Standard Precision and Aggressive Financial Reporting: The Influence of Incentive Horizon

A Standard Setter’s Perspective

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October 28, 2019

The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.
Key Takeaway

MORE

LESS

Rules

Standards

Principles

Short

Long

Horizon

Earnings Management
“...the precise criteria of rules-based standards are intended to remove judgment from the classification process and improve comparability between firms”
Comparability v. Uniformity

“For information to be comparable, like things must look alike and different things must look different.”

“Comparability is not uniformity. … Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.”

IASB CF, Chapter 2, ¶2.27
FASB, CON8, Chapter 3, ¶QC23
## Rules v Principles

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<th>Rules</th>
<th>Principles</th>
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<td>Preparation cost</td>
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<td>Audit cost</td>
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<td>Comparability</td>
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**Bottom Line… You get what you pay for**
To Rule or Not to Rule

That is the question...
## Across Standard Setting Regimes

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<th>IASB Standards Environment</th>
<th>US GAAP Environment</th>
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<td>Diverse economics</td>
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- More Principles-based
- More Rules-based
Within Standard Setting Regimes

- **Similar**: Economics
- **Diverse**

- **Low**
- **High**

- **Rules**
- **Principles**
- **Standards**

Subsequent accounting for goodwill
Academic Landing Page

quicklinks

› academics
› advisory groups
› emerging issues task force (eitf)
› implementing new standards
› investors
› not-for-profits
› private company council (pcc)
› reducing unnecessary complexity
› taxonomy (xbcr)

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- **Responsibilities**
  - Engage in project-specific research activities
  - Integrate identified research results into project analyses
  - Broadly educate Board and staff on nature and use of research
  - Liaise with the academic community

- **New PhD in Accounting (2 years or less), CPA desired but not required**

- **Highly selective – one per year**
  - 26 applicants in 2019

- **2020 Post-Doctoral Fellowship**
  - Christine and Mike will be in Miami meeting with interested candidates
  - Application deadline – December 11, 2019
  - Interviews at FASB offices – mid-January 2020
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