

**I. OPENING PROCEEDING OF THE CONFERENCE**

# **CUSTOM FIT OR OFF-THE-SHELF STANDARDS: DILEMMA OF FINANCIAL REPORTING IN INTERACTIVE WORLD ECONOMY**

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## **Abstract**

Approach to accounting, and the world in which it operates has changed over half-a-millennium since Luca Pacioli. The past century has seen a great expansion of investment and trade across national boundaries. If financial reporting were standardized in all or most national jurisdictions, certain economies in training of accountants and analysts, preparation and audit of financial reports, writing of rules of financial reporting, and perhaps their enforcement world-wide could be achieved. This argument led to the creation of International Accounting Standards Committee and its successor International Accounting Standards Board which has produced a body of International Financial Reporting Standards (IFRS).

There are also substantial counter-arguments pointing to important diseconomies of standardization. If even individual countries have difficulty defending their single set of domestic standards against the criticism (that they do not fit companies from various industries and sizes), it seems even less plausible that a single set of world-wide standards can offer an efficient solution. A single set of standards do not leave any room to learn from trial-and-error experimentation and cross-border comparisons, and risk freezing us into an inefficient system of reporting. Further, rule-making bureaucracies have limitations of their own, and without competition, could easily sink into authoritative irrationality.

The arguments for as well as against standardization are qualitative, and it has been difficult so far to compare them to decide what is better. After the initial burst of enthusiasm in the European Union for this effort, the poor performance of IFRS during the global financial crisis has cooled the enthusiasm. Some even claim that this misguided effort towards standardization was one of causes of the crisis. As doubts are voiced in the U.S., China, Japan, India, and even U.K., France and Germany about the wisdom of giving a standards monopoly to a single private sector body, it is also time for the emerging economies to rethink the balance between for international and local standards and between written rules and social norms of various societies.

**Key words:** Accounting Standards, Financial Reporting, Interactive World Economy.

## **Introduction**

Included in Luca Pacioli's fifteenth century treatise *Summa* was an elucidation of the prevailing accounting practices of Venetian merchants of his time. This book is widely seen as a textbook, and its influence arose from its conformity to the current practice, the general acceptance of its descriptions by the business community, and ultimately by the usefulness of the double-entry

bookkeeping method to those who adopted it. Neither Pacioli nor his book had any powers of prescription or enforcement, beyond what accrues to a widely-used text or reference book such as Oxford English Dictionary. To the best of our knowledge, acceptance of double-entry bookkeeping arose bottom-up through independent choices made by merchants.

Five centuries later, the scene has changed. Powerful bureaucracies are in place in various parts of the world who feel quite confident of the ability to prescribe and enforce their own top-down prescription, often without any prior practical experience with them. This approach to accounting and the world in which it operates would probably surprise Pacioli if he were to return today.

The past century has seen a great expansion of investment and trade across national boundaries. If financial reporting were standardized in all or most national jurisdictions, certain economies in training of accountants and analysts, preparation and audit of financial reports, writing of rules of financial reporting, and perhaps their enforcement world-wide could be achieved. This argument led to the creation of International Accounting Standards Committee, and its successor International Accounting Standards Board, which has produced a body of International Financial Reporting Standards (IFRS). The IFRS Foundation, the parent of the IASB, states that its principal objectives are:

- to develop a single set of high quality, understandable, enforceable and globally accepted **International Financial Reporting Standards (IFRSs)** through its standard-setting body, the **International Accounting Standards Board (IASB)**;
- to promote the use and rigorous application of those standards;
- to take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs); and
- to promote and facilitate adoption of IFRSs, being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.<sup>1</sup>

The argument that the IFRSs will help better serve an integrated global economy was presented succinctly by their best-known and articulate advocate, David Tweedie, then Chairman of the IASB in his address to the US Chamber of Commerce in Washington DC in 2011<sup>2</sup>:

“My confidence that we are achieving this vision is bolstered by the strong case for global standards. In a world in which capital flows freely across borders, the same economic transaction should be accounted for in the same way, regardless of whether you are in Washington, Warsaw, Wellington or Winnipeg. Global standards make it easier for investors to make comparisons between companies operating in different jurisdictions. Multinational companies benefit from reduced compliance costs and reduced translation risks when consolidating multiple international subsidiaries into a single set of consolidated financial statements.

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<sup>1</sup> <http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx> accessed May 29, 2013.

<sup>2</sup> <http://www.ifrs.org/News/Announcements-and-Speeches/Pages/D-Tweedie-addresses-the-US-CC.aspx> accessed May 29, 2013.

Global accounting standards will enhance the drive towards the free trade of capital internationally. By adopting a globally accepted set of standards, all companies—large and small—are able to attract capital from a larger pool of investors, driving down the cost of capital and facilitating cross-border mergers and acquisitions activity and strategic investments. Finally, a common set of standards eliminates opportunities for regulatory arbitrage and permits regulatory authorities to develop more consistent approaches to supervision across the world. In other words, financial reporting is a key element of post-crisis global regulation.”

Most financial reporting jurisdictions across the world allow a local monopoly in financial reporting standards for publicly-held corporations. In the United States, for example, the statutory authority over these standards is vested in the Securities and Exchange Commission, who delegates the task of writing standards to the Financial Accounting Standards Board, retaining an oversight function for itself. In some countries, these standards are specified through statutes in varying levels of detail. A few countries—Switzerland and Canada among them—permit their corporations to choose among two or more sets of competing standards. However, monopoly is the reigning norm across most jurisdictions.

#### **Some Questions about Standards**

What are the functions of standards? What improvements are achievable through standardization? What are undesirable consequences of standardization? After considering the arguments about its economies and diseconomies, what is a desirable scope of standardization? How much should be written down, and how much should be left to social norms? Should the written standards be domestic, regional or global? Should they be specific to industries and size of firms? Who should set the standards—government, private bodies or some combination of the two? Is it better to grant standard-setting monopolies in specified jurisdictions (as granted to the FASB in the US and to the IASB in the European Union, and sought by the IASB across the world), or have multiple standard setters compete for clienteles who choose among alternative sets of standards?

While it is not possible to address all these questions in this hour, I shall try to touch on most of them, at least briefly. At the end, I shall discuss the possibilities available to countries in deciding on their attitudes and approach to standardization of financial reporting.

#### **Functions: Quality and Co-ordination**

Jamal and Sunder (2007) give two basic economic reasons for standards.

i. *Quality through standards*: One rationalization is to improve quality. We have standards for restaurants to ensure that the quality of foods served meets some minimum standard. Such standards for food and hygiene in restaurants ensure that we safely eat the food.

ii. *Co-ordination through standards*: The second reason for standards is

coordination. The reason that an electric bulb can be easily replaced by another one from any shop is that the electric current and sizes of electric bulbs have been standardized, making it so much easier to get and use replacements. I could bring my PowerPoint presentation file and use it for this talk because of some standardization. Driving to the left in Japan, or to the right in United States, is also another example, without which traffic will be slower and there will be many more accidents. In a given country, usage of a single gauge for rails on which trains run makes coordination possible; standardization enables Shinkansen trains to run all the way across Japan.

In U.S. as well as in most other countries, standards are written by government as well as by private sector bodies (Jamal and Sunder 2007). Even when government writes standards, representatives of the appropriate constituencies are consulted in the process. Government standards are often focused on quality of products and services and protecting consumers. The industry standards tend to facilitate better coordination and fit, such as those for grades of steel or shapes of threads on screws and nuts. In financial reporting, disclosure standards have some aspects of enhancing quality of financial reporting, while format standards can be attributed a coordination function. The measurement standards serve some aspects of quality and some aspects of coordination functions.

#### **Advantages of Standards**

A standards regime is more efficient in the short run. Standardizing all driving on the right (or left) side of the road in an entire country or continent is an obvious example of gains that can be obtained from coordination. Once chosen, the fixed investments in learning how to drive ensure that the monopoly regime of driving on a given side of the road will be stable for a long time period. Likewise, it is cheaper to maintain, schedule, and train for an airline which uses only one model of aircraft. Standardized admissions test saves much effort for a university. A standardized system of weights and measures lowers the cost of transactions. Giving preference, if not monopoly, to some systems and designs over others is the essential feature of all schemes of standardization (Sunder 1988 and 1997).

#### **Costs of Standards**

Just because standards can yield quality and co-ordination benefits, it does not imply that we should standardize everything. Standardizing involves costs. It discourages innovation. Suppose we were to agree that iPhone is the best of all cell phones, and we could save costs and make everyone better off by standardizing it for universal use. Then, iPhone would be the only phone that can be made and used. Are we going to be better off by standardizing something that we are sure is the best choice today? What would happen to cell phones in five or ten years? Suppose we agreed that Toyota Lexus is the best car in the world, is that reason enough for us to standardize and demand that everybody will drive only the Toyota Lexus car? What will that do to the quality and price of cars in five or ten years? Absent competition and innovation, the advancement of technology will slow down, prices will go up, and the costs of monopoly will overtake any temporary benefits of standardization.

The QWERTY keyboard was standardized in the 19th century. In those mechanical typewriters, the keys got jammed if the typist typed too fast, and they arranged the keys to reduce the chance of jamming. Today electronic keys have replaced the mechanical keys, and in the absence of the risk of

jamming, we could type much faster if we use more efficient alternative keyboard layouts such as DVORAK. In fact, anyone can convert the computer keyboard from QWERTY to DVORAK by pressing few keystrokes. Yet few people use this more efficient system because our fingers and brains are used to the QWERTY system through practice, and it is too much work to switch now. Once we get locked into a system it is difficult to get out of it even if something better comes along. Improvements in quality and innovation take place because of competition. Unless we are quite sure that the technology we have today is the best that we could have, and that it cannot be improved further, we could not justify standardization. By closing the door to alternatives, we also close the possibility that we could develop something even better in the future. We need strong evidence that what we have is the best possible thing we could have.

### **Domestic, Regional or Global Standards**

Most standards are domestic in their scope with country-wide jurisdiction, especially when they are written by national governments. However, there are also hundreds of international standards, such as those in power, communications, and transport industries, which are applied across national boundaries. Simultaneous existence of both domestic and international standards, along with occasional regional standards, renders it unlikely that standards with a wider scope are necessarily better in all contexts. See Jamal and Sunder (2009) for analysis of data on international and US national standards.

### **Industry and Firm-Size Specific Standards**

Within many countries and many contexts, multiple sets of standards exist. For example, in financial reporting, it is not unusual to see different standards for industries such as real estate, films, software, and oil & gas. Accounting principles that provide reasonable results when applied to one industry are often unreasonable for another. The same is true for firm sizes because accounting standards appropriate for larger firms are not necessarily appropriate for small and medium sized enterprises. It would appear that every time we use industry or firm-size specific standards, we willingly sacrifice some comparability. In fact this is not true. It only appears that way because when circumstance in which a standard is applied sufficiently different, we are often forced to apply a different standard in order to obtain some comparability. For example, it is for the purpose of enhancing comparability that the principle of recognizing revenue at the time of sale in the automobile industry is abandoned in the gold mining industry in favor of the principle of recognizing revenue at the time of production.

The campaign to adopt IFRS across the world has been characterized by the claim that “a single set of high-quality principles-based standards used by all will achieve comparability across the world, and across the markets.” We need to think carefully about whether comparability can be achieved by application of a single set of standards.

If even individual countries have difficulty defending their single set of domestic standards against the criticism (that they do not fit companies from various industries and sizes), it seems even less plausible that a single set of world-wide standards can offer an efficient solution. A single set of standards do not leave any room to learn from trial-and-error experimentation and cross-border comparisons, and risk freezing us into an inefficient system of reporting. Further, rule-making

bureaucracies have limitations of their own, and without competition, could easily sink into authoritative irrationality.

### **Standards Monopolies vs. Competition**

Will an accounting monopoly help us achieve this goal? There are two modes of using IFRS: The first is IFRS as a single standard for the whole world. The second is IFRS as one option among several competing sets of standards, in the manner the electronic equipment or car manufacturers compete with one another. From systems of government to standards of education in universities, we compete in many domains of our lives, and we can assess the consequences of competition in the domain of accounting standards.

### **The Way Forward: Balancing Decision**

#### **Rules and social norms**

All aspects of our lives, personal and business, are driven by social norms. This conference is driven by social norms. You sit in silence while I speak here. The moderator did not have to tell you the rules of this conference because we are following the social norms we all understand. Written rules do not govern many large and important aspects of our lives.

Until some eighty years ago, before federal securities regulation in the United States, Generally Accepted Accounting Principles (GAAP) was a social norm. Today, not much remains of the social norm. The norms and the personal responsibility it implied have been replaced by written rules and standards.

It would be better to find a balance between written rules and social norms. We cannot improve financial reporting by trying to replace more of the norms by more detailed written rules. There is little evidence that in these eighty years the United States accounting has improved. Perhaps you can tell me if financial reporting has improved in Japan.

#### **How Should We Decide on the Balance?**

There are many ways of deciding on a better accounting system: prosperity of society, inclusion of information from all sources, stability over time, adaptability to changes in environment, robustness against manipulation and resistance to capture.

##### **a. *Prosperity of society***

As I mentioned at the outset, prosperity of society is probably the best criterion to decide on standards. Everybody prefers prosperity.

##### **b. *Inclusion of information from all stakeholders***

It is better to consider ideas and opinions of all relevant parties in making the choice. When a board decides on accounting standards, it may consider the opinions of some corporations, larger accounting firms, and regulators. Most investors actually do not bother to participate in the process, and a few other people contribute their ideas to the process.

##### **c. *Stability over time***

We have to think whether the consequences of changes in standards are stable, unstable or neutral. This is because some standards and changes can lead to instability.

In Sunder (1981), "Why is the FASB making too many accounting rules?" I argued that they are making so many accounting rules because they have to. If you give seven people a staff of fifty or hundred people and a budget of \$25 or \$50 million dollars, what can they do except to write more rules? As professors, we have pressures to "publish or perish," but the same is also applicable to accounting standard setters. They have to publish new standards to keep the organization and their positions intact. Shall we keep them employed if they do not publish new standards? Accumulation of standards over time is a property of our current setup which ensures that the rulebook will get thicker over time.

*d. Adaptability to changes in environment*

We would like new standards to adapt not only to the changing circumstances but also to differences across different societies, business communities and countries. Different countries have different systems and we cannot simply assume that the same accounting system is the best system for all economies.

*e. Robustness against manipulation and resistance against capture*

There is always danger of manipulation of the accounting setting bodies by people who capture these bodies and use their control of the boards for their own purpose.

**How We Should not Decide on Standards**

Some arguments about deciding on IFRS are based on (1) the presence of statistical covariation between accounting and stock market data, (2) promotion of by interested parties, and (3) that "hundred and twenty countries have adopted it, all cannot be wrong, so you better adopt fast." Let us address them in turn.

*a. Statistical covariance between accounting and stock market data*

Vishnani and Shah (2008) write:

"This paper aims at determining the value of relevance of financial reporting. The study aims at explaining likely impact of financial reporting by listed companies on market prices of their shares. Our study reveals that value relevance of published financial statements per se, is negligible. The results of our investigation depict negligible value being reported by cash flow reporting."

This study reports on finding a statistical correlation between stock prices and accounting data, which is being interpreted with the word like "value relevance," as if it is a causal relationship. We know that we cannot simply interpret statistical correlation as if it is a causal relationship. This is a major problem with the studies of this kind. There are two issues with the argument of these studies. First, the stock market cannot be considered the sole arbiter of choosing the accounting system, because accounting systems have consequences not only for the stock markets, but also for other segments of society, including government, public, customers, suppliers, employees, creditors, etc. We cannot simply say that choosing accounting systems on the basis of stock price consequences is better for society. Even if we could choose



accounting methods on the basis of stock price alone, statistical covariation cannot be used as a basis for choosing accounting policy. Since the time available does not permit me to go into the details distributed to you and the PowerPoint presentation has that information.

In summary, if statistical proximity of accounting and stock market data were sought to be maximized, then it is trivially simple to achieve the financial reporting Nirvana of being in the best of all possible worlds: we can close down the accounting system, let the staff go, and report the change in market capitalization as income of the firm to get perfect covariation between the stock price and accounting numbers. Will such an accounting system help create an efficient market? The answer is obviously negative because in such a world, the market will have little information. The argument about covariation being the basis for selecting accounting methods is fundamentally flawed.

***b. Promotion by interested parties***

Many organizations have taken it upon themselves to strongly promote IFRS over the recent years with much money and time. Why do they promote IFRS? Is it because they are convinced of its superiority in promoting the economic welfare of society, or because it serves their own interests? In the former case, the arguments they put forth in support of IFRS need to be examined for their validity; in the latter case they should be ignored.

***c. 120 Countries cannot be wrong***

Finally, there is this argument in support of an IFRS monopoly: Most other countries have adopted IFRS, and if you do not do so, you will be left behind. I hear that argument in the US, India, China, and most other countries. The threat that the train is about to leave the station; get on board or you will be left behind on the platform is a very old trick to create a bandwagon effect. Instead of being herded into a "follow the crowd" action, the wise would first ask where the train is going, and whether the destination of the train is also their own destination. Is it a good idea to get on to this train just because a hundred and twenty others have climbed aboard? It is not even clear how many people are, in fact, on board.

***d. The flawed analogy of "weights and measures"***

The state had standardized the weights and measures, so distrust and moral hazard will not stand in the way of people buying and selling things without hassle. We know the weights and measures to be one of the earliest functions of the state, and the idea of using standardized weights and measures to facilitate trade and exchange has contributed a great deal to prosperity of human societies. To the present day the use of the metric system of grams, meters, and liters in most parts of the world makes our life much easier.

Proponents of IFRS have compared accounting standards to weights and measures, and solicited support for IFRS arguing that enforcement of IFRS as a uniform set of accounting standards in the whole world will also help us improve our prosperity. This analogy, however, is misleading. Gold, grain and milk do not react with the measurement system as investors, managers, accountants, and regulators do; the latter actively engage with the accounting system. The behavior of agents with respect to weights and measures is stationary; behavior of agents with respect to accounting standards is not stationary and is subject to continual adjustments.

*e. The flawed analogy of "language"*

Besides weights and measures, language is a second analogy used to promote IFRS monopoly. It has been claimed that accounting is a language of business, and I agree. But, it has also been claimed that, therefore, a single set of standards issued by IASB will improve our prosperity, economic growth and welfare of society. That does not follow. The idea that a single language will improve the world and our society has been around for some time, and has failed. In the 1870s, L.L. Zamenhof theorized that most conflicts and wars in the world occurred because of misunderstanding and miscommunication among people in the world speaking different languages. If everybody in the world spoke the same language, the argument went, there will be peace in the world. He proposed Esperanto as a single language for the whole world. Esperanto, however, has almost disappeared; after 125 years, very few people know about it. Why? It was based on a misunderstanding of how language works. Language does not work by ensuring precision in the meaning of its words. Certain ambiguity of meaning is essential for language to serve as a means of communication. For an example, how does one define a jacket, so it can always be decided which piece of clothing is or is not a jacket, without the necessity of having a separate word for every jacket? What is a jacket or a car is ultimately a matter of judgment and words cannot be defined precisely and yet retain their meaning. The reason we can use in language the word jacket is that it is subject to judgment, it cannot be precisely defined.

Yet that is exactly what accounting standards attempt to do. The more precisely we try to define accounting terms, the more trouble the accountants get into.

*f. Currency as a Better Analogy*

Instead of the metric system of weights and measures, uniform currency is a better analogy for IFRS. In 1999, after a long debate, some countries of Europe decided to adopt euro as their common currency. The argument for a common currency is more complicated than the mere convenience of not having to buy foreign exchange at airports. Currency is used not only for exchange, but also for managing many aspects of the macro economy, including credit, income, unemployment, growth, and inflation, etc. We cannot simply assume that it is desirable to replace national currencies by a single currency. A dozen years after adoption of the euro, the debate on whether it was a good idea, and if it should be retained, and who should continue to participate in it, continues without a clear and obvious answer. If single currency is a good thing, the whole world should adopt it, and we have not even had such an argument yet. Greece, Portugal and Spain face very different circumstances, and it is not clear that a single currency is helpful to them. That question has to be decided through detailed analysis and not simple assertion that a single standard will be good for everyone.

Similarly, we cannot simply assert that the use of a single method, or a single set of accounting standards is a good idea because it is a single method. Whether advantages of a single accounting method or standard outweigh the disadvantages of losing local customization and control of policy, cannot be addressed by simply repeating the standard mantra to promote IFRS. One size does not fit all.

*g. Problem of Language and Translation*

We have mentioned language, but we should also consider the problem of translation. There are thousands of languages in the world. IFRS is written in English. Is it possible to translate the standards originally written in English precisely into

### **The Challenge of Creating a Better Accounting Systems**

It is easy for a group of expert to convince themselves that they have enough knowledge and ability to design social systems from top-down to achieve our desired ends. However, as Frederick Hayek, Nobel laureate economist argued that modern civilization naturally evolved and was not planned. Its customs and traditions naturally lead to the current order and are needed for its continuance; and any fundamental change to the system that tries to control it is doomed to fail, since it will be impossible or unsustainable in a modern civilization. Darwin's concept of biological evolution suggests that the biological species evolved through replication, mutation and selection. Spencer expanded that idea to evolution of the social systems, which is what accounting is.

Through that evolution, our accounting systems had to fit the legal, economic and business patterns of each society. We cannot argue that Japanese, Chinese, German or American societies are the same, and their accounting systems should be the same. Some individuals at IASB have claimed that China is going to adopt IFRS .What proportion of Chinese major corporations are majority-owned by the state? Maybe 90%, or may be more, in value. What is the consolidation criterion under IFRS? It is majority ownership. If IFRS is applied to the Chinese corporations, how many balance sheets would they get? One! Is China applying IFRS? Can they apply IFRS? How about related party transactions?

### **Dependence and judgment**

At the time of birth, a child is completely dependent on the mother. When learning to ride a bicycle, it helps if the bicycle is fitted with training wheels. What if the mother keeps feeding the baby as he grows? What if she does not take off the bicycle training wheels? The child becomes dependent and may never learn to bicycle or to eat himself.

Written standards of accounting are to professional accountants what training wheels and mother's help is to a child. To stand on your own professional judgment, initially you may need help from the crutches of written standards. But adulthood for a child requires having to grow up out of such dependence. The same can be said of an accounting student and trainee developing into a mature professional accountant with independent judgment of his own.

### **Financial reporting and financial engineering**

Financial reporting and financial engineering interact with each other. Accountants are not the only players in the world of financial reporting; we share it with an elephant called financial engineers. It may take accountants five years to write a new accounting rule, and it may take a mere five minutes for a financial engineer to design a way around it. They can devise new instruments or structure transactions to get around the rules, and accounting boards have shown little evidence that they can deal effectively with financial engineering.

### **Financial reporting as eye-in-the-sky or camera-model**

We can think of financial reporting in two different ways. Financial reporting could be seen as a camera, fixed to a satellite circling the globe taking candid pictures of the world underneath, unaware and unaffected by the satellite. Or, we can think about financial reporting as the relationship between the cameraman and a model. The satellite picture takes

a photograph of the earth the way it is, but there is active interaction between cameraman and the model. When the photographer picks up the camera, the model smiles; when the camera is put down, the model relaxes. Can the photographer record the model without posing for the camera? Accounting is closer to the later and yields smiling pictures of the model, no matter how much we wish to have the candid pictures taken from the satellite.

### **Turkey and the Developing Economies**

In the 1990s, Washington consensus was a popular idea. In managing the finances of the world, there was a consensus among the World Bank, the International Monetary Fund and major financial powers of the world that the world should be run by this particular set of financial policies. After 1997, that consensus began to fall apart, and within 10 years after that it is difficult to find anyone who is willing to support that received wisdom.

During the past five years there has been a concerted campaign to promote IFRS across the world, without a serious debate about its content and the consequences of a world monopoly. We should be careful, because granting a single organization monopoly rights over financial reporting systems of the whole world will have massive consequences. It will become virtually impossible to get out of it, no matter how bad the decision turns out to be. IASB has acted like a pied piper—a children's story in which somebody who with sweet music leads unthinking children to their doom. By the time they find out that they are doomed, it is too late.

Accountants should be careful before deciding to abandon competition and comparison. Little harm would be done if IFRS were permitted in Turkey and in other countries. But there is no reason not to have the Turkish and perhaps some other accounting standards available to corporations as options to choose from. They could follow the example of Canada and Switzerland in using a multi-standard system. Those who want to use IFRS may be allowed to do so, and those who want to use Turkish or American or some other system permitted by the regulators, could also do so. Under supervised competition, the market will help sort it out with the help of investors, auditors, and managers. Yes, there will be some additional cost of financial analysis, but that cost would be worth improving and finding better financial reporting systems over time.

Pacioli's wisdom lay in limiting himself to mostly documenting the current practice to for the purpose of teaching and guidance, not enforcing new methods with the power to punish, and without prior experience. With that wisdom, perhaps we would not have had to bear the unintended consequences of mark-to-market and realized loss accounting standards.

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