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Financialisation and the Conceptual Framework

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ABSTRACT

The ongoing neoliberalisation of global economies has been well documented. Neoliberalism requires a commitment to a broad set of ideas about how political economies should operate, and these ideas underpin the transformations of practice in the process of neoliberalisation—both at a technical and conceptual level. Transactions within a neoliberal economy need to be accounted for in a way that accords with this broader set of ideas. Specifically, the growth of accumulation through financial markets has seen a concurrent growth in accounts that both reflects and reproduces finance at its centre. These accounts are more than just reports; they condition our expectations and support the production of further accounts, which in turn reinforce the dominant political economy. Despite the connection between neoliberalism, financialisation and the practice of accounting, the role of accounting in the *process of neoliberalisation* has received only limited attention. In order to contribute to a deeper understanding of these processes and to the role that accounting plays within them, this paper re-examines the Conceptual Framework (CF) to show how it forms an important part of the architecture of neoliberalism, providing coherence and legitimacy to its key ideas. The current CF project was jointly conducted by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), and is positioned within the broader literature on neoliberalism and financialisation. This paper shows how changes in terminology, shifts in notions of income and the popularity of market valuations (fair value accounting) work to normalise the speculative characteristics of financial markets. Through this newly configured globalised CF, the regulatory architecture of accounting may work to sustain the centrality of finance in a post-GFC economy, despite its many deficiencies.

1. Introduction

By connecting accounting to its broader social context, researchers have been able to show that accounting is deeply ideological (Arnold and Hammond, 1994; Ding and Graham, 2007, p. 301; Hopwood, 1987; Tinker et al., 1982). At no time has this been more evident; the pressures resulting from the global financial crisis (GFC) have drawn accounting back into the spotlight. It was a crisis that required an immediate response. Regulators stepped in to bail out and stabilise as people lost their homes and took losses on their investments. Although the crisis brought about significant pain—experienced by many as housing foreclosures and unemployment—it opened up space for a broader debate about the dominance of financial capital and its social, environmental and economic consequences.

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The GFC prompted some to wonder if our collective faith in the financial markets might come undone. The popular press ran stories with provocative headlines like ‘Casino Capitalism’ (Ferguson, 2008, p. 33); they called for a ‘fresh look at the apostle of free markets’ (Goodman, 2008, p. 3); and identified a growing suspicion of state/market relations with stories that pointed out how ‘free-marketeers abhor the crutch of the state—until they start limping’ (Freedland, 2008, p. 29).

Despite this public discussion about the future of capitalism, the crisis presented an opportunity to reconfigure the relationships between markets and regulators in ways that sustained a post-crisis status quo (Cahill, 2010). In September 2008 the *Financial Times* ran a story outlining six expert views on the global financial crisis and how to ‘restore market confidence’ (Ishmael, 2008, p. 26). Unsurprisingly, the six experts were heads of a variety of financial institutions, and their positions demonstrated how financial market success had become almost unrecognisable as anything other than a public interest endeavour that needed a ‘powerful policy response’ and ‘exceptional government action’ to ‘help reliquefy, recapitalise and re-regulate the system’ (Ishmael, 2008, p. 26). Capitalism in crisis needed the active intervention of regulators to ensure its ongoing survival. In the midst of the GFC, accounting regulators worked hard to produce a new Conceptual Framework, and in many ways they were doing exactly what the six experts wanted. They actively reconfigured the conceptual underpinning of accounting to reinforce markets.

This paper explores the connection between accounting regulations, neoliberalisation and financialisation, by discussing some of the key changes in the current Conceptual Framework (CF) project that is being jointly developed by the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). The stated aim of this joint project is to develop an improved CF for the convergence of International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Practices (GAAP) (FASB, 2008). The two organisations are both highly influential, and thus the convergence project has drawn significant interest from accounting practitioners, academics and the broader community. This is reflected in the number of responses to discussion papers and exposure drafts released by the IASB/FASB,[1] and is further supported by the considerable academic research dedicated to the topic (Bradbury, 2008; Cauwenberge and Beelde, 2007; Dick and Walton, 2007; Goldberg et al., 2006; McGregor and Street, 2007; Rayman, 2007; Wagenhofer, 2009; Whittington, 2008a). However, discussions so far have been largely technical. Few researchers have explored the motivations that underpin the project and the implications these have on emerging practice.

Although the joint IASB/FASB project has eight phases,[2] the discussion presented in this paper focuses on Phase A, which was completed in September 2010 when Chapter 1 The Objective of General Purpose Financial Reporting and Chapter 3 Qualitative Characteristics of Useful Financial Information of the new CF (hereafter called the *Framework 2010*) were released. Our reading of the *Framework 2010* and its role within the convergence project suggests a strategic repositioning of accounting practice as part of the architecture of neoliberalism and as a facilitator of financialisation—and we argue that the improvements (however subtle) are deeply ideological. The *Framework 2010* embeds the values of neoliberalism within the CF, making them a logical core in accounting practice. Such a link between ideology and the CF is not new (Bromwich and Hopwood, 1983; Hines, 1989, 1991; Robson, 1999; Young, 2003, 2006), but we extend this analysis to suggest how the *Framework 2010* works to reinforce the interests of financial capital, and as such, constitutes an important part of the story of both neoliberalism and financialisation.

The remainder of this paper is structured as follows. Section 2 explores the relationships between neoliberalism, capital markets and financialisation, in order to construct a theoretical basis for the analysis. Section 3 examines the CF project within the theories of neoliberalism and financialisation. Section 4 summaries the paper and draws some conclusions.

2. Neoliberalism, capital markets and financialisation

> During the last three decades, the state has played an active, indeed *activist*, role in the introduction, implementation and reproduction of neoliberalism (Cahill, 2010, p. 301).

Over the last forty years the New Right has advocated the privatisation of public services; the deregulation of labour and financial markets; the opening of markets to free trade; and the shrinking of governments through tax cuts, austerity measures and reduced regulation—a combination broadly referred to as neoliberalism (Harvey, 2005). Neoliberalism, it is argued, is in the public interest because a free market can ultimately secure the best possible social and economic conditions for all. Discussions of neoliberalism have thus centred on this changing relationship between the state and the market.

Although neoliberal theory rejects an interventionist or protectionist state as inefficient, in practice, proponents of free markets recognise that the markets they promote cannot exist without a particular type of state.[3] Friedman and Friedman argue that government should:

[1] The response letters are available from: http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm.

[2] Phase A: Objective and qualitative characteristics; Phase B: Definitions of elements, recognition and derecognition; Phase C: Measurement; Phase D: Reporting entity concept; Phase E: Boundaries of financial reporting and presentation and disclosure; Phase F: Purpose and status of the framework; Phase G: Application of the framework to not-for-profit entities; Phase H: Remaining issues, if any. Phase A was completed in September 2010, and Phases B, C and D are currently active (February 2012). More details can be found from IASB's website: http://www.ifrs.org/Current+Projects/IASB+Projects/Conceptual+Framework/Conceptual+Framework.htm.

[3] This is noted by many theorists in this field, such as Freeden (1996), MacEwan (2005), Gamble (2006), as a feature that varies itself with the classical economic liberalism.