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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.

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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.

> ...facilitate voluntary exchanges by adopting general rules—the rules of the economic and social game that the citizens of a free society play... a valid duty of a government directed to preserving and strengthening a free society (Friedman and Friedman, 1980, p. 30).

According to the theory, governments should promote 'freedom' through markets. Those critical of neoliberalism see this as a form of re-regulation *for* the market, without which the free market could not operate (Freeden, 1996; Gamble, 2006; Harvey, 2005; MacEwan, 2005; Palley, 2005). Extending this critique, in the context of contemporary economic globalisation, the establishment of the global market has required a suite of international rules and institutions to regulate the growing volume of international trade (with some examples including contract law, patents and arbitration procedures and the IMF, World Bank and the World Trade Organization). While neoliberalism advances policies of deregulation entailing the removal of state regulatory systems that intervene in markets, it also works to reconfigure regulation to facilitate the centrality of the market, which is increasingly a financial one. Given that the aim of the neoliberal state has been to privilege the conditions necessary for capital accumulation, the rising significance of financial capital in the global economy is central to the advancement of neoliberalism (Epstein, 2005; Gamble, 2006; Harvey, 2007). Much of the literature on this relationship (Dore, 2008; Dumenil and Levy, 2005; Epstein, 2005; Foster, 2008; Helleiner, 1994; Krippner, 2004; Mishel et al., 2007; Palley, 2007; van Treeck, 2009) suggests that the process of financialisation involves a systemic transition of profit making from traditional production to the financial sector—such that the state now functions to 'guarantee the integrity and solvency of the financial system' (Harvey, 2006, p. 20), and also:

> Neoliberalism meant, in short, the financialisation of everything and the relocation of the power center of capital accumulation to owners and their financial institutions at the expense of other factions of capital. For this reason, the support of financial institutions and the integrity of the financial system became the central concern of the collectivity of neoliberal states (Harvey, 2006, pp. 24–25).

This view is reinforced by Lucarelli (2012, p. 3) who argues that financialisation is characterised by a transformation of future streams of income into marketable securities, and that this represents a 'profound shift away from direct investment in productive capacity, towards the open financial markets in which profitability can be temporarily boosted through speculative operations in the stock markets'. This shift has seen the proliferation of complex financial instruments and derivatives, and a movement away from the real economy in terms of profit-seeking activity (BIS, 2007; Dore, 2008).

Although financial markets have a history of speculation (Keynes, 1936; Parenteau, 2005), the types of financial instruments traded in contemporary markets offer unprecedented risks and returns. In addition, the penetration of financial capital into other sectors beyond financial institutions has been possible, in part because of the changing managerial behaviour in non-financial companies (NFC) (Boogle and Sullivan, 2009; Coles et al., 2006; Crotty, 2003, 2009). A greater emphasis on the financials has meant that shareholder value could be temporarily boosted through mergers, acquisitions and buybacks, and managers have become more likely to manage NFCs to safeguard managers' capital market-based rewards (i.e., stock options and bonuses) (Palley, 2007).[4] Financialisation has meant that corporate performance is now equated with its financial performance—as reflected in the balance sheets—but not the firm's cash flows or productive activity (Lazonick and O'Sullivan, 2000; Mouck, 1992). In addition, the financial innovations occurring over the last twenty years (such as leveraged buyouts and private equity investing financed by junk commercial papers) were regarded as market efficiency improvements. According to many economists (e.g., Morin and Jarrell, 2001; Palley, 2005; van Treeck, 2009), these compel CEOs to manage firms in a way that satisfies the short-term interests of shareholders as depicted in share price valuations. In recent years balance sheets have become less tangible and are now increasingly dominated by financial assets (Krippner, 2005), and even more cash and profits are distributed to shareholders (Andersson et al., 2007; Lazonick and O'Sullivan, 2000).

Given the context outlined above, we argue that it is through ongoing adjustments to regimes of regulation that financialisation of the global economy has been made possible (French et al., 2011). According to French et al. (2011, p. 801):

> This new form of financially based regime of accumulation... has led to the development of new institutions which serve to stabilize and normalize it.

Globalised accounting regulation forms an important part of institutions that stabilise and normalise financialisation. The development of international accounting standards has been driven largely by the need to accommodate global capital markets. The International Organization of Securities Commissions (IOSCO), the world's securities markets regulator, has been a powerful lobby group for the establishment of single and universal international accounting standards, and has claimed that inconsistent, nationally imposed accounting standards create uncertainty for investors in reading financial reports. This, we are told, hinders the international flow of financial investment (Gaffikin, 2008), and undermines the capacity for financial profits. The endorsement of the IOSCO was seen as critical to the legitimacy of the International Accounting Standards Committee (IASC).[5] This led the IASC to refocus its work by 1987 onto obtaining the

[4] According to Crotty (2003, p. 274): 'the average proportion of the earnings of the top one hundred CEOs that came in the form of exercised stock options rose from 22% in 1979 to 50% in the late 1980s. In the financial boom years of 1995 through 1999, this average rose to 63%. Meanwhile, top CEO pay in all forms rose from $1.26 million in 1970 to $37.5 million in 1999.

[5] The influence of the IASC on global financial reporting was very limited at the time: '[n]one of the founder members of the IASC reported in 1988 having adopted any of the IASCs standards as their national requirements, and only Canada, in one instance, reported that it had used an IASC standard as the basis for fashioning its national standard' (Camfferman & Zeff, 2007, p. 181).

IOSCOs support, so that any member countries must follow its standards for international share listings (Camfferman and Zeff, 2007).

The *1989 Conceptual Framework* emerged from this process, with the expressed ambition to provide:

> a basis for deciding which options should be removed or retained, and for developing new standards... in the sense that a reduction of options was a central criterion in determining the acceptability of IASC standards for cross-border securities offerings (Camfferman and Zeff, 2007, p. 253).

The idea was to support global capital flows through a robust, reliable and relevant accounting system, such as the IFRS (IASB, 2005). This unhindered flow of capital is critical to a global neoliberal economy, as pointed out by Harvey:

> The free mobility of capital between sectors, regions, and countries is crucial which hence requires a removal of all barriers (such as tariffs, punitive taxation arrangements, planning and environmental controls, or other locational impediments) to unhindered capital flow (Harvey, 2005, p. 66).

The globalisation of accounting standards frees one of the local impediments to optimise the conditions for corporations and capital.

The implications of global politico-economic transformation on accounting have drawn significant attention from sociologists in the field of political economy (Boyer, 2007; Martinez-Diaz, 2005; Mattli and Buthe, 2005; Porter, 2005; Power, 2009). However, the relationship between accounting and the broader political economy has been inadequately addressed by the accounting literature since the 1990s (Arnold, 2009a). The majority of studies that examine the relationship between accounting and neoliberalism have only emerged recently (Andersson et al., 2010; Andrew, 2007; Andrew et al., 2010; Arnold, 2009a, 2009b; Cooper et al., 2010; Cronin, 2008; Haslam, 2010; Ishikawa, 2005; Mennicken, 2010; Zhang et al., 2012). Commenting on the current GFC, Arnold reminds us that:

> Accounting research's failure to anticipate the crisis or problematize the relationship between financial accounting, the growth of the shadow banking system, and macroeconomic instability can be attributed, in part, to this cultural turn away from political economy and its critique of capitalism (Arnold, 2009a, p. 805).

This paper contributes to the accounting literature by engaging with this call for a deeper understanding of the underlying impacts of accounting on the political economies in which it operates. The recent instability associated with the GFC provided an opportunity for caution and retreat, and so it is interesting that instead, we have seen a new determination to ensure the survival of financial markets in spite of their apparent failings.

The remainder of this paper considers the role that accounting plays in sustaining financialisation beyond the GFC. We suggest that the *Framework 2010* embeds a globalised commitment to financialisation within the practice of accounting, which in turn works to support and sustain the centrality of financial markets in contemporary economies. Although financial markets are undeniably important, many other interests exist that can and should be served by the practice of accounting; these, we argue, have been made more difficult to imagine and conceptualise. Along with other critical accounting researchers, we argue that the movement towards neoliberalism and the financialisation of the global economy has been lubricated and legitimised, in part through the adoption of global accounting regulations (Boyer, 2007; Hopwood, 2009; McSweeney, 2009; Newberry and Robb, 2008; Roberts and Jones, 2009).

3. ***Framework 2010*: reflecting financialisation**

3.1. Reframing the users and redefining the purpose of accounting information

Although the changes to *Framework 2010* have been subtle, in effect, many of them have been transformative. Specifically, *Framework 2010* has reframed the identity of users and redefined the purpose of financial reporting, both of which have significant impacts on the conceptual and technical orientation of accounting information.

First, *Framework 2010* locates investors at the centre of the reporting process. In the past, the primary users of general purpose financial reporting, as defined by the IASB, were 'present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public' (paragraph 9, 1989 framework). This very broad definition offered a conceptual appreciation of the broader public interest function of accounting practice. It contrasted starkly with the original FASB Concepts Statement No. 1 Objectives of Financial Reporting by Business Enterprises, issued in November 1978, which defines users as investors and creditors (Zeff, 1999). During the process of the 2010 convergence, the definition of 'user' was narrowed to 'existing and potential investors, lenders and other creditors' (paragraph OB2, *Framework 2010*)—reflecting FASBs commitment to capital markets. In explaining the decision to include only 'investors, lenders and other creditors' as the primary users, the IASB notes that these players 'have the most critical and immediate need for the information in financial reports and many cannot require the entity to provide the information to them directly' (paragraph BC1.16, *Framework 2010*). Further, the IASB emphasises that:

> The Board's and the FASB's responsibilities require them to focus on the needs of participants in capital markets, which include not only existing investors but also potential investors and existing and potential lenders and other creditors.

> Information that meets the needs of the specified primary users is likely to meet the needs of users both in jurisdictions with a corporate governance model defined in the context of shareholders and those with a corporate governance model defined in the context of all types of stakeholders (paragraph BC1.16, *Framework 2010*).

In practice, and for a long time, standard setters thought of the shareholder as the primary user of financial reports (Cooper and Sherer, 1984); however, this had never previously been stipulated as overtly as it was in *Framework 2010*. Undeniably, these interests were of concern to all accounting standard setters, but the decision to exclude broader users from the project is symbolic of the success of financialisation, wherein financial markets became a proxy for the public interest. This is reflected in the belief that good investment and lending decisions, made possible through good accounting practice, will trickle down and be good for all of us.

A conceptual shift also occurred, regarding the underlying purpose of financial reporting. Specifically, the idea of stewardship is discussed extensively within the comment letters to the IASB/FASBs *Discussion Paper and Exposure Draft* (ED).[6] The ED discusses the 'Objective of Financial Reporting and Decision-usefulness' in separate sections.[7] It acknowledges the role that financial statements can have in supporting decisions related to the stewardship of an entity's resources, but notes that its reporting requirements could be embraced by providing information relevant to future cash flows,

> ...because management's performance in discharging its stewardship responsibilities usually affects an entity's ability to generate net cash inflows, management's performance is also of interest to potential capital providers who are interested in providing capital to the entity (paragraph OB12, ED, May 2008).

Consequently, in *Framework 2010* the IASB combined those two sections, which 'resulted in eliminating the separate subsections on usefulness in assessing cash flow prospects and usefulness in assessing stewardship' (paragraph BC1.27, *Framework 2010*). Further, 'the Board decided not to use the term stewardship in the chapter', because, it claims, 'there would be difficulties in translating it into other languages' (paragraph BC1.28, *Framework 2010*). Sidelining the objective of stewardship has been controversial (Wagenhofer, 2009; Whittington, 2008a), because 'accountability entails more than the prediction of future cash flows' (Whittington, 2008a, p. 144). Wagenhofer (2009, p. 68) warns that 'the growth strategies adopted by the IASB are risky', because they fail to take into account the diverse objectives of financial reporting. Because stewardship is concerned with monitoring the past as well as predicting the future, from the perspective of public interest, it is often tied to the integrity of management (Puxty, 1986; Whittington, 2008b).

The interests of capital have been privileged in the past, but this objective was not adopted globally and neither were these interests as overt. The IASB's declaration to 'serve the information needs of participants in capital markets' (paragraph BC1.23, *Framework 2010*) reflects this emphasis shift. Institutionalising this objective through the CF ensures that markets are conceptually and materially central to the practice of accounting and financial reporting. Financial markets have long been central to the reporting process, but this overt change in emphasis within the *Framework 2010* provides an insight into how neoliberalisation has been sustained in a post-GFC world.

The next section considers how fair value accounting has worked to reinforce this new conceptual framing.

3.2. Fair value accounting: financialisation and the amplification of risk

Fair value accounting (FVA) relies on markets to offer accurate, up-to-date measurements of the value of assets and liabilities. Theoretically, the assumption underlying FVA is that prices derived from arm's length market transactions reflect effective analyses of all necessary information required to create an accurate valuation (McSweeney, 2009). The adoption of FVA means that the value of the firm is derived from an increasingly financialised balance sheet (and not from the cash flows generated from productive transformations and market exchange). In essence, FVA can only provide these valuations through the market mechanism; therefore, ensuring the viability of a free market is critical. Somewhat paradoxically, a free market must be created and sustained through regulations such as *Framework 2010* in order to enable FVA. This shift in emphasis is supported in two ways: conceptually, through a shift towards faithful representation in which market estimates are allowed; and technically, through a reconfigured comprehensive income statement.

3.2.1. Reliability compared to faithful representation

Both the IASB and FASB agreed to use the term 'faithful representation' to replace the term 'reliability' as a qualitative characteristic of financial information in the *Framework 2010*. This shift represented a move away from previously accepted ideas of substance over form, prudence (conservatism) and verifiability, which had all been aspects of reliability in the 1989 framework.

In developing the *Framework 2010*, the IASB has argued that the term 'faithful representation' (the faithful depiction in financial reports of economic phenomena) encompasses the main characteristics of reliability. Although 'faithful representation' underpinned the interpretation of 'reliability' in both the FASB and IASBs previous frameworks, the complete

[6] Available from http://www.fasb.org/project/cf_phase-a.shtml.

[7] See paragraph OB2 and paragraph OB12 of the ED, May 2008, accessed 15 December 2010, available from: http://www.ifrs.org/Current+Projects/IASB+Projects/Conceptual+Framework/EDMay08/EDMay08.htm.

removal of the term 'reliability' in *Framework 2010* was a significant decision because this change in terminology eliminated the possibility of a trade-off between relevance and reliability (Bradbury, 2008; Whittington, 2008a). Whittington (2008a, p. 148) argues that this trade-off has been 'frequently invoked as a reason for not using fair value measurements, which are perceived as often being relevant but unreliable'. Accordingly, this reframing of the qualitative characteristics of financial information laid the conceptual foundation for fair value accounting to dominate approaches to measurement within accounting practice.

From a technical perspective, substantial concerns remain over the reliability of these kinds of market valuations. Although mark-to-market valuations of many financial assets (such as securitised assets, swaps and collateralised debt obligations) are thought to be readily available in active markets[8] (Plantin et al., 2008), other research indicates that financial assets can be overstated by market valuations (Ackermann, 2009; Christensen and Nikolaev, 2009). In addition, infrequently traded or non-traded assets require considerable management discretion in determining the amount and timing of asset valuation and/or revaluation (McSweeney, 2009). The shift towards 'representational faithfulness' removes the ability to contest FVA on the basis of reliability, and given the obvious relationship between FVA and the market, this shift reaffirms the centrality of financial market information needs in the reporting process.

In paragraph QC15 of the *Framework 2010* the IASB says:

> Free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

Many would agree that the committee's acknowledgement of the uncertainty with which accounting deals is an appropriate observation, but it nevertheless represents a significant departure from past approaches. Accounting has traditionally seen itself as rigorous and neutral, and notions of prudence and conservatism are emphasised in earlier CFs (e.g., in the 1989 framework). As cited above, paragraph QC15 provides additional legitimacy to the estimations that have long been part of accounting practice. In addition, in paragraph OB11 of the *Framework 2010* the IASB emphasises that:

> To a large extent, financial reports are based on estimates, judgments, and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgments, and models.

This recognition of estimation is not present in the 1989 framework. Rather, we can trace this back to the original FASB Statement of Concepts No. 1 Objectives of Financial Reporting by Business Enterprises, issued in November 1978:

> [t]he information provided by financial reporting often results from approximate, rather than exact, measures. The measures commonly involve numerous estimates, classifications, summarizations, judgments, and allocations (FASB, 1978, p. 12).

Accounting involves a considerable degree of estimation and significant choice—the recognition of this has the capacity to empower users to engage critically with the reporting process and to consider the kinds of assumptions that underlie a report. However, it has become virtually impossible to sustain the profession as a reporter of financial *reality*. While such an acknowledgement is welcome, this shift in the CF has the capacity to distance accounting practice from the ideological nature of such estimations and judgements.

Within the context of financialisation, such a shift in the CF can be interpreted as a move to accommodate the inherent uncertainty and volatility of financial markets and the impact this has on accounting valuation. Because the global economy relies on highly mobile financial flows, many of these changes reflect the need for up-to-date information within markets. This helps ensure that users (shareholders and creditors) do not miss out on timely opportunities for short selling in speculative financial markets.

The GFC prompted many to express their concerns about the role of accounting information plays in market volatility. However, the IASB dismissed these concerns:

> The board acknowledged that the interests of investors, lenders and other creditors often overlap with those of regulators. However, expanding the objective of financial reporting to include maintaining financial stability could at times create conflicts between the objectives that the Board is not well-equipped to resolve (paragraph BC1.23, *Framework 2010*).

Despite the concerns raised about market stability after the GFC, the standard setters did not consider this to be a central concern for the *Framework 2010*. Instead, the IASB notes that providing relevant and faithfully represented financial information can improve the confidence of users (i.e., investors, lenders and other creditors, or, in other words, the providers of capital) in the information, and thus contribute to promoting financial stability (paragraph BC1.23, *Framework 2010*). This

[8] These assets are primarily traded through over-the-counter markets.

mirrors the logic of neoliberalism: if the information can be faithfully represented to investors, the market would ensure better outcomes for all than can any regulatory interventions could possibly deliver.

3.2.2. Other comprehensive income

In addition to the new emphasis placed on representation faithfulness, in accordance with the *Framework* 2010, the 'Presentation of Items of Other Comprehensive Income'[9] (OCI) represents another way in which accounting practice has become increasingly financialised.

The reporting of OCI requires a conceptual shift in the definition of earnings. According to the OCI approach, earnings are determined by the value changes of the assets and liabilities, rather than just the residuals, after matching revenues with costs directly incurred during the firm's productive activities. The approach has a long history. In 1980 the FASB started to define revenues, expenses and gains and losses in terms of assets and liabilities in its Concepts Statement 3 Elements of Financial Statements for Business Enterprises 1980:

> Revenues are inflows or other enhancements to assets of an entity or settlements of its liabilities (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations (paragraph 63, FASB Concepts Statement 3, 1980).

This was the first time that the FASB made known its preference for the 'asset and liability view' over the 'revenue and expense view' of earnings (Zeff, 1999). As part of this (re)definition, the FASB described 'comprehensive income' as 'the change in equity (net assets) of an entity during a period from transactions and other events and circumstances from non-owner sources' (paragraph 56, FASB Concepts Framework 3, 1980). According to the FASB, this definition reflected 'a return *on* financial capital' (paragraph 58, FASB Concepts Framework 3, 1980).

During the 2010 convergence, standard-setting bodies proposed a new approach to the presentation of comprehensive income through an ED: the *Presentation of Items of Other Comprehensive Income*, released on 26 May 2010. This proposed the use of a single statement approach to reporting comprehensive income, with profit or loss as a subtotal, and total comprehensive income as the bottom line number. Many respondents to the ED expressed concern that:

> ...presenting total comprehensive income as the last number in the statement would confuse users... [and] requiring all items of income and expense to be presented in a single statement was the first step by the boards to eliminate the notion of profit or loss (paragraph BC11, ED, May 2010).

In the final amendments of IAS 1 (June 2011), the IASB decided not to require a single statement, but gave the option to present one statement of comprehensive income or two separate statements: one of profit or loss and another of other comprehensive income.

The reporting of comprehensive income is interesting because it recognises unrealised gains/losses from value changes of assets/liabilities in income, which departs from the traditional performance concept of income: through matching relevant expenses with revenues generated from operating activities, the income measures firms' real operating performance. Given the pressures presented by the GFC, such a view may be worth reconsidering, because it emphasises performance in relation to the real economy. However, under the current approach, the gains or losses experienced by financial speculation become real—either in terms of reinvesting the earnings or the experience of downside losses. As Heilpern et al. (2009) argue, increased financial leverage has led firms to maintain narrow cash margins on the balance sheet, as well as very thin shareholder equity relative to assets/debt financing. This is likely to provide an inadequate cushion for firms if they need to absorb the impact of asset value changes during a credit market crisis. As an example, the credit losses and goodwill impairment(s) reduced the equity to the point where many banks were no longer viable during the GFC.[10]

As outlined in Section 2, investment decisions are now largely driven by financial speculation, which privileges short-term gains over longer-term earnings. Risky investments not only contribute little to the real economy, but also attract significant resources away from other productive sectors. Instead of providing information that allows an assessment of risk, the focus of reporting comprehensive income significantly obscures and/or normalises the risk associated with financialised earnings. In this sense, the reporting of OCI reflects little, if any, of the performance of traditional earnings-generating activities. Increasingly, fair value measurements provide the basis on which to indicate changes in the value of assets and liabilities, or, in other words, the enhancement of investors' wealth (Whittington, 2008a). However, from the perspective of creditors and shareholders, it provides crucial information in the contemporary business environment in which finance dominates other production sectors (Bryan et al., 2009). In line with this, the statement of comprehensive income focuses attention on movements in the value of capital—whether they are realised or not. As the next section shows, this accounting treatment disguises the speculative nature of financialisation by mispricing and misrepresenting financial risk.

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[9] This is discussed in Phase E: Boundaries of financial reporting, and presentation and disclosure of the CF convergence project http://www.ifrs.org/Current+Projects/IASB+Projects/Conceptual+Framework/Conceptual+Framework.htm.

[10] According to Heilpern et al. (2009, p. 112), 'goodwill held on US bank balance sheets was equivalent to 5 years' worth of net income and 45% of shareholder equity as at the end of the financial year 2007'. Therefore, during the market downturn, goodwill impairment became a significant expense that offset the already very slim net income margin(s) for many US banks.

3.2.3. *Mispricing the risk of financialisation*

The financialisation of the global economy has produced 'a powerful incentive to pursue high-risk, high-leverage strategies' (Crotty, 2009, p. 565) in the capitalist system.[11] The degree of system-wide risks, made apparent by the GFC, has demonstrated the damage caused by excessive risk-taking through financial derivatives. FVA reinforces the belief that market prices offer a correct valuation, despite the complex nature of financial assets and liabilities—and it does little to support risk avoidance during a crisis (McSweeney, 2009). Take collateralised debt obligations (CDO) as an example: in a very general sense, a mortgage-backed CDO converts cash flows from mortgages into tranches that have different risk characteristics (Sumerlin and Katzovitz, 2007). According to Chacko et al. (2006), several thousand mortgages are often combined in a single mortgage-backed security (MBS), and as many as 150 MBSs can be packaged into a single CDO, which is extremely difficult to value. More specifically, considering the price determination,

> Even with a mathematical approach to handling correlation, the complexity of calculating the expected default payment, which is what is needed to arrive at a CDO price, grows exponentially with an increasing number of reference assets [the original mortgages]... As it turns out, it is hard to derive a generalized model or formula that handles this complex calculation while still being practical to use. (Chacko et al., 2006, p. 226)

Investment banks and rating agencies that create these commercial papers use extremely complicated simulation models[12] to price them. These models are understood as 'unreliable and easily manipulated statistical black boxes' and 'market insiders refer to the process through which CDOs are priced as marking to "magic" or to "myth"' (Crotty, 2009, p. 567). However, the inevitable uncertainty involved in the pricing process has been oddly neglected in much of the FVA debate, let alone the IASB/FASBs CF project.

Even more detrimental is the instability of the financial market when it is introduced into the valuation process of the firm through the market pricing mechanism, which does not necessarily reflect the implied systemic risks of financialisation. Under the previous historical cost accounting system, share market prices and estimations based on hypothetical models were not part of the valuation process. Hence, the volatility of the share market was largely isolated, having a very limited effect on measuring values in other economic sectors. In this sense, together with the practice of reporting comprehensive income, FVA allows the volatility in market valuations to be embedded in the internal evaluation produced by the firm. Decision makers from other sectors are less likely to be alerted by this pricing signal because the use of comprehensive income makes profits derived from speculative value changes difficult to detect. This kind of information asymmetry enables key financial actors to transfer risks to other actors in a way that is substantially hidden. The conceptual framing produced by the IASB/FASBs CF project makes a discussion of these risks difficult.

4. Conclusion

Accounting regulation has played a significant role in the story of neoliberalism and financialisation. In part, the uptake in the ideas associated with neoliberalism has been possible because of the subtle transformation of regulatory architecture to reinforce its central ideas. This paper contributes to the extant understanding of the IASB/FASBs CF convergence project through an emphasis on its ideological underpinnings—its capacity to refocus accounting practice towards the needs of speculators in capital markets, away from the broader social and environmental concerns that may reflect the interests of the community at large. This is not an accident, nor should it be considered the natural role of accounting.

This paper shows how the reconceptualisation of accounting through the *Framework 2010* embeds financialised markets at the centre of accounting practice. Specifically, we show that the narrow definition of users in financial reporting—a shift in the purpose of financial reporting and the use of faithful representation instead of reliability—indicates a discursive shift towards the interests of financial capital. In addition, the emphasis now placed on fair values in the calculation of comprehensive income obscures our capacity to identify the nature of profit-making activity.

Over the last four decades, neoliberal theories of deregulation, privatisation and labour flexibility have emerged as popular characterisations of sensible and responsible public policy. In practice, neoliberalism has relied heavily on the reconfiguration of regulation to support the interests of capital (Cahill, 2010; Harvey, 2010). We have also seen a corresponding growth in the power of financial markets. This is evidenced by a shift away from profit making activities within the real economy to financialised profits secured through trading activities directed at maximising short-term speculative gains. Although the GFC called into question the viability of these markets, these events have not been fatal to the logic of financialisation. *Framework 2010* reproduces this logic within the conceptual framing of accounting, turning ideological commitments to financial capital into high quality practical responses to contemporary financial reporting challenges.

[11] According to Crotty (2009, p. 575), 'in 1981 household debt was 48% of GDP, while in 2007 it was 100%. Private sector debt was 123% of GDP in 1981 and 290% by late 2008. The financial sector has been in a leveraging frenzy: its debt rose from 22% of GDP in 1981 to 117% in late 2008'.

[12] They are derived from financial theories with efficient market hypothesis embedded.

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