



Public Interest Section Newsletter

Edited by Jim Staihar and Sarah Stanwick with assistance from Lawrence Chui and Byron Pike

Spring 2013  "Placing the public interest above self-interest is the hallmark of a profession"... Eddie Stamp, 1983...

Special points of interest:

- * Letter from the Chair
- * Looking back and forward
- * 2013 Mid-Year Meeting
- * 18th Ethics Research Symposium
- * News on the Libor scandal
- * Letter from past and incoming editors of Accounting and the Public Interest
- * Acting in the Public Interest

A Letter from the Chair

To the Members and Friends of the Public Interest Section,

As Chair of the Public Interest Section, a section that is home to the most thought-provoking, diverse, idealistic, skeptical, and hopeful scholars in the American Accounting Association, I invite you to read the Spring 2013 Public Interest Section Newsletter. My thanks to Jim Staihar and Sarah Stanwick who jointly edited this year's newsletter. Also, I want to extend a special thanks to all of our contributors, including Tony Bromell of the Institute of Chartered Accountants in England and Wales, and many of our own members, including Lawrence Chui, Tim Fogerty, Amy Hageman, Lori Fuller, Michael Kraten, Byron Pike, Sue Ravenscroft, Robin Roberts, Tara Shawver, Donna Bobek Schmitt, and John Sennetti.

I can think of no other place in accounting academe that pursues with as much passion the ultimate purpose of accounting—the truth. The public's call for full and fair disclosure of an entity's performance, for corporate accountability to their stakeholders and stockholders, and for accurate information about the financial activities of the institutions and individuals that serve and are served by its citizens demands critical thought leadership bred through open dialogue among philosophers, scholars, and professionals. To each of you, thank you for joining us in this pursuit.

There are several upcoming events sponsored by the Public Interest Section, beginning with the Mid-Year Public Interest Section Meeting in the heart of New Orleans, March 22-23rd (Hyatt French Quarter) (http://aaahq.org/meetings/2013PI_FIA_calls.cfm), jointly sponsored by the Forensic and Investigative Accounting Section. This year's meeting, coordinated by Amy Hageman and Donna Bobek Schmitt, includes a doctoral/new scholars' consortium (a special thanks to Barbara Merino who has again given generously to support this effort), several research sessions, and outstanding keynote speakers including the Public Interest Section's own Vice Chair of Research Michael Kraten presenting his groundbreaking work on the Libor scandal that has rocked the global finance industry.

Also, plan to join us August 3-7 in Anaheim, California, at the *AAA Annual Meeting* (<http://aaahq.org/AM2013/index.cfm>) for three back-to-back-to-back events, beginning with the *Advanced Ethics Boot Camp* Saturday afternoon, the *18th Annual Symposium for Research on Accounting Ethics* Sunday (<http://aaahq.org/PublicInterest/ethics.cfm>) jointly sponsored by the *AAA Professionalism and Ethics Committee*, and several research sessions at the Annual Meeting Monday through Wednesday.

My sincere thanks to all of you for your support of these events, from coordinators to reviewers to moderators to discussants to panelists to presenters to participants. I wish I could thank each of you personally and individually, but there isn't enough space on the page or in my memory to do so adequately. Instead, I'll settle for encouraging you to continue the work you're doing and to join us for as many of these events as you can. I look forward to seeing you in the near future.

Warmly,

John



John M. Thornton, Ph.D., CPA

Chair of the Public Interest Section
American Accounting Association

Professor, Leung Chair of Accounting Ethics
L.P. and Timothy Leung School of Accounting
School of Business and Management



I have been asked to say a few

Sue Ravenscroft

Iowa State University
Past Chair of the Public Interest Section
American Accounting Association

words about serving as Chair of the Public Interest Section. Before I talk about myself, though, I would like to offer thanks to all of you who helped me out. Some people stand out for various reasons. Pamela Roush was a mentor in many ways, and we always could make each other laugh. Barbara Merino Mayer's profoundly generous gift to the section will continue to benefit us all for years. Alan Mayer's enthusiasm for the idea of a mid-year meeting was another lasting gift. And then all of you who helped me and stepped up in so many ways. Lois Mahoney, Dawn Massey, Michael Kraten, Pat-

rick Kelly, and Christine Early helped early in my term when I was less sure about asking people to serve. And I must acknowledge with great fondness the three members who were willing to join in my musical stepping-down ceremony at the AAA Annual Meeting – Byron Pike, Lawrence Chui, and the golden-voiced Christine Denison. But I owe thanks to many more of you for helping out in so many ways. Please do not feel that if your name doesn't appear I am not grateful.

When I told people outside of academic accounting I was chairing the Public Interest Section, I had a standard spiel I gave to expand on what that meant. I would explain that most of the work is behind the scenes and involves making sure certain procedures were

followed and getting people who are already very busy to do even more. (So I digress to say, when John Thornton calls or e-mails, please say "yes." And say "yes" to the generous volunteers who are organizing the mid-year meetings, the annual meetings, or the regional meetings.)

In my spiel, I would then add that the Public Interest Section comprises the most intellectually active, socially aware, politically passionate, argumentative, opinionated, provocative, and just-all-around interesting group within the AAA. (Depending on whether I was feeling stressed or overworked at the time, I might add that being so energetic and committed, members of the Public Interest Section also tended sometimes to be a little challenging to organize or influence in simple, orderly ways.) But

my enthusiasm for this section and for its mission did not diminish during my term as chair.

In fact, I feel more strongly than ever that we as accounting educators need to take strong stances on public issues related to accounting broadly conceived. I keep trying to imagine what a group called Accountants Without Borders, emulating the Nobel Prize winning, brave and generous physicians' group, could be and do. I write letters to editors about issues relating to public finances. I volunteer in groups and use my status as an accounting professor to justify having a seat at the table. I admire Linda Ruchala, Prem Sikka, and Christine Cooper for taking public stances on contentious issues. Let's continue to support and inform each other in our efforts to use accounting to promote the public interest.

18th Annual Ethics Research Symposium

The Ethics Research Symposium is a one-day event on Sunday, August 4th, 2013. The Symposium immediately precedes the Annual Meeting of the American Accounting Association and is co-sponsored by the Public Interest Section and the Professionalism and Ethics Committee of the AAA. The main purpose of the Symposium is to foster and promote research in the infinitely important area of accounting ethics.

Ethics

The financial scandals over the prior decade reiterate the need for ethics to be stronger today in order to atone for the past. The need for credible and reliable financial information is paramount for decision making purposes. The public relies on the principles of honesty, integrity and objectivity that are the bedrock of the accounting profession. Because ethics extends to all aspects of life, including corporate America, the practice of accounting and education, there is a need for research to extract, interpret and extol its use and benefits. It is our hope that the research presented at the Symposium will further extend the knowledge of today.

Research

New for the 18th Annual Ethics Research Symposium is the plenary session to be held after the breakfast and forum session. Our goal is to obtain a renowned speaker to give the Symposium a firecracker start. Due to the growth of the Symposium, a fourth breakout room has been planned. This fourth room will allow us to limit the number of papers per session to three, which we believe will allow more time for both presenters and discussants alike. There will be four total breakout sessions, where each will be allotted a full hour and fifteen minutes. To reenergize the participants after the third session and before the fourth, there will be a quick round of calisthenics.

Symposium

Sponsored by the AAA's
Professionalism and
Ethics Committee
and the Public Interest
Section ~ 2013 Annual
Meeting, Anaheim, CA

18th Annual Ethics Research Symposium (cont'd)

We are delighted to announce that papers submitted to the Symposium shall be considered for publication by the following journals: *Accounting and the Public Interest*, *Global Perspectives on Accounting Education*, and *Research on Professional Responsibility and Ethics in Accounting*.

We would be ecstatic to have two reviewers for each submitted paper. However, that will depend on the number of reviewers we obtain. We strongly encourage those who have performed ethics research in the past to volunteer to be a reviewer for the Symposium.

Researchers who wish to submit their manuscript to the Symposium should use our AAA website. Submissions will be accepted **starting** February 15th through April 1st 2013 at <https://aaahq.org/AAAFForms/AM2013/formETHICS.cfm>. Note that all papers should be in a pdf format. Instructions for submission can also be found at this site **after** February 15th, 2013.

The success of the Symposium relies on its participants. To participate as a reviewer, discussant, or moderator, please volunteer **beginning** February 15th 2013 at our AAA website: <https://aaahq.org/AAAFForms/AM2013/formETHICS.cfm>.

Our last enticement to encourage participation is the meet-and-greet cocktail session on the Saturday evening prior to the Symposium. This is an unpressured event for participants to greet old friends and meet new ones. Remember Saturday night stays usually mean lower airfare!

Any questions should be addressed to either of the co-directors of the Symposium: Tara Shawver (tarashawver@kings.edu) or Lori Fuller (lfuller@wcupa.edu).

2013 Mid-Year Public Interest Meeting

The Public Interest Section of the American Accounting Association is pleased to announce the **6th Annual Mid-Year Meeting of the Public Interest Section**. This meeting will be a *joint meeting with the Forensic and Investigative Accounting (FIA) Section* to be held in historic New Orleans, LA at the Hyatt French Quarter from **March 22nd to 23rd, 2013**. The hotel is adjacent to Bourbon Street and is located within walking distance of the Audubon Aquarium, Jackson Square, Royal Street shopping, French Market, Streetcars and the New Orleans Superdome!

The meeting will include a Doctoral/New Scholar Consortium on Friday morning, and plenary and research paper sessions on Friday afternoon and Saturday. All attendees will be able to choose

between FIA and Public Interest section events, with joint breakfast, luncheon, and receptions open to all.

We have encouraged submissions from a wide variety of perspectives and methodologies. The unifying theme for our section is how the research contributes to furthering the public interest, which encompasses a broad and eclectic assortment of research topics. We have welcomed papers from all accounting disciplines. There will be an award for best paper overall and best paper from an emerging scholar.

You can register for the meeting online here: http://aaahq.org/meetings/2013PI_FIA_online.cfm.

The Mayper Endowment will sponsor 5 travel grants in the



See you in New Orleans!

amount of \$200 each for doctoral students and faculty who have completed their doctoral degrees within the last 3 years to attend the Mid-Year Meeting. In addition, the Public Interest Section will waive the meeting registration fee. The travel grants will be awarded on a first come-first

served basis. To request a travel grant, please contact Donna Bobek Schmitt at dobek@bus.ucf.edu.

We look forward to seeing you in New Orleans!
Donna Bobek Schmitt and Amy Hageman
Mid-Year Meeting Co-Chairs, Public Interest Section



Donna Bobek Schmitt

Associate Professor and Kenneth G. Dixon Research Fellow
UCF College of Business Administration

Amy Hageman

Assistant Professor
Department of Accounting
Kansas State University



What's New About Libor?

Are you wondering "what's new" about the Libor scandal? One way to learn the current news about what the Economist called "the biggest securities fraud in history" (July 7, 2012 print edition) is to attend the Mid-Year Meeting of the Public Interest Section in New Orleans, LA on March 22 and March 23, 2013.

Professor Michael (Mike) Kraten of Providence College will deliver the luncheon address on the second day of the conference. Working with three co-authors, he first produced a forensic research manuscript that raised red flags about the possibility of rate manipulation in 2008. Then he presented and discussed his work at the Mid-Year Meeting of the Public Interest Section two years later.

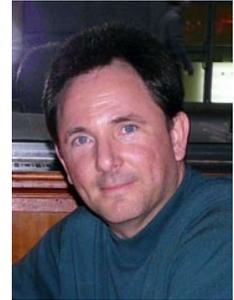
But things didn't get interesting for Mike until a member of the British House of Par-

liament unexpectedly cited his research during a floor debate regarding banking regulations. Suddenly, he was in demand, and subsequently he was interviewed (or his work was cited) in news outlets like Bloomberg Businessweek, CNBC, the Financial Times, L'Express (France), Linkiesta (Italy), and Market Watch.

Since last summer, Barclay's, UBS, and RBS have respectively paid fines of \$451 million, \$1.5 billion, and \$612 million in settlements of government charges regarding rate manipulation. They now face the possibility of civil charges as well, along with the dozen or more other global

banks that contribute to the Libor rate mechanism.

During his luncheon address at the Mid-Year Meeting, Mike will discuss the historical context of the rate scandal, the research methodology that he and his co-authors utilized to uncover evidence of the manipulation, and the scope and limitations of the reform proposals that have subsequently emerged from public discussion. He will also offer his own recommendations regarding possible reforms that serve the public interest.



Dr. Michael L. Kraten
Assistant Professor of Accountancy
Providence College

The 17th Annual Ethics Research Symposium in Washington, DC

Double The Activity! Double The Intellectual Contributions! - by John Sennetti and Michael Kraten

Did you attend the 2012 Ethics Research Symposium in Washington, DC this year? If not, then you missed quite an event!

This year, our symposium set many records for growth. The number of manuscripts and session proposals submitted for consideration, as well as the number that were accepted for presentation and discussion, each roughly doubled the amounts of the previous year.

The attendance of 123 registrants from over sixteen countries also set records for growth. Our presenters joined the symposium from Australia, Canada, China, France, Germany, India, Indonesia, Qatar, South Africa, Thailand, Turkey, the United Kingdom, and other nations.

And the diversity of the intellectual content exceeded expectations too. We featured four distinct clusters of topics in our research forum, three unique choices in our panel discussion time slot, a special "Demonstrations and Screenings" concurrent session, and our always popular Accounting Exemplar Award luncheon. The award recognized the work of Joseph W. St. Denis, a former Director at the PCAOB with previous SEC experience, who has supported the funding of numerous scholarships.

Given such impressive contributions, who could possibly decide on a single award? We certainly couldn't do so, and thus we decided to distribute five awards! We congratulated Professors Church, Fisher, Garrett, Hageman, Hoitash, Jenkins, Kraten, McCracken, Pope, Prawitt, Roush, and Stanley for excellence in the following "best" categories: Paper, Innovation in Research, Summary of Research, Contribution to Teaching, and Innovation in Teaching.

The presentation abstracts are posted at <http://aaahq.org/AM2012/EthicsSymposium.cfm>, and are listed in the meeting booklet *The Abstracts of the 17th Annual Ethics Research Symposium*.

We appreciate the time and resources that our participants expended to contribute to our mission of supporting research and teaching activities in the field of professional ethics in the accounting profession. Thank you for joining us - we look forward to seeing you next year in Anaheim!

A Letter from the Incoming Editor of *Accounting and the Public Interest*



One of the few good things about Presidential election years is the focus they bring to ideas about the good society. Albeit hidden behind the rhetoric and the nastiness, ideas about what constitutes our values have been put into play.

In that spirit, I come to the task of editing *Accounting and the Public Interest*, the official publication of this section. I am taken by the need to clarify what constitutes public interest research, and not to let this wallow in the imaginations of each submitting author. Although I cannot offer a coherent and definite philosophy, I can narrow the range perhaps and thereby offer guidance to those with research papers or with ideas for such.

The problem with “the public interest” is its embarrassment of riches. I dare say that every paper ever written in the discipline could lay claim to a contribution. Many of these would argue that anything that improves the operation of the capital markets is a public interest project. Along similar lines, anything that makes the collection of taxes more certain/more transparent/more efficient helps us all. For that matter, who would oppose better decision making or judgment pertaining to just about anything? Quickly one realizes that if all of these claims are honored, the public interest embraces the entirety of the accounting discipline and therefore has no special meaning at all.

A public interest journal has to establish a unique space within the literature of the discipline. In my mind, that imperative translates into publishing papers that might not find a suitable home elsewhere. For these purposes, one should recognize the strong conservative bias that exists in the U.S. accounting literature. For the most part, our institutions and our hierarchies are taken for granted and left unchallenged despite the fact that they create constraints on what results can be achieved. Although much very fine work can be done within these institutional and societal parameters, the public interest requires more ambition. We need to understand why these arrangements exist, as opposed to some alternative structures that could exist. These inquiries lead quickly to conversations about distributive consequences, a dimension traditionally ignored in the literature. If we automatically accept what markets produce, we miss much of the story. Although the public interest is not naturally predisposed toward radical social and economic change, it should be open to conversations that entertain such revisions.

I realize that my view of the public interest is at odds with that which passes for doctoral training in accounting. Approaching the discipline as one of applied microeconomics allows for very limited vision. Along similar lines, seeing the world as an exercise in psychology necessitates that we accept much about our world that cannot be expressed in those narrow terms. Thus, the true pursuit of the public interested in academic work requires that people retool with history or political science or sociology. Alternatively, they must upend their training, perhaps focusing on the limitations of the techniques that they used in their dissertations.

Accounting remains a discipline in its infancy. It can be made much richer by the importation of ideas and perspectives from outside its boundaries. This effort will occur from its margins not from its center. I look forward to your manuscripts. Be brave!



Tim Fogarty, Ph.D.

**Professor, Accountancy Department
Case Weatherhead School of Management**

**Incoming Editor
*Accounting and the Public Interest***

Tim Fogarty
Incoming Editor
Accounting and the Public Interest

Call for Submissions

18th Annual Ethics Research Symposium

Sponsored by the AAA's Professionalism and Ethics Committee
and the Public Interest Section ~ 2013 Annual Meeting, Anaheim, CA

CALL FOR SUBMISSIONS DEADLINE: APRIL 1, 2013

The [Professionalism and Ethics Committee](#) and [Public Interest Section](#) of the American Accounting Association invite submission of papers, cases, and panel session proposals for presentation at the 18th Annual Ethics Research Symposium on Sunday, August 4, 2013 in Anaheim, CA. The 18th 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 research has never been more important. As academics, we must continue the quest for answering the question of how we can better present ethical frameworks that educate future accounting professionals. As professionals, we should demand transparent and accurate disclosures from corporations that affect the public. As academics, we can advocate for socially responsible behaviors through our research.

The 18th Annual Ethics Research Symposium encourages submissions of all academic research, teaching papers, panel sessions, cases studies and notes that address accounting, its ethics, its professions and organizations. Early and middle-stage papers are encouraged. Submitted research should focus on ethical applications for better teaching, practice, and/or business that will ultimately benefit individuals, government, or society. 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 granted by the Public Interest Section. 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).

NOTE: A reception is planned for Saturday, August 3 at 6:30. 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 Tara Shawver (tarashawver@kings.edu) and Lori Fuller (lfuller@wcupa.edu). Submissions will be accepted beginning February 15th at <https://aaahq.org/AAAFForms/AM2013/formETHICS.cfm>.

Call for Submission

Reflections as Editor of *Accounting and the Public Interest*

I want to thank the officers and members of the AAA Public Interest Section, and also the AAA staff and leadership, for support during my time as Editor of *Accounting and the Public Interest*. Without exception, every interaction I had with authors, reviewers, officers, AAA staff personnel, and members of the Public Interest Section was kind and supportive. I sincerely appreciate your contributions, trust, and patience. My associate editors, Charlie Cullinan and Den Patten, were terrific—thanks so very much. I leave the editorship with an even greater appreciation of the work people do to engage in public interest debate and to help the public interest accounting research community flourish.

I especially want to thank Tim Fogarty for agreeing to take over as Editor. I know the journal will prosper under his

leadership. Public interest accounting seems to be gaining traction as more researchers begin to discover accounting issues related to climate change, corporate social responsibility, sustainability, democracy, and social justice. While these topics appear to be new in some quarters, public interest accounting researchers have been studying these issues for over 35 years. I encourage each of you to help our section maintain its jurisdiction over public interest accounting research by carrying out projects that honor our past contributions and reaffirm our commitment to relevant scholarship. Send Tim your best work!

Robin Roberts
Outgoing Editor
Accounting and the Public Interest

The 2012 AAA Annual Meeting: Public Interest Section Events

Byron Pike and Lawrence Chui served as the Public Interest Section Liaisons for the 2012 AAA Annual Meeting. This represented their first service to the AAA and the Public Interest Section. Here are their reflections about the process and the success of the Annual Meeting. The overall theme Byron and Lawrence would like to project is a BIG thank you! This process, which is somewhat demanding in regards to time and energy, was made significantly easier by the section members who were willing to serve as reviewers, discussants, and moderators. Furthermore, they feel that the section received a tremendous number of quality papers and were able to organize interesting and informative presentations and panels.

To be more specific, the overwhelming majority of submitters to the Annual Meeting were willing to serve not only as reviewers, but also as discussants or moderators at the Annual Meeting. While this generated a large pool of volunteers, more were needed to execute a successful meeting. With a couple friendly

emails to the section members, Byron and Lawrence were able to find more volunteers than necessary. This was very welcoming and not necessarily the norm for other AAA sections. Moreover, many individuals were willing, and did, serve multiple roles during the Annual Meeting process.

As outgoing liaisons, Byron and Lawrence would like to share some general information for those who may submit to the Public Interest Section for the next Annual Meeting.

(1) While the Public Interest Section is broad and far-reaching, some individuals submit papers simply because they believe the probability of acceptance is higher. Byron and Lawrence reassigned submitted papers to the appropriate section when they were clearly not a focus of the Public Interest Section. Hopefully, next year's liaisons will continue this trend.

(2) Over the past few years, the release of the Annual Meeting paper decisions has been delayed. Much of this can be at-

tributed to other sections not getting their information to the AAA on time. The Public Interest Section has a great reputation for submitting all requirements on time, which Byron and Lawrence contributed to. That said, if the decisions are delayed, the liaisons do not know when the AAA will release the notifications and cannot prematurely provide any individual results to authors. Your patience is much appreciated.

(3) Liaisons only create the sessions for the Annual Meeting, and the AAA assigns the dates and times for the sessions. As a result, the liaisons typically cannot resolve issues when an author has a conflict with the assigned time. If you are unable to make the assigned time work, the most likely resolution is to replace your paper with another paper, as it becomes almost impossible to develop a schedule that pleases all submitters.

(4) If you determine that you cannot make the meeting or your paper needs to be removed for another reason (e.g. it has been accepted for publication), please contact the liaisons as soon as possible.

(5) Finally, the Public Interest Section only had one panel session at the Annual Meeting. This was a result of receiving only a very small number of suggested panels. If you have a suggestion for a possible panel topic, please take the time to submit it for the next Annual Meeting.



Byron Pike,
Ph.D., CPA

Minnesota State
University



Lawrence Chui
Ph.D., CPA

University of St.
Thomas

Acting in the Public Interest: A perspective from a professional body and an invitation to engage | By Tony Bromell

The AAA Ethics Research Symposium that precedes the AAA Annual Meeting has featured, for the last few years, a panel session featuring academics, regulators and professional accountants discussing issues relating (more or less in alternate years) to integrity and to the public interest. This panel is organised by the Institute of Chartered Accountants in England and Wales. During the 2012 panel, it was mentioned that they had just issued a paper on acting in the public interest and were keen to engage, so we asked Tony Bromell, who organises these panels and was the principal author of the paper, more about it.

1) What is ICAEW?

The full title is The Institute of Chartered Accountants in England and Wales, so for obvious reasons we tend to refer to it as ICAEW. It is based in London and has around 138,000 members. Its members are predominantly in the United Kingdom, though about 25% of our student intake currently comes from other parts of the world.

ICAEW was set up by a 'royal charter' in 1880. There was an increasing demand for accountants in Britain in the 19th century as businesses became larger and more complex, but people were struggling to distinguish good accountants from bad ones. So ICAEW, whose members are permitted to call themselves chartered accountants, was set up so that accountants who were held to high standards of technical and ethical behaviour could be identified.

2) What is your role as the Head of Integrity and Markets at ICAEW?

In essence, I deal mainly with ethics. In slightly more detail, that involves responsibility for the code of ethics that our members have to apply. I also liaison with external regulators like the International Ethics Standards Board for Accountants and the UK's Financial Reporting Council (we have to apply their auditor independence standards in the UK), and I liaison internally with my professional standards and member advisory colleagues who have to enforce and interpret the code. Then, around that core day job, there is our thought leadership work, which has produced amongst other things a series of reports on integrity and more recently the public interest report.

3) What led ICAEW to write a monograph about acting in the public interest?

I see ICAEW's thought leadership work (of which that on ethics and the public interest is but a small part) as having three purposes. The first is to fulfil an obligation we set for ourselves in a second royal charter in 1948, to seek to serve the public interest by, amongst other things, advancing the theory and practice of accountancy in all its aspects. The second is to engage with those who can themselves be influential in evolving the role of the profession and establishing best regulation of it and by it. We enjoy, if that is the right word, a position between governments, regulators, academics, accountancy practitio-

ners, accountants in business and users of accounts, and we use that position to try and bring them together. Last but not least, the third purpose is to develop useful guidance for our members, most of whom actually work outside professional accountancy firms, so much of that guidance must necessarily have broad application across businesses and other organisations.

Having given ourselves a public interest obligation, we refer to it in our code of ethics, and when making representations to other regulators, we often talk about the public interest. More widely, the phrase 'acting in the public interest' is used by many to justify all sorts of things. However, it struck us that (as a phrase rather than a concept) it is probably used too much: often with no real understanding of what it means, or sometimes even to disguise self-interested actions. So a project was born.

4) What can readers expect to learn from this work?

What they will not get is a magic detailed definition that can be applied in all circumstances, allowing people to instantly tick off whether some proposed action does or does not serve what is deemed to be the public interest. I am highly sceptical of detailed definitions anyway: people seem to be very good at applying them in form rather than spirit, and they often result in unintended consequences because circumstances are so variable.

Instead we draw on a wide variety of writings and practical examples to draw out a framework of matters that we think need to be considered by those advocating something as being in the public interest. If they are transparent about this, others who are assessing whether the matter is in the public interest will be in a much better position to make that assessment. I don't have the space here to go into the detailed aspects of the framework but the report can be downloaded free from www.icaew.com/publicinterest.

5) What direction do you see the discussion around the public interest leading us in the future?

We are not academics ourselves, and the report does not include original research. What it does do is pull together writings on philosophy, economics, regulation, particular aspects of the public interest, and particular situations to which the public interest applies. There is no shortage of such writings, and I could probably have spent years more adding infinitely to the report. In fact I have probably left out several really fundamental points and would be more than happy to hear from anyone who spots the gaps.

Just as there is no shortage of writings, there is no shortage of directions we

Acting in the Public Interest (cont'd)

can go. For example, our report has concentrated on lifting the fog over those who assert that they are acting in the public interest: it is not a discussion of who should act in the public interest. The latter poses some quite interesting questions though, such as whether a privately owned corporation should have a public interest role in society and if so what that is.

Although our framework is intended to have wide application, we are particularly interested in regulation as it is something we both do and are subject to. While reading through the material I had picked out, I was particularly struck by some of the behavioural aspects and the different ways of thinking in different cultures. So I would like to think that on the regulatory front we can evolve from the current interminable discussions about principles versus rules and professional trust versus lists of prohibitions into working out how international standards apply across boundaries and what approaches actually achieve the best results in the real world.

6) From your perspective, what areas merit future research? What empirical or theoretical questions about the public interest are still unanswered?

I do not regard our public interest paper as a final product in itself: it is very much evolutionary. In the back of the paper, we summarise a dozen or so assertions that we have made in putting the framework together. These range from philosophical (or maybe political) comments about freedom versus intervention to statements about the framework itself and discussions on the best way to persuade people to do what they ought to. We would be very pleased to engage on all of these, particularly with the AAA Public Interest Section, which has always been very open to talking to us.

As I noted, we did not carry out any original research ourselves, so we are open to new research ideas to fill gaps or help resolve differences of view in these and other key aspects of the public interest debate. ICAEW does have some charitable trusts that give grants towards research into areas covered by our thought leadership initiatives, so we might even be able to make a concrete contribution!



Have you seen.....

I. Accounting Informs Investors and Earnings Management is Rife: Two Questionable Beliefs by Ray Ball, an essay based on a panel discussion “The Most Incorrect Beliefs in Accounting” at the AAA Annual Meeting in 2012.

Or.....

II. Public Law 109-435-Dec. 20, 2006 Postal Accountability and Enhancement Act.

I. Ray Ball is a well-known figure to most academic accountants. Has anyone NOT heard of Ball and Brown? This recent working paper is available at <http://ssrn.com/abstract=2211288>. Professor Ball is growing skeptical about much

financial archival research, a cottage industry his work more or less gave birth to. (Reading Ball’s working paper, one cannot help but think of Mary Shelley’s Frankenstein - the outcome of one’s labor is often unpredictable.)

Ball points out two of the big mistakes that accounting academics continue to cling to. I’ll talk here about just one. That is the erroneous presumption that financial reports are informative, and their informativeness is revealed by stock price reactions to the accounting reports. He says the reports come far too late, are not forward-looking enough, and that many other sources of information compete successfully with the reports. Just think of those minus-

cule R squares in archival research and you have to agree with him on this point. He goes on to say that financial reporting does serve useful purposes; it confirms the other information sources and plays a role in contracting.

Ball says the long-lasting love affair researchers have with empirical archival research is based on the easy availability of data (accountants like it crispy rather than soft) and on a misinterpretation or misapplication of the original Ball and Brown research. Instead of concluding that earnings reports contained very little surprise as Ball and Brown showed, researchers have used “short-window event studies to suggest the opposite.” Using short-windows exaggerates any information effects. This is not the first time archival research has played loose with crucial assumptions. For another example, see L. Bamber, T. Christensen, and K. Gaver’s “Do we really ‘know’ what we think we know? A case study of seminal research and its subsequent overgeneralization” in *Accounting, Organizations and Society* (2000, v. 25, 103-129).

The second big mistake that riles Ball is a research focus on discretionary accruals and earnings management. His critique rests on agency theory, and I'll let you read it.

II. The next document I think you need to be aware of is an act of Congress, written in 2006 when the anti-government forces were working through a back door to milk any source of revenue they could. You've probably heard about the demise of Saturday delivery by the Post Office, and you've probably read that the Post Office is awash in red ink. The first is going to happen, the second is happening primarily because of ACCOUNTING rules written into law by a Congress bent on privatizing as many government services as it can. As accountants, you can help correct some serious misperceptions.

The Post Office does not receive subsidies from the government. In fact, when the Post Office puts money into its pension fund, that counts as REVENUE for the government, which manages the pension fund. Combine that little accounting feature with good times for the Post Office in 2005 AND conservatives' desire to privatize, and a need to make the budget look slightly less unbalanced, and the result is that Congress imposed draconian requirements (written into law) that the Post Office overfund its pension plan and pre-pay for 75 years of health benefits for its workers. Is this normal? No. Is this typical? No. Is this good accounting? Definitely not, especially when the overpayments imperil the continuation of a service much beloved by many people (even in this digital age we all get packages). *Esquire* magazine has a wonderful article describing how effective, efficient, and inexpensive our mail service is in the US. The author asks whether we really want to give up this service, which is "a miracle of high technology and human touch. It's what binds us together as a country." So instead of reading the dry and tortured prose of the Postal Accountability and Enhancement Act, try reading Jesse Lichtenstein's loving tribute to one of our most humane, effective, and far-reaching federal programs: *Do We Really Want to Live without the Post Office?* at <http://www.esquire.com/features/post-office-business-trouble-0213>. Don't buy into the nonsense about the Post Office going bankrupt; it's being held hostage by accounting rules that Congress doesn't impose on itself or any other agency.

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