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## INTERVIEW WITH PRESIDENT AAA

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### *Questions from*

Prof. Ranjan Kumar Bal, Utkal University,  
President, Indian Accounting Association

### *Reply by*

Prof. Shyam Sunder\*, Yale University,  
President, American Accounting Association

**R.K.B.:** Please share with the members of IAA about the mission, vision and goals of the IAA.

**S.S.:** The American Accounting Association promotes worldwide excellence in accounting education, research and practice. For more details, see AAA's website (<http://aaahq.org/about/mission.htm>).

**R.K.B.:** Would you like to appraise the achievements of the AAA so far and the challenges faced by/before it.

**S.S.:** Since its inception in 1916, AAA has been major force in organizing and promoting accounting scholarship and instruction and has helped develop better accounting practices through research, debate, discussion, and collaboration with various government and non-government organizations. The Accounting Review is recognized as the oldest and a premier journal of scholarly discourse in accounting. In addition, it publishes 11 other journals, 16 newsletters, organizes over a dozen meetings each year attended by more than 5,000 members. Its monograph series includes classic contributions to accounting scholarship. Two thousand of its 8,000 members reside outside the United States in 75 countries around the globe. It recognizes exceptional contributions through its numerous awards, and disseminates instructional materials to be shared among its members. Perhaps it is not an exaggeration to say that AAA plays a central role in harnessing the creativity and ideas of its diverse membership to serve the discipline as well as the society. The challenges before the AAA are many. The changing environment, in which knowledge is increasingly disseminated through Internet, instead of print media, is forcing AAA and other publishers to reconfigure their activities as well as the economic model of their sustainability. An increasing proportion of collegiate accounting instruction is moving to 2-year colleges and delivered through adjunct faculty, which demands rethinking about the scope and services AAA

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\*With the exception of Answer 1, these are personal views of Shyam Sunder and not of the American Accounting Association.



should provide to its membership. Driven by their own dynamics, federal and state governmental bodies, as well as state, national and international professional organizations continually attempt to define, standardize, and delimit accounting instruction in ways that do not necessarily serve the broader interests of society and the discipline. As the premier body of accounting scholars and instructors, AAA faces the challenge of determining how to participate in, deal with, and even fend off, myriad such events and initiatives. Given the premium on individual thought and creativity in our domain, definition of collective positions on such matters, much less collective action, is a major challenge for the Association.

**R.K.B.:** Recent accounting scandals have eroded the public confidence on the accounting profession. What steps have been taken by the AAA for improving the public image?

**S.S.:** AAA's main contribution to the public image and confidence in accounting is through education of young people to help them develop not only as skilled professionals but also as independent thinking citizens with broader understanding of society in which we live. This work is carried out by thousands of instructors who use their own ideas and creativity to design curricula, and teach and advise students. AAA helps through dissemination of such materials, convening forums to discuss better ways of doing this work, and by recognizing outstanding achievements of educators.

**R.K.B.:** US standards, for its rule based, have been criticized. Being the head of AAA, kindly express your views on the rule based and principle based standards.

**S.S.:** It has been suggested that standards should be based on principles, not rules. However, "rules versus principles" is a misleading debate. No standards setter sets out with a preference for rules over principles. The standards setters' monopoly existence with their sole duty to develop standards forces them to endlessly "clarify" their principles, and that ultimately degenerates into progressively detailed rulemaking. The problem is one of structure, not intent. Financial accounting standards are more detailed only because FASB has had more time and a larger budget. Twenty years from now, the IASB's rule book will probably be just as voluminous. Its processes are similar and so will be the outcomes. Please see my article at: <http://www.som.yale.edu/faculty/Sunder/WhyReconsiderTopDownPushEAAUniform%20Financial%20Reporting%20Standards.pdf>.

**R.K.B.:** You initiated serious discussions on the competing accounting standards setting bodies. However, very little progress has been made in that direction. What is your comment on this?

**S.S.:** People who make these policy decisions are mostly working for government organizations. The idea of regulatory competition and the benefits of such competition do not come naturally to them; instead it is anathema to them. As much as they may be convinced about their duty to promote competition in industry and trade, they rarely welcome the idea that if alternative regulators were allowed to compete with them, the ultimate result can be the discovery of a better regulatory system. However, this debate has barely started. If the idea is good, it will draw its converts over time. In my judgment, it is beginning to do so.

**R.K.B.:** IFRS lays stress on the fair value accounting. Will the transition from historical accounting to fair value accounting be smooth?



- S.S.:** "Fair" is an unfortunate re-labeling of current values. Theories of valuation can be integrated into a unified framework to facilitate direct comparison of their properties in specified environments. When current prices change, and are prone to measurement errors, neither the current nor the general price level valuation is necessarily the most accurate (minimum mean squared error estimator) of the unobserved economic value of resources. Generally, min (MSE) estimator is likely to be a specific price index rule whose actual identity depends on the parameters of the economy. If the measurement errors are sufficiently large relative to movement errors, even historical valuation can be the min (MSE) estimator. Which valuation rule has minimum mean squared error is a matter of econometrics, not of theory or principle; it all depends on the relative magnitudes of the parameters of the economy. One size shoe does not fit all; neither does valuation. See <http://www.som.yale.edu/faculty/Sunder/EconometricsofFairValues/Econometrics%20of%20Fair%20ValuesMar18.pdf> and other references in this article. I do not believe that the transition from historical to "fair" values will go very far before its weaknesses as a basis of financial reporting are better recognized.
- R.K.B.:** What is your observation on Accounting Education, Research and Practice in India? In this context what message would you like to give to the members of IAA?
- S.S.:** In the recent years, there has been wider recognition of the important of infrastructure for the modernization of the Indian economy. Service infrastructure is just as important as the physical, and accounting is a critical part of the service infrastructure. Indian economy will benefit greatly from development, modernization and innovation in financial reporting, management accounting, internal controls, government and not-for-profit accounting, governance, financial analysis, forensic and investigative accounting, internal and external auditing, government financial management, and program evaluation. In accounting academia, special and immediate attention is needed towards curriculum, research, and doctoral education. India has made advances in providing services in the software industry. There is no reason why, with sustained effort, accounting cannot be added to India's portfolio of service capabilities. See <http://www.som.yale.edu/faculty/Sunder/IAADelhiDec06.ppt>.
- R.K.B.:** How do you find the future of Accounting Profession in the 21st century? Would it be able to provide ample opportunities to accounting educators and students?
- S.S.:** The developed economies of US, Europe and East Asia suggest that the relative importance of the service sector (of which accounting is an important component) increases with growth. Economic development will place rapidly growing demands on the accounting industry and educators to prepare students in the many fields I mentioned in the preceding paragraph. My impression is that the accounting instruction and curricula in most institutions of higher education in India is too rigid, often outdated, and the current academic structures lack the flexibility and incentives to update them rapidly. Unless India's academic structures and processes are changed soon, the present opportunity to develop the accounting sector of the economy may be lost. Accounting education can and should be a facilitator of economic growth, and not become a drag on economic growth through its inability to adapt and grow.