

# Public Interest Newsletter

Spring 2016



“Placing the public interest above self-interest is the hallmark of a profession”... Eddie Stamp, 1983...

## Special points of interest:

- \* Letter from the Chair
- \* 2016 Mid-Year meeting
- \* 21st Annual Ethic Research Symposium
- \* Editorial Columns
- \* Member Notes

## A Letter from the Chair

Dear Public Interest Section Members,

I hope you are enjoying your spring semester.

I look forward to seeing many of you at the **2016 Midyear Meeting** being held at The Alford Inn in Winter Park (Orlando), FL, on April 1-2. Chairs **Lisa Baudot** (University of Central Florida), **Charlie Cullinan** (Bryant University), and **Pamela Roush** (University of Central Florida) have done a terrific job with this – thanks to you all! The meeting will include a Doctoral/Early Scholar Consortium (sponsored once again by the University of Central Florida) that will be held on Friday morning and plenary and research sessions will be held on Friday afternoon and Saturday.

Thanks also to **Lois Mahoney**, who has been busy as our Section’s Annual Meeting Coordinator. There were over 75 Public Interest papers submitted, along with a number of panel proposals. Lois’ efforts are most appreciated!

You have recently received an update on the progress of the Nominating Committee, being Chaired by **John Thornton**. As immediate past-Chair, John Thornton is serving as the nonvoting chair of this Committee. Voting will take place in April, and you will be contacted by e-mail to vote.

You will also be contacted soon to vote for members of the Nominating Committee for the Editor of Accounting in the Public Interest. I appreciate those of you who have volunteered to serve on this important Committee.

Finally, you should have received the call for **Ethics Symposium submissions** – it was sent on March 10th. The Ethics Symposium will be held on August 7 in New York, immediately preceding the Annual meeting. March 30 is the last day for paper submissions. Thanks to **Charles Stanley** and **Diane Roberts** who are coordinating this year’s symposium. Please make sure to volunteer to help them by serving as a reviewer, discussant, or moderator.

I look forward to seeing you soon.

Respectfully,

Pat Kelly



Patrick T. Kelly

Chair of the Public Interest  
Section, American Accounting  
Association

Chair, Department of Account-  
ancy, Providence College  
School of Business



**Lisa Baudot**  
University of Central  
Florida

**2016 Midyear Meeting  
Co-Chairs**



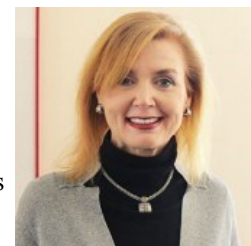
**Charlie Cullinan**  
Bryant University

**2016 Midyear Meeting  
Co-Chairs**

## Join us in Winter Park, Orlando for the Mid-Year Meeting!



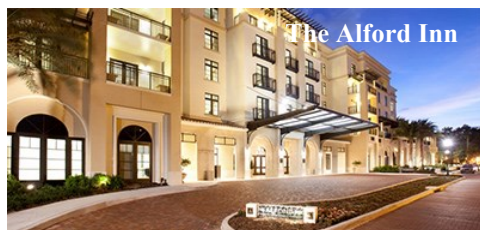
The Public Interest Section Midyear Meeting will be held April 1-2, 2016 at **The Alford Inn in Winter Park, FL (Orlando)**. The meeting will include a **Doctoral/Early Scholar Consortium** on Friday morning and plenary/panel and research paper sessions on Friday afternoon and Saturday. All attendees will receive breakfast, luncheon and a reception.



**Pamela Roush**  
University of Central  
Florida

**2016 Midyear Meeting  
Co-Chairs**

Doctoral students and early scholars are invited to participate in the Consortium on Friday morning, April 1. This consortium will focus on how contemporary issues (including accounting information systems, professional and business ethics, and social and environmental accounting and reporting) are linked to the public interest.



**Thanks to a generous sponsorship from the University of Central Florida's Kenneth G. Dixon School of Accounting, Doctoral/Early Scholar Consortium is free.**

The common theme for the AAA Public Interest Section is how accounting research and education advance the public interest. The meeting will provide participants with an opportunity to showcase their research and participate in the discussion of others' research in concurrent sessions, to hear from colleagues regarding contemporary developments in PI topics, and to collaborate with PI colleagues.

*See you in Orlando!*

## Our Speakers



and University of Illinois at Urbana-Champaign.

**Audrey Gramling** is the Council Chair (2015–16) at the American Accounting Association. In July 2014, she began serving as the Accounting Department Chair and Professor at Colorado State University. Previously, she held the Treece Endowed Chair and was Accounting Department Professor and Chair at Bellarmine University and has been on the accounting faculty at Kennesaw State University, Georgia State University, Wake Forest University,



**Edward D. Kleinbard** is The Ivadelle and Theodore Johnson Professor of Law and Business at the University of Southern California's Gould School of Law, and a Fellow at The Century Foundation. He is the author of a book, ***We Are Better Than That: How Government***

***Should Spend Our Money***, published in October 2014 by Oxford U. Press. In reviewing the book, Pulitzer prize-winning journalist David Cay Johnston described it as “a masterpiece of tax, fiscal, and economic policy.”



Business [Kluwer Law International, The Hague], [Aspen Legal Education, Cambridge], Senior Vice President and Group Publisher of Aspen Publishers, and former President of Panel Publishers/Wolters Kluwer.

**Richard H. Kravitz** is currently Editor In Chief of the CPA Journal and Managing Director of Publishing and Content for the NY State Society of CPA's. He is former Executive Vice President of Wolters Kluwer Law and

**Michael Kraten**, PhD, CPA is an Associate Professor of Accountancy at Providence College. His research and teaching specialties focus on social and behavioral accounting issues that impact the public interest. He has won the Innovation In Teaching Award at the AAA Annual Symposium on Ethics Research in Accounting and the Best Research Paper award at the AAA Annual Workshop of the Strategic and Emerging Technologies (SET) Section.



## Mid-Year Conference Registration Information

📅 Start Date - End Date

April 01, 2016 - April 02, 2016

🕒 Early Bird Discount Deadline

Monday, February 29, 2016

🕒 Registration Deadline

Friday, April 01, 2016

# NEW YORK 2016

## 21st Annual Ethics Research Symposium

**Sponsored by the AAA's Professionalism and Ethics Committee  
and the Public Interest Section  
2016 Annual Meeting, New York, NY**

The American Accounting Association's [Professionalism and Ethics Committee](#) and [Public Interest Section](#) invite submission of papers, cases, and panel session proposals for presentation at the 21st Annual Ethics Research Symposium on Sunday, August 7, 2016, in New York, NY. The 21st Annual Ethics Research Symposium will immediately precede the AAA Annual meeting concurrent sessions.

The AAA's Professionalism and Ethics Committee is charged, in part, "to encourage and support accounting ethics education and scholarship in universities, and to set a tone for instilling a greater sense of professionalism and ethical conduct in the practice and teaching of accounting." Accounting ethics and professional responsibility are at the core of the profession's obligation to serve the public interest and honor the public trust. Academic research plays a critical role investigating causes and consequences of ethical practice and/or failure at the systemic level, the organizational level and the individual level. Our work can be informed by multiple research methods and theoretical paradigms. The 21st Annual Ethics Research Symposium encourages submissions of academic research, teaching papers, panel sessions and case studies that address relevant issues in accounting ethics. Submitted research should focus on those with implications for enhancing practice and/or teaching. Submissions should follow the format used in AAA journals or one of the journals listed below that are associated with the symposium. **Contributions from members of all AAA Sections are invited.**

Contributors may receive invitations from the following journals that are associated with the Annual Ethics Symposium: Accounting and the Public Interest, Critical Perspectives on Accounting, Global Perspectives on Accounting Education, and Research on Professional Responsibility and Ethics in Accounting. At Sunday's Accounting Exemplar Luncheon, the Accounting Exemplar award will be presented by the Public Interest Section, and the AAA Pro-

fessionalism and Ethics Committee will award an Emerging Scholar Research Award in Accounting Ethics. In addition, the Symposium will recognize other research including: the Best Research Paper, the Best Innovation for Teaching, the Best Paper by a current doctoral student, and the Best Paper by a recent graduate (graduation from a doctoral program must have occurred within the last 3 years).

SUBMISSIONS will be accepted through March 30, 2016 at our AAA website: <https://www2.aaahq.org/AAAFForms/AM/formETHICS.cfm>. The success of the Symposium relies upon all its participants. To participate as a reviewer, discussant, or moderator, please volunteer by using the hyperlinks shown at the top of this announcement.

**NOTE:** A reception is planned for Saturday, August 6th at 6:30 p.m., so come out and meet new colleagues, greet old friends, and welcome doctoral students to our premier group of ethics researchers! Questions can be sent to Diane Roberts, University of San Francisco, [robertsd@usfa.edu](mailto:robertsd@usfa.edu) and Charles Stanley, Baylor University, [charles\\_stanley@baylor.edu](mailto:charles_stanley@baylor.edu)

*Ethics Research  
Symposium*



## Editorial Columns

### Frustrated By Accounting Standards: Set Your Own / by Prem Sikka

Western societies are characterized by competition and pluralism. Yet there is little of it in accounting standard setting. This presents opportunities for academics and civil society organizations to formulate accounting standards and broaden the field of choices.

Yes, it can be done! A good example is what has come to be known as Country-by-Country-Reporting (CBCR), a competitor for segmental reporting. CBCR requires large companies to publish sales, profits, taxes, assets, employees and related data for each country of their operations. It can highlight mismatches between the various components and draw attention to profit shifting by companies to avoid taxes and thus alert citizens and tax authorities to take action. CBCR can alert investors to risks of tax related litigation. It can also be extended to cover carbon emissions and other country specific data.

A form of CBCR was developed by Richard Murphy, a co-founder (with the author and others) of Tax Justice Network (TJN). An initial draft was published by the [Association for Accountancy Affairs](#) (AABA) in January 2003 and adopted by TJN. TJN has chapters in a number of countries, including the US. CBCR was adopted by Christian-Aid, Publish What You Pay, War on Want, Global Witness and other NGOs. Civil society mobilized support for CBCR across many countries through social media (facebook, twitter, emails) and meetings. Alliances were built with academics, journalists, trade unions, legislators and opinion formers across the world.

CBCR was opposed by big corporations, accounting firms and professional accountancy bodies. For example, [Deloitte](#) stated, “we do not believe that imposing incremental country-by-country disclosure in financial statements prepared under IFRSs is warranted”. Supporters of CBCR sought dialogue with the UK’s accounting standard setter, the Financial Reporting Council, and the International Accounting Stand-

ards Board (IASB). Both refused.

In 2006, the IASB sought revision of Segmental Reporting by publishing what eventually became known as the International Financial Reporting Standard 8 (IFRS 8). Nearly 80 NGOs commented extensively on the exposure draft and called for the adoption of CBCR, but to no avail.

The encounter raised questions about the due [processes of the IASB](#). This was amplified by [institutional investors](#) well. The IASB became the subject of critical motions in the [UK](#) and [European Parliament](#). Support of [prominent](#)



Prem Sikka

University of Essex, UK

[members of the European Parliament](#) was secured for an [investigation](#) of the IASB’s process for formulating accounting standards, with particular emphasis on IFRS8. In September 2007, a report by the [European Commission](#) endorsed IFRS 8, but a report presented to the [Economic and Monetary Affairs Committee](#) of the European Parliament urged that the current version of IFRS 8 should not be adopted. The [European Parliament](#) approved a motion to advance CBCR. The project became heavily [politicized](#).

There is insufficient space here to go through the politics of this skirmish between the IASB and civil society

organizations. Eventually, IFRS 8 was approved, but with a requirement to revisit it. The alliance of civil society, institutional investors and other stakeholders generated conditions of the creation of mechanisms for greater oversight of the IASB. Some details are provided in Kees Camfferman and Stephen Zeff’s 2015 book “Aiming for Global Accounting Standards: The International Accounting Standards Board, 2001-2011”.

US lawmakers were lobbied and by a coincidence elements of CBCR became part of the Dodd-Frank Act 2010. [Section 1504](#) of the 2010 requires extractive industry companies (oil, gas, mining, logging) to disclose their country and project-level payments to host governments each year. By 2013, the European Union (EU) developed [Accounting and Transparency Directives](#) to highlight payments to government (e.g. tax) by extractive industries.

Following Article 89 of the EU 2013 Capital Requirements Directive IV (CRD IV) elements of CBCR also apply to [financial institutions](#). They are required show their turnover, profits, taxes, employees and public subsidy for each country of their operations.

CBCR has remained on the tax transparency agenda. The Organisation for Economic Cooperation and Development (OECD) has been persuaded to embrace CBCR. However, in October 2015, the [OECD](#) recommended that the CBCR should only be made available to national tax authorities. In [July 2015](#), European parliament voted by 550 votes to 57 to recommend that CBCR should be a publicly available document, a position supported by civil society activists. This call is supported by UK’s Labour Party, but opposed by the ruling Conservative Party though the signs are that [the government](#) may shift its stand.

The full story of CBCR is yet to be writ-

ten, but it shows that academics and others can organize and formulate accounting standards to enhance disclosures and transparency. The power of traditional standard setting bodies can be overridden by building alliances with significant others.

### Bespoke Tranche Opportunity: It's déjà vu all over again / by Steven Mintz



**Steven Mintz**

**Professor of Accounting  
Cal Poly State University**

We've been there before. The movie "The Big Short" explains how and why the financial services industry helped to bring down our economy during 2007-2008. Banks took home mortgage loans that were made based on shaky credit and pooled them into a basket of mortgage-backed securities (MBS) that were backed by the homes. These were sold to unsuspecting investors including other financial institutions (think Lehman Brothers) that wanted to receive a steady stream of cash flows from mortgage payments. Little did they know the underlying assets were all-too-often worthless because they were based on subprime loans. So the investors hedged their bets by finding a sucker to buy off the MBS through a collateralized debt obligation (CDO). Now, as the movie portrays, these investors grew nervous as some prognosticators preached doom and gloom causing the investors to approach other financial institutions (think AIG) to hedge their risk by betting against the very instruments they bought by acquiring credit default swaps (CDS). Confused! Go see the movie it cleverly explains the process.

Well, as the great Yogi Berra said: "It's déjà vu all over again." Along comes the "bespoke tranche opportunity", which allows investors to place wagers on the outcome of various loans, bonds, and securities in which they are not directly invested. "The "bespoke" version flips that CDO business dynamic around. An investor tells a bank what specific mixture of derivatives bets it wants to make, and the bank builds a customized product with just one tranche that meets the investor's needs.

Bespoke CDOs are a relatively new instrument in the financial world. They allow investors to target very specific risk/return profiles for their investment strategies or hedging requirements. In reality, the arranger demands a good deal of input into the selection of the reference portfolio. Most investment managers control their risks by buying and selling protection on a single-name CDS or by linking losses to a corporate credit index like the CDX or iTraxx; therefore, they usually avoid taking positions in CDS that cannot readily be traded.

A logical question is why would investment managers tread lightly in an area similar to one that has burned them before? The answer is that interest rates have been kept low by the Federal Reserve so investment banks are becoming impatient with not being able to make what they deem to be enough profit off corporate and Treasury bonds, and therefore have started playing in the "financially structured product" game.

It goes deeper than that. Only one high-profile participant in the financial disaster has been sent to jail – Kareem Serageldin, an executive at Credit Suisse who once earned nearly \$7 million a year. This has created a moral hazard effect where investment bankers now figure the worst that can happen if they cross the line is a financial penalty with no jail time. So why not jump into the choppy waters of structured financial instruments once again?

The financial crisis and its aftermath created a hole in the moral ozone that is supposed to serve as a check on excessive, risky behavior by investment bankers. It is a breach that, in my opinion, is irreparable absent any dramatic steps to better control the risk appetite of some in the financial services industry. This saddens me because the last thing we need is more government regulation. Unfortunately, it may be necessary because the very ethical standards that are supposed to protect the public under capitalism have broken down. Adam Smith in his iconic *The Wealth of Nations* stated that: By pursuing his own interest he [the capitalist] frequently promotes that of the society more effectually than when he really intends to promote it. His theory no longer describes the way our free market economy works and its breakdown explains, in part, the economic gap in our society.

## Should Audit Engagement Partners be required to Sign Reports with their Names? / by Steven Mintz

The PCAOB has been battling the audit profession for years on the issue of the disclosure of the name of the engagement partner in the audit report. A compromise of sorts was reached last December that calls for the name of the engagement to be disclosed on new Form AP, *Auditor Reporting of Certain Audit Participants*. AP also will require disclosure of the other firms that participate in public company audits, as well as their percentage of participation. Filing of Form AP with the PCAOB will be required no more than 35 days after the audit firm files the audit report with the SEC. The form will be available to be reviewed by the public on the PCAOB's website.

For comparison sake, the International Auditing and Assurance Standards Board (IAASB) that sets auditing standards on a global basis has issued a new standard effective December 15, 2016, requiring that engagement partners physically sign the audit report with their names instead of the name of the firms, as is done in the U.S. The ethical question is whether this is the right thing to do in the U.S.? After all, if it is not or is unlikely to make a difference with respect to audit efficiency and effectiveness, then why do it?

Those who argue for the change believe it will hold auditors accountable for their work and protect the public interest. Those who argue against it say because more than one partner is typically involved in an engagement, why signal out the engagement partner to sign the report? Even though the disclosure of the engagement partner will not appear in the publicized audit report, there may be unintended consequences of its disclosure on PCAOB's website.

Supporters contend that requiring disclosure would motivate auditors to do a better job and remind them of their responsibility to the public. In addition, the greater visibility would eventually make investors more capable of assessing audit quality and performance. The disclosure would facilitate the ability of shareowners to obtain useful information about the track record of lead audit partners. Ethically, disclosure is warranted because it provides information that many investors have a right to know.

On the other hand, engagement partners are already held accountable by their employers, regulators, firms, audit committees and investors. It would seem these multiple layers of accountability provide a significant incentive for engagement partners to conduct high quality audits in accordance with professional standards.

Big Four firms have lamented the need for such a proposal and possible unfair series of lawsuits targeting just one auditor, the one who signs the report. Audit firms point out that several partners are involved in formulating the final opinion including the lead audit partner, the engagement partner, a technical review

partner, and the managing partner of the firm. Firms also point to secrecy issues in their response to the proposal.

It is important to realize that checks and balances on ethical behavior of auditors already exist and the disclosure of the name of the engagement partner adds nothing to it. The AICPA Code and PCAOB audit, independence, and ethics standards already hold in check bad behavior by the firms and all of its partners.

Does the PCAOB really believe that such disclosure will lead to more effective audits that better represent the public interest? If so, their confidence in the profession is already shaken and raises important questions about the degree to which the Board trusts auditors and the profession. A relationship of trust between both parties is essential and should be based on the notion of "trust but verify", as does the PCAOB through its inspection process.

With respect to the global environment and the IAASB standard, in Europe auditors are appointed by shareholders and shareholders approve their remuneration. In the U.S. the audit and accounting standards are not seen as a shareholder accountability mechanism but a market accountability mechanism. These differences argue against the need for single auditor signatures.

## Exercise Caution: A New S&P Index / by Michael Kraten

At first glance, the announcement was an impressive one. At the swanky World Economic Forum in the Swiss resort town of Davos last week, the Canada Pension Plan Investment Board joined Standard & Poor's in announcing the creation of the new S&P Long-Term Value Creation Global Index.

Standard & Poor's, of course, is the global provider of financial information that maintains a corporate mission of providing "data and research ... (that is) independent, transparent and cost effective." Presumably, S&P achieves its mission by utilizing its own expert professional staff to create clearly defined financial metrics without undue influence from — or overt reliance on — asset management and investment advisory firms.

In fact, that's exactly what S&P is claiming to do with its new Long-Term Value Creation Global Index, comprised of 246 companies that purportedly "have the potential to create long-term value based on sustainability criteria and financial quality." S&P continues:

The S&P LTVC Global Index is constructed by combining qualitative and quantitative measures into a single metric to determine the potential for long-term value addition. The Economic Dimension Scores provided by RobecoSAM are included in the qualitative assessment to gauge corporate governance effectiveness. The quantitative assessment consists of drivers of long-term investment returns – Return on Equity, Balance Sheet Accruals ratio and leverage ratio.

Okay ... but what is RobecoSAM? And are those investment metrics expertly and transparently designed to focus on long term value creation? In addition, doesn't more than one balance sheet accrual ratio actually exist? And more than one leverage ratio as well?

Apparently, RobecoSAM is an asset management company. And one can find those investment metrics in elementary primers of standard accounting financial statements. And yes, there are many accrual and leverage ratios in active use by financial specialists.

In other words, S&P's new Global Index of Long Term Value Creation simply takes a set of qualitative metrics that is computed by a single asset management company, and combines it with a set of generic and undefined financial metrics. Although S&P's press release appears to imply that its qualitative assessment function encompasses other activities, it doesn't specifically describe any additional work.

To be sure, the Canadian Pension Plan Investment Board should be commended for attempting to promote a long term value perspective in the financial industry. And S&P should certainly be encouraged to continue its mission of developing expert metrics that are "independent, transparent, and cost effective."

Nevertheless, when the qualitative component of an S&P index emphasizes the metrics of a single asset management firm, it doesn't bode well for the firm's mission of independence. And when an index provides no detailed description of its investment metrics or its other qualitative assessment activities, it doesn't bode well for the firm's mission of transparency.

One could argue, of course, that such effortless approaches to constructing indices may help S&P achieve its mission of cost effectiveness. Nevertheless, given these other concerns, financial investors might wish to exercise a bit of caution while reviewing the S&P Long-Term Value Creation Global Index.



**Michael Kraten**

**Providence College**

### **Yet Another Global Banking Scandal / by Michael Kraten**

Just when we thought that the global banking industry couldn't possibly produce another financial scandal, guess what happened last week?

To view the entire article, please visit: <http://aqpq.org/2015/11/08/yet-another-global-banking-scandal/>

### **Your Employer And Your Health / by Michael Kraten**

Have you seen SPECTRE, the latest James Bond film? It includes a scene in which South Africa decides to oppose the other nations in the world's G-9 by refusing to share private data about their citizens in an initiative to fight terrorism...

To view the entire article, please visit: <http://aqpq.org/2016/01/31/your-employer-and-your-health/>

## **Member Notes**

**Murphy Smith**, along with coauthors Wayne Tervo and Jenifer Axtell, received the Distinguished Research Award at the October 2015 Meeting of the Allied Academies, held in Las Vegas. Their award-winning paper was titled: "The Advent of Accounting: A Historical Analysis."

**Steven Mintz** has recently been featured on Cal Poly's "Ethically Speaking - Questions and Answers". Steven explores everything from the VW scandal to bank bailouts from an ethical perspective. To view the entire interview, please visit: <http://magazine.calpoly.edu/winter-2016/questions-answers-ethically-speaking/>

**Dennis Huber** has recently published a paper titled, "The SEC's Ultra Vires Recognition of the FASB as a Standard Setting Body" in the Richmond Journal of Law & the Public Interest.