oversight Board.

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Introduction

In this article, we develop an annotated bibliography of research findings in the 2015 academic literature that relate to accounting regulation. We surveyed key academic outlets including *The Accounting Review*, *The Journal of Accounting Research*, *The Journal of Accounting and Economics*, *Accounting Horizons*, *The Journal of Accounting, Auditing & Finance*, *The Journal of Accounting and Public Policy*, *The Journal of Business, Finance & Accounting*, *Auditing: A Journal of Practice and Theory*, and *Research in Accounting Regulation*. While research in these journals is aimed primarily at informing the academic audience, the findings are often relevant to the regulatory debate. To this end, our paper provides a convenient summary and analysis of the regulation-related

literature for the benefit of practitioners and regulators, and a literature overview for academics.

Obviously, we could not review every article related to the regulatory debate published in 2015. However, we discuss the articles that are particularly relevant to key regulatory topics during the year. Our annotations are organized as follows:

- Financial accounting regulation – general
- Recognition versus disclosure
- International Financial Reporting Standards
- Sarbanes–Oxley, the PCAOB, and auditing

Financial accounting regulation – general

Several papers published in 2015 addressed financial accounting regulation in general. Four important historical perspectives were published. O'Dell provides her insider's perspective on the evolution of the rule making process for

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Table 1

Financial accounting regulation – general.

O'Dell (2015)	Provides a historical perspective on the evolution of the rule-making process for nonpublic entities.
Zeff (2015)	Provides a historical perspective on the Wheat Study which studied and articulated structural shortcomings with the APB and ultimately led to creation of the FASB
Bradbury and Harrison (2015)	Provide analysis and commentary on dissenting opinions contained in FASB Statements of Financial Accounting Standards
Dye, Glover, and Sunder (2015)	Provide a discussion of the constant interplay between preparers and standard setters and propose avenues for reducing the distorting impact of financial engineering to enhance financial statement outcomes
deHaan, Kedia, Koh, and Rajgopal (2015)	Find evidence that SEC attorneys exhibit prosecutorial vigilance on accounting cases to build their human capital. They find evidence of rent seeking by SEC attorneys that are based in Washington D.C. and are opposing defense attorneys that are former SEC attorneys
Botosan and Huffman (2015)	Develop arguments supporting fair value to measure the value of in-exchange assets and amortized cost or replacement cost to measure the value if in-use assets
Anantharaman (2015)	Analyzes comment letter responses to the FASB's proposals to eliminate pooling-of-interests and goodwill amortization and documents the extent of opposition across respondents.

nonpublic entities. This process culminated with creation of the Private Company Council and the development of guidance alternatives for nonpublic entities that meet specified criteria. Zeff provides a historical perspective on the Study on Establishment of Accounting Principles (Wheat Study) which ultimately led to the creation of the Financial Accounting Standards Board. Bradbury and Harrison provide insight regarding the nature of dissenting opinions in FASB Statements of Financial Accounting Standards over the years. Dye et al. examine the ongoing dynamic between standard setters and preparers and develop avenues for reducing financial engineering to generate accounting outcomes. deHaan et al. seek to establish motivations for the high turnover observed in SEC attorneys assigned to handle cases involving alleged accounting improprieties. Botosan and Huffman argue in favor of fair value accounting for value in exchange assets and cost bases for value in use assets. Finally, Anantharaman provides a historical retrospective on comment letters on the elimination of poolings (Table 1).

O'Dell (2015)

As early as 1974, complaints are observed that GAAP is too complex for private companies. O'Dell describes an evolution around private company reporting. There has long been an emphasis at the FASB on rules for public companies. The foremost reason in her view is that FASB Board members and staff have traditionally been drawn from the large CPA firms, large reporting companies, and large investment firms.

There have been several committees and task forces assembled to address the issue such as the Private Company Practice Section Technical Issues Committee (TIC). Another task force effort led to a FASB report entitled *Financial Reporting by Private Companies*. This report resulted in small changes such as the formation of FASB's Small Business Advisory Committee. Continuing relevance concerns led to formation of the FASB's Private Company Financial Reporting Committee (PCFRC). O'Dell was named founding Chair of the FASB's PCFRC. The charter of the PCFRC would emphasize four responsibilities: (1) serve as a resource to FASB on prospective standard setting; (2) make formal recommendations to FASB on current deliberations; (3) make formal recommendations for differences for private companies in

recognition, measurement, disclosure, presentation, transition, and effective dates; and (4) consider the user needs and cost/benefit tradeoffs in all recommendations.

The PCFRC was not successful for the following five reasons: (1) the PCFRC was structured to work outside of the Board rather than alongside the Board; (2) changes to the FASB technical agenda required a majority vote of board members (and from 2008 to 2013 required Chair approval); (3) the PCFRC did not have sufficient resources and paid employees to complete necessary research; (4) None of the Board members and staff had much direct private company experience or awareness of how private companies differ from public companies; and (5) the PCFRC held meetings around the country rather than in Norwalk where members would have had access to FASB members and staff.

Additional help would come from John Brennan of Vanguard, whose input would lead to formation of a Blue Ribbon Panel. A culture change at the FASB resulted from recommendations of this panel. FASB staff now routinely: (1) sought input from private company constituents; and (2) provided FASB members with possible alternatives for nonpublic entities. FASB members would: (1) explain in bases for conclusions why exceptions or modifications were or were not included for nonpublic entities; (3) request information on each proposal about impact on nonpublic entities; and (4) analyze and evaluate whether differences for nonpublic entities was warranted after reviewing all letters received during the comment period. Soon thereafter, a FASB member with nonpublic preparation experience (Daryl Buck) and an investment analyst with nonpublic company analysis experience (Hal Schroeder) joined the Board.

The Blue Ribbon Panel also recommended a set of decision criteria to be developed for evaluating whether nonpublic entities should have alternative rules. In 2012 the *Private Company Decision Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies* was released. This document set forth six key criteria: (1) the type and number of financial statement users the entity has; (2) the access to management that users of an entity's statements have; (3) investment strategies of users of the company's financial statements; (4) ownership and capital structures at the nonpublic entity; (5) accounting resources possessed by the entity; and (6) learning about new guidance. Also, the Private Company Council (PCC) was

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