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WORLDWIDE FINANCIAL REPORTING: THE DEVELOPMENT AND FUTURE OF ACCOUNTING STANDARDS

By: George J. Benston, Michael Bromwich, Robert E. Litan, & Alfred Wagenhofer

The technological advances that have facilitated rapid securities exchange transactions have enabled investors to buy and sell securities anywhere in the world, a valuable feature in a "global" capital market. As equities become increasingly important in investment activities, it is crucial that investors have access to accurate and comparable financial information. However, the standards and practices that dictate how financial reports are prepared and presented can vary greatly from country to country.

The Authors (George J. Benston; Michael Bromwich; Robert E. Litan; and Alfred Wagenhofer) of Worldwide Financial Reporting: The Development and Future of Accounting Standards, review and compare what they refer to as "corporate disclosure regimes" in some of the major industrial countries, including the United States, United Kingdom, Germany, and Japan. Accounting standards were once set by the professional accounting organizations; however, mounting criticisms that these professional accounting organizations lack both incentives and the authority to protect the investors and to prosecute the rule-breakers have led to more multi-faceted organizations assuming the responsibility to set the standards, such as the Financial Accounting Standards Board in the United States and the International Accounting Standards Board. In response to a series of corporate accounting scandals over the past few years, standards are now set by what the authors refer to as a "quasi-official government body," the Public Company Accounting Oversight Board (PCAOB) in the United States, and a similar organization in the United Kingdom. In addition, auditors now face tougher regulations under the Sarbanes-Oxley Act in the United States and the Action Plan in the EU.

In the event of fraudulent financial reports, the United States often turns to litigation. According to the authors, "The Securities Act of 1933 and the Securities and Exchange Act of 1934 allow investors to sue the auditors for gross negligence, even when the investors didn't contract with the auditor and may not have seen the financial statement." The authors also explain that in contrast, the German, Japanese, and British legal systems tend to make litigation difficult to
“mount and to prosecute.” For example, in 1993, Japan gave its investors the right to sue auditors for producing misleading financial reports. Furthermore, CPA firms that are under investigation would have to prove that there is no direct link between a deficient audit report and any alleged damage. Whether this legal “regime” will continue to function remains unclear.

Although certainly well-organized, the book is somewhat subjective. The authors present a good overview of financial disclosure requirements for publicly traded companies, of auditing standards, and of legal enforcement in the United States, United Kingdom, Germany, and Japan. However, readers may have difficulty separating the numerous opinions of the authors from the more objective, factual information. That being said, a corporate attorney could still find the book helpful in understanding the theories behind various accounting standards. This would, in turn, help them to avoid legal pitfalls in foreign operations.

The analysis offered by the authors on current issues, accounting theories, and future trends provides beneficial insights for government regulators, as well as those who are involved in setting the standards for financial reports. However, this book focuses exclusively on accounting standards in a few of the world’s major economies and fails to address the development of global accounting systems. As such, readers may not be getting a full picture of worldwide financial reporting.

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