



## Regular Paper

# Developments in accounting regulation: A synthesis and annotated bibliography of evidence and commentary in the 2012 academic literature



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## ABSTRACT

In this article, 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 summarize regulation-related academic research. We reviewed academic outlets such as *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 2012 including the foundations of financial reporting, the role of financial reporting in the financial crisis, accounting disclosure, financial reporting choices, international financial reporting standards, and Sarbanes–Oxley and its impact on accounting and auditing quality.

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## Introduction

In this article, we develop an annotated bibliography of research findings in the 2012 academic literature that relate to accounting regulation. We reviewed 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 and detailed summary and analysis of the regulation-related literature for the benefit of practitioners and regulators, and a comprehensive literature overview for academics.

Our time period for this article is 2012. Obviously, we could not review every article related to the regulatory debate. However, we have tried to identify and discuss the articles that are particularly relevant to the key regulatory topics during the year. As such, our annotations are categorized as follows:

- Financial Reporting – General
  - The foundations of financial reporting
  - The role of financial reporting in the financial crisis
- Financial disclosure
- Financial reporting choices
- International financial reporting standards
- The Impact of Sarbanes–Oxley

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## Financial reporting – general

Shortcomings in the accounting standards setting process are often examined by accounting researchers. Additionally, to inform and influence the standard setting bodies, accounting researchers study the conceptual underpinnings of accounting standards. Table 1 presents the financial reporting-related papers. Panel A summarizes papers related to financial reporting in general. Zeff (2012) describes an unusual instance in 1970 when an article recommending a change in initial franchise fee revenue recognition published in the *Journal of Accountancy* was given the authority of an APB *Opinion* by the SEC. The article was likely the result of consultation between the SEC's Chief Accountant Andrew Barr and the AICPA's Committee on Relations with the SEC and Stock Exchanges.

Academic research plays a key role in informing standard setters and helping standard setters to strengthen the conceptual framework. In that vein, several papers in 2012 examine the strength or application of the conceptual framework in an attempt to inform standard setters and better define key measures. Rees and Shane focus on the incomplete definitions of earnings and other comprehensive income (OCI) contained in the conceptual framework. They articulate a strategy built around four attributes that could be used to better distinguish between earnings and OCI. Kadous et al. use an experiment in the fair value context to test whether investors can appropriately apply and the constructs of relevance and reliability. Kadous et al. find that participants use the more assessable construct of reliability when determining the relevance of the measurement. Biondi et al. examine four key conceptual tensions in their

commentary and suggest that more open discussion, debate and compromise in the application of the four perennial tensions: stocks versus flows, *ex ante* versus *ex post*, conventions versus economic substance, would strengthen financial reporting. Kohlbeck et al. summarize the key issues presented during the “Financial Market Regulation and Opportunities for Accounting Research” panel discussion.

As U.S. GAAP moves on a path toward convergence with IFRS, researchers are examining the effects of a principles-based set of standards versus a rules-based set of standards. The archival study performed by Donelson et al. using a sample of resolved securities class action lawsuits from 1995 to 2005 provides evidence against the notion that a rules-based set of standards increases the litigation risk for firms. Collins et al. use lease classification to examine the impact of bright-line standards versus principles-based standards. Collins et al. find that different reporting regimes do lead to different classifications of leases. However, their results also indicated that fears expressed by the SEC regarding greater dispersion in metrics as a result of principles-based standards may be unwarranted.

Two notable studies examine the role of fair value accounting during the financial crisis. These are shown in Panel B of Table 1. Kothari and Lester examine the role of inconsistent implementation of fair value accounting in the mortgage securitization process and conclude that it contributed to the most recent financial crisis. Alternately, Badertscher et al. use an archival methodology to examine the impact of other-than-temporary impairments on regulatory capital during the financial crisis and conclude that fair value accounting provisions in the U.S. accounting rules generally did not affect the commercial banking industry.

**Table 1**  
Financial reporting – general.

Panel A: The foundations of financial reporting	
Zeff (2012)	Describes the development of a <i>Journal of Accountancy</i> Article that recommended a change in the recognition of revenue from franchise fees and effectively had the force of an APB <i>Opinion</i> .
Rees and Shane (2012)	Links academic research on other comprehensive income (OCI) to the FASB/IASB standard-setting efforts and identifies ten standard setting questions related to reporting other comprehensive income. The authors discuss four attributes that could be used to distinguish OCI from earnings and encourage standard setters to adopt a more robust framework for identifying the differences between earnings and OCI.
Kadous et al. (2012)	Shows, experimentally, that financial statement users employ factors related to the underlying reliability of a fair value measurement to assess the relevance of the fair value information.
Biondi et al. (2012)	In hopes of creating an environment of compromise, discusses four key conceptual dimensions of financial reporting: stocks versus flows, <i>ex ante</i> versus <i>ex post</i> , conventions versus economic substance and top-down design versus bottom-up evolution as sources of accounting practice.
Kohlbeck et al. (2012)	This article summarizes the prepared remarks of three of the authors during a concurrent session at the 2011 American Accounting Association Annual Meeting. The authors discussed financial market regulation and opportunities where academic research can inform standard setters.
Donelson et al. (2012)	Examines 353 resolved class action lawsuits alleging GAAP violations and finds evidence that rules-based standards are associated with a lower incidence of litigation.
Collins et al. (2012)	Uses an archival study to determine if the experimental results in Agoglia et al. (2011) hold for leasing by members of the <i>Fortune Global 500</i> . Collins et al. confirm that firms subject to GAAP do report leases differently than firms subject to IFRS.
Panel B: The role of financial reporting in the financial crisis	
Kothari and Lester (2012)	Examine the impact of fair value accounting and certain management incentives on the financial crisis of 2008. The authors believe that the fair value standards should be replaced with rules that place less emphasis on future income and are less likely to produce reports that overstate income and assets.
Badertscher et al. (2012)	Uses a sample of 150 bank holding companies to examine the impact of fair value accounting on commercial banks during the financial crisis of 2007–2008. Focuses on OTTI charges and finds that their impact on regulatory capital was minimal.

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