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ABSTRACT

The European economic crisis was triggered, to some extent, by the United States financial crisis, which should have been better monitored by improved international financial reporting standards. Trouble in Europe logically began with Europe’s weaker economic players--Portugal, Ireland, Greece, and Spain—which became known as the P.I.G.S. Italy has been added as a second “I” country. Italy, from an economic perspective, is essentially “too big to fail.” If it had fallen as part of the European crisis, it would have had devastating global effects. The point of this paper is to examine the role of accounting in the global financial crisis, specifically how accounting can influence what is disclosed to investors and how that information influences investment decisions, for better or for worse. Although Italy appears to have survived the current economic crisis, it is necessary to identify what, if anything, has, can, and should be done to prevent this sort of crisis from re-occurring. My thesis posits that international financial reporting should be used to prevent another global financial crisis since only proper financial reporting will produce the transparency needed in the markets. My paper shows how the International Accounting Standards Board (I.A.S.B) has enacted reforms through International Financial Reporting Standards (I.F.R.S). Improved international accounting standards, when effectively implemented, can reform European and global financial reporting and provide greater global economic stability.
INTRODUCTION TO ROLE OF ACCOUNTING IN EUROPEAN CRISIS

Given the recent economic crisis in Europe, it is critical to understand whether accounting practices could have prevented this disaster or could have been altered to hasten the recovery. The purpose of this examination is to show whether lessons learned, or being learned, are being reflected in accounting principles. Progress is undeniable, but it is not sufficient; and it is not happening quickly enough. Accounting and audit practices, if executed properly, can both help repair the wounds of this economic crisis and, more importantly, help prevent another crisis. Accounting can improve transparency in the markets, which is required to restore investors’ trust. The point of this paper to examine the role accounting played in the recent global financial crisis in terms of subsequent economic reforms and regulations. The recently enacted IFRS reforms are good steps in the right direction because improved international accounting standards, when effectively implemented, can reform European and global financial reporting and provide greater economic stability.

ROOTS OF CRISIS

The recent world economic crises began with taking on too much debt, and the resulting decline in market confidence was felt globally. For example, when the financial crisis in the US started in summer of 2007, losses had been accumulating on subprime mortgages. People did not have the money to pay their mortgages, resulting in the subprime mortgage crisis. As the losses piled up, US problems played a large role in triggering the global financial crisis. Complex structured securities, such as Collateralized Debt Obligations (C.D.O.s), suffered massive losses. Moreover, institutions reduced their leverage and demand for liquid assets grew. Credit extension dwindled as credit markets tightened. This profoundly affected financial institutions’ financial statements because their balance sheets were full of declining assets and liquidity was disappearing from the market. Market participants were hesitant to get involved due to lack of
confidence in financial markets. Large steps by organizations became necessary “to re-establish confidence in the soundness of markets and financial institutions” (“Credit Crunch”). This discussion of the roots of the financial crisis underscores the need for solid, consistent, international accounting standards. Since world economies are connected to one another, the finalized standards must be globally understood and implemented; otherwise, necessary transparency in the markets will not be achieved.

Although critics argue that each country is different and requires its own set of standards, creating individual national standards would not be an effective solution. This would not only be impractical, but also impossible to monitor on a global level. International standards would provide uniform accounting standards to boost confidence in reliability and consistency of financial statements; and although complications may arise, uniform standards would be preferable. While excessive borrowing and deficits characterized European nations, this behavior is not the Euro-zone’s biggest threat: “At its core, the Euro-zone crisis is one of confidence” (Forelle and Lauricella). Further, “the big Euro-zone countries, such as Germany and France, like most developed nations, run persistent budget deficits and thus need constant borrowing to keep themselves afloat” (Forelle and Lauricella). The market’s reaction to these factors determines effects on Euro-zone economies.

When the crisis began, investors took similar actions once they assessed risk. Forelle and Lauricella note that investors pulled money out of the “shakiest nations,” starting with Greece, Ireland, and Portugal, i.e. “P.I.G.” nations. For each of these countries, bond yields would spike for about a month, but after this “fevered spike,” a rescue would inevitably follow. Italian bonds followed a similar trend with bond yields. An Italian collapse would be more significant since
the Euro-zone is too limited to rescue Italy, which is larger than the rescued PIGS. Its rescue would depend on willingness of markets to help Italy raise needed funds (Forelle and Lauricella).

Although there has been worry primarily with Greece, Italy’s potential downward spiral is a source of even graver concern. This is because Italy’s economy is “seen as the linchpin in the broader stability of the Euro-zone” (Lauricella and Browning). Italy’s involvement has “upped the ante in the European debt crisis” (Lauricella and Browning). As Italy’s and Spain’s economies are tested, European corporate bonds and stocks have “begun to feel the pinch” (Lauricella and Browning). Italy is more vulnerable than other nations: “Prolonged higher interest rates resulting from a bond market selloff could be dangerous for Italy because of its sizeable need to borrow in the financial markets” (Lauricella and Browning). The specific danger with Italy is that “higher rates could lead to a vicious cycle where a selloff in the bond market feeds on itself and becomes an Italy-focused problem” (Lauricella and Browning).

Italy is a greater concern than the P.I.G.S. because its debt load is more significant. Its economy is also powerful enough to have a domino effect on other European economies. This November in the Wall Street Journal an article entitled “Italy Fears Rattle World's Investors--Global Markets Slide as Turmoil Fuels Anxiety Crisis Could Ricochet across Atlantic”, Italy’s debt is highlighted: “Italy’s debt load of 1.9 trillion Euros ($2.6 trillion) is the second largest in Europe, behind Germany’s and the fourth largest in the world” (Lauricella and Browning). If Italy were to collapse, it would trickle negatively upon other world powers, not just implode silently within itself. Italy’s non-domestic interaction is evidenced by the fact that, “next year, more than 300 billion Euros of debt comes due, and Italy must continually tap the markets to refinance it” (Forelle and Lauricella). Dependence on markets, which already are suffering, can be dangerous to Italy if that is its only option.
The European Union is not prepared to handle an Italian disaster: “The underlying worries run much deeper: ‘Italy has a massive public-debt burden and a chaotic political system. European policy makers who have long bickered over how to protect the Continent from an Italian-size problem are now facing one with no solution in hand’” (Forelle and Lauricella). Despite the apparent obligation that the EU has to keep Italy afloat, the overall sentiment for Italians is that Italy better save itself. Italy seems to have too much pride to rely on being rescued. Lauricella and Browning note, “Italy is under huge pressure to show that it can deliver enough long-term growth to work off a debt burden equal to 120 percent of its annual gross domestic product” (Forelle and Lauricella).

Italy’s bond market is third largest in the world, following the US and Japan. Thus, “over the past year Italian bonds have become widely held by managers who have shunned the bonds of Greece, Portugal and Ireland” (Lauricella and Browning). A key reason for this was that “many felt that Italy was walled off from the problems of the peripheral countries” (Lauricella and Browning). It appears that “Italy’s main issue is its high level of debt in relation to gross domestic product, which stands at 120%” (Lauricella and Browning). Italy’s high debt to GDP ratio is contributing to impulsive actions by market participants.

HOPE FOR ITALY?

Since Sylvio Berlusconi was replaced by well-liked Mario Monti as Italian Prime Minister, the world has become optimistic. Monti has taken concrete steps to put Italy back on track, such as “appointing an emergency government of technocrats who now face the delicate task of restoring investor confidence in the Euro-zone’s third-largest economy and pulling it out of the spiraling debt crisis” (Meichtry and Emsden). Some question if Monti will successfully be able to enact reform without including the powerful political class, who used to run everything in
Italy, on his team. However, Monti is confident that ‘the non-presence of political personalities will make it easier’ to act decisively in rolling out economic measures (Meichtry and Emsden). Italy remains under pressure to adopt measures that will help its labor market and fix its costly pension system. Monti, in response, has assembled a cabinet of experts in each of these realms and said “he hoped the government would calm the ‘specifically Italian’ front of the Euro-zone debt crisis” (Meichtry and Emsden). This optimism conveys hope of recovery.

Austerity measures provide relief for Italy, but these alone will not solve all its problems: “Given Italy’s slow growth prospects, the current environment warrants the kind of higher yield levels brought about by the selloff,” some investors said, “Recent austerity measures are unlikely to help much” (Lauricella and Browning). Austerity measures involve a nation controlling its spending and raising its taxes in order to lower its deficit. Therefore, Italy’s Prime Minister, Mario Monti, is taking baby steps to improve the Italian economic situation in different sectors. The scary thing about apparent causes for some of these occurrences is they seem to be symptoms of contagious impulsive behavior, rather than consequences from the high debt to GDP ratio specific to Italy.

Positive strides shift Italy back toward the right direction: “Italy’s progress of a $56 billion deficit-cutting plan is a step in the right direction, investors said” (Lauricella and Browning). Yet, if Italy is moving in a positive direction, then the question is: How could Italy’s situation seem to explode so quickly? Asoka Woehrman, chief investment officer at DWS Investments, expressed: “I couldn’t see why Italy would overnight become a problem” (quoted in Lauricella and Browning). However, he does come up with a reason behind it, proposing “the selloff bore the signs of contagion” (Lauricella and Browning). Lack of explanation for the origin provides further support that contagion was a root cause of the Italy problem. William
Porter, head of European credit strategy at Credit Suisse, said the large selloff was “30% a reflection of Italy’s issues and 70% the issues in Europe,” which was “pretty scary” (quoted in Lauricella and Browning). Contagion plays out in irrational ways. “The selloff was a ‘wake-up call,’ he says, and shows why investors should be wary of contagion” (quoted in Lauricella and Browning).

A moral lesson ought to be learned. When investors collectively act in this impulsive manner, irrational outcomes happen and have dangerous consequences. Thus, it is essential to educate individuals that actions should be based on the facts, not on excitement or hype that often seem to mask the facts. Such unconsidered responses blow situations out of proportion.

**WHY ITALY IS HARD TO MONITOR FINANCIALLY**

The European Union offered assistance when it thought it could—and it will potentially, if such assistance will not jeopardize the EU. The EU clearly could not rescue Italy without jeopardizing itself. However, under Monti’s regime, we see reform. Monti understands constraints exist and is taking the proper marginal, progressive steps to help the Italian situation. He looked at the transportation sector, focusing on public transit and taxis, issuing more taxi licenses. He also encouraged growth by promoting shops to have more sales.

Although Monti’s measures have led to growth, Monti is facing criticism that he is acting on too small a scale. Critics ask why he is acting on little things, rather than big things, like energy. The answer is Monti is doing what he can with what he has. He has to focus on the small because that is all he can do for now. Fiscal policy cannot currently be used for growth; instead, Italy needs austerity measures. Neither monetary policy nor devaluation is a viable option. Monti is doing what he can, without expecting others to swoop in and work miracles.

Even if Italian accounting regulations are perfectly adjusted, accounting is still difficult
because Italian people tend to pay cash. Wages or rents are often paid in cash. This makes it harder to track and tax transactions. The government tries to encourage people to use banks, but this push has not been effective. Although fraudulent activity of Italians is not a concern for Italy like it is for Greece, when examining Greek activity, this lack of accounting in Italy still makes accounting for money and taxing transactions challenges. Current IFRS reforms do not adequately address these concerns.

**CHANGES IN INTERNATIONAL ACCOUNTING STANDARDS**

In order to learn from Italy’s crisis, one must investigate how accounting practices have since changed on an international level. Experts have been scrutinizing International Financial Reporting Standards, noticing what guidelines within it have been the most meaningful and which could have been clearer and more effective. This is evidenced by the comprehensive information that has been compiled by Deloitte and Touche, one of the Big Four global accounting firms. Deloitte and Touche maintains the IASPlus.com website, which focuses exclusively on providing information about international financial reporting to businesses, financial analysts, accounting professionals, educators, students, and even those creating the standards and regulations. This site provides resources on international accounting and auditing, in general, and has increased attention on the International Accounting Standards Board and International Financial Reporting Standards (“Credit Crunch”). Effective implementation of the proper IFRS standards will reduce the likelihood of a potential “P.I.G.S.-like” situation.

**SUPPORT FOR IFRS**

Global support for International Financial Reporting Standards has grown, according to a survey conducted by the Association of Chartered Certified Accountants (ACCA) this October. Its participants were from various industries and from the US, Europe, Asia, and the Middle East
and its intention was to “gauge support for the global standards [IFRS]” (“Credit Crunch”). The survey indicates that IFRS support has grown as a consequence of the global financial crisis. The survey resulted in a consensus that the U.S. Securities and Exchange Commission (SEC) ought to adopt International Financial Reporting Standards (“Credit Crunch”).

The survey produced key recommendations about the global standards. One benefit of increased global familiarity with the global IFRS financial reporting standards is that there will be less resistant to their implementation. Another benefit output from the study is the general positive sentiment toward global standards has increased as an effect of the crisis. Investors prefer to have global auditing standards. In non-financial reporting, “Rising demands from investors and customers for greater disclosure is fueling an appetite for global standards”. The study indicated executives believe “global standards or benchmarks in corporate governance would encourage more ‘long-term’ thinking” (“Credit Crunch”). All of these factors suggest that IFRS standards are likely to be globally embraced.

The need for global IFRS accounting standards has been supported by the G20, comprised of 20 finance ministers and central bank governors from major world economies including the European Union. The G20 has “become the principle forum to lead global efforts to stem the crisis and mitigate its effects” (“Credit Crunch”). It originally was organized in response to the Asian financial crisis in the late 1990s. Leaders of the G20 nations reaffirm the goal of creating a single set of accounting standards “as a means for strengthening the global financial market infrastructure” (“Credit Crunch”). Although they continue asserting this as a necessity, the deadline by which this is to occur keeps getting pushed back. At first, this single set was to be completed by the end of 2011. That did not happen. The G20 has put increased pressure on the International Accounting Standards Board and the Financial Accounting
Standards Board to complete their convergence project as soon as possible. The G20 leaders encouraged the IASB to increase involvement of emerging economy stakeholders in helping to set the global standards. This Declaration by the G20 may be taking a while, but it is likely to produce a worthwhile result (“Credit Crunch”).

The Financial Stability Board (FSB) has been working to achieve financial reform with the goal of building a stronger global financial system. The FSB’s aim is to lessen reliance on credit rating agencies by implementing solid accounting standards. According to the Deloitte & Touche report, the FSB is determined to avoid three potential dangers as standards are implemented: “fragmentation of markets”, “regulatory arbitrage”, and “protectionism”. The board calls for an “accounting convergence” so global standards can be implemented consistently. In four key areas, the FSB has recognized progress: (1) impairment of financial assets, (2) de-recognition, (3) addressing valuation uncertainty in fair value measurement guidance, and (4) netting/offsetting of financial instruments” (“Credit Crunch”).

The European Central Bank (ECB) is determined to learn from the crisis. Mr. Jean-Claude Trichet, President of the ECB and Chairman of the Group of Governors and Heads of Supervision, said that “agreements reached were landmark achievements which would strengthen banking sector resilience in a manner reflecting key lessons of the crisis” (quoted in “Credit Crunch”). The agreements would replace certain Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS). Focusing on treatment of intangibles, these agreements could be classified into three categories: 1) allowing IRFS treatment where different from national GAAP (e.g. software), 2) determining how the leverage ratio is defined, and 3) providing for a forward looking provision (“Credit Crunch”)
REFORM PROPOSALS

A) ATTENTION ON CORPORATE GOVERNANCE

Corporate governance is a realm in which solutions are being sought. In an attempt to discuss future steps to reform global corporate governance, the International Federation of Accountants (IFAC) and the United Nations Conference on Trade and Development (UNCTAD) held a conference in Geneva, Switzerland. A key outcome of the conference was acknowledging that “the accounting profession has a key role to play in strengthening corporate governance and facilitating the integration of governance and sustainability into strategy, operations, and reporting” (“Credit Crunch”). Another key point of agreement was the need for “global dialogue between policy makers, the accounting profession, and other financial industries” (“Credit Crunch”). Open global dialogue is significant as it allows measures to be taken to help recover from the crisis and to prevent red-tape which often delays reform. The Committee of European Banking Supervisors (CEBS) conducted research which put 91 European banks under “stress tests” in order to learn from their reactions (“Credit Crunch”). The consensus among both CEBS and G20 studies supported working in two key areas: accounting standards and financial sector reform. In the area of accounting standards, a recent G20 declaration has “encouraged the International Accounting Standards Board to further improve the involvement of stakeholders, including outreach to emerging market economies, within the framework of the independent accounting standard setting process” (“Credit Crunch”). It is interesting to note that the declaration conveys that financial sector reform hinges upon “achieving a single set of high quality improved global accounting standards” (“Credit Crunch”). The IASB and FASB remain under pressure to finalize their converging of the standards.
B) DISCLOSURE ISSUES & RESULTS OF THE SHARMAN PANEL OF INQUIRY

The aim of the Sharman Panel of Inquiry was to “identify lessons for companies and auditors addressing going concern and liquidity risks and to recommend measures, if any, which are necessary to improve the existing reporting regime and related guidance for companies and auditors” (Sharman Panel of Inquiry). The panel achieved this objective along with another, which was to make observations on the way International Financial Reporting Standards correspond to going concern and liquidity themes.

Disclosing information is paramount, which was underscored by the United Kingdom’s Financial Reporting Council (FRC). The FRC is an “effective, accountable and independent regulator, operating in the public interest and actively helping to shape UK, and to influence EU and global, approaches to corporate reporting and governance” (Sharman Panel of Inquiry). Not only is the FRC recognized in the UK, but also it is recognized by the Sharman Panel and globally as “independent, credible, authoritative, and influential.” After vast post-crisis research, the FRC highlighted the importance of full disclosures to regain confidence in the markets (Sharman Panel of Inquiry).

The FRC believes there are connections among issues of corporate governance, auditing, actuarial practice, corporate reporting and professionalism of accountants and actuaries. An FRC representative stated, “We believe that the breadth of our responsibilities and functions will enhance our effectiveness” (Sharman Panel of Inquiry). The FRC not only sets standards for corporate reporting, but also its monitors and enforces accounting and auditing standards. The added perspective of the UK’s premier accounting regulatory body adds valuable insight into accounting’s role in this global financial crisis.

A pivotal part of accounting information, emphasized by the FRC, is the idea of going
concern. Going concern is the idea that a company will continue to operate into the foreseeable future. Until recently, the notion of going concern had been taken for granted until businesses in the crisis collapsed. Going concern must be properly assessed and disclosed. Since market participants will be able to better assess the risk of investing in certain business ventures, they will have more confidence in financial reporting. (Sharman Panel of Inquiry)

Important results of the inquiry related to these points are reflected below. First of all, the Panel unanimously agreed that the time period during which going concern is reviewed is excessive. Instead, they prefer to use the shorter review periods. The Panel recommends combining this adjustment to shorter review periods with utilizing “stress tests” which focus specifically on business cycles and economic outlook. (Sharman Panel of Inquiry)

Investors questioned whether IFRS is a valuable tool for determining solvency of businesses. They voiced that, in the financial sector, a better potential starting point is the regulatory capital assessment than IFRS. In assessing capital adequacy, some express that since the IFRS Balance Sheet lacks “prudence”, it is not a valuable assessment tool. Another view of investors cited in the Inquiry is that “the use of IFRS accounts requires adjustment for prudence.” The Panel recommends requiring the “prudence adjustment” in order to guarantee there is adequate capital available and that businesses can withstand unexpected stresses. Investors place great interest in capital management since “they want to understand how this [managing of capital] is done, through the eyes of management” (Sharman Panel of Inquiry). Investors want more information: “The IAS 1 disclosures are not generally providing what they [investors] want, though they could in principle be used to do so.” (Sharman Panel of Inquiry)

An issue with the going concern assessment is that it is forward looking. This conflicts with the manner in which IFRS accounts have been established. IFRS accounts “which are
essentially backwards looking” (Sharman Panel of Inquiry). This opposite looking of directions causes a dilemma. Experts ought to contrive a way that incorporates both directions of looking in order to make appropriately accounting evaluations.

The incurred loss model is also widely criticized within the industry. Experts are responding to criticism regarding whether this model is moral: “A number of respondents and commentators suggested that "there was a sense that IFRS engendered a compliance mentality and that a more principles based approach was appropriate” (Sharman Panel of Inquiry).

Regulators are concerned with valuations providing inaccurate information to outsiders. Expressing “there are ‘inherent issues with point estimates’” is leading to inconsistency. Regulators observed inconsistent results as they reviewed valuations of identical financial instruments using different models. Continued use of these models will continue to produce misleading results.

Not only did the Panel make the above observations related to IFRS, but it also produced concrete recommendations for improving the way in which going concern and liquidity risks are reported. Many points made by the Panel promote disclosures. When everything is required to be disclosed, individuals are discouraged from engaging in risky behaviors. The Panel acknowledges this: “The aim of these disclosures is to provide information to stakeholders and they should be designed to encourage appropriate behaviours such as good risk decision-making, informing stakeholders about those risks and early identification and attention to economic and financial distress” (Sharman Panel of Inquiry). Not only are good behaviors promoted, but also, when problems exist, they are more likely to be detected early if there were more mandatory disclosures. The panel calls for eliminating vagueness in accounting standards. The going concern assessment must acknowledge solvency and liquidity risks, for every type of business.
Assessments ought to include stress tests and cover a several-year time frame that will allow the business to be scrutinized over repeated business cycles. This will allow authorities to investigate how the businesses’ risks may have evolved.

Proper accounting and auditing procedures are done to assure that accurate financial information is provided to external users, and transparency is one of their primary objectives. Stephen Haddrill, Chief Executive of the Financial Reporting Council, highlighted how transparency is essential: "The management and disclosure of key risks is an essential part of the role of an effective company board” (quoted in Sharman Panel of Inquiry). A key outcome of the Inquiry was it “revealed the vital role directors and auditors must play in bringing short term liquidity risks and longer term, but no less important, solvency risks, to the attention of investors and other stakeholders” (Sharman Panel of Inquiry). After reflecting on Inquiry results, the FRC expressed its hope to “improve both the quality of corporate reporting and the dialogue between investors and company boards” (Sharman Panel of Inquiry). Opening dialogue and promoting transparency is necessary to learn from past mistakes.

A reason why the Financial Reporting Council’s recommendations may have even greater insight than other recommendations is because the FRC has taken an array of stakeholders into account. The government, regulators, companies, auditors, and accountants were all represented during all deliberations. The FRC has synthesized key solutions that would benefit all parties. If the recommended proposals are implemented, no party will be neglected. The FRC expressed how it “looks forward to engaging with the widest possible range of stakeholders to build a broad consensus on how to take forward these proposals” (Sharman Panel of Inquiry). These recommendations will bring consistency and transparency through concrete steps, not vocal promises, which have done little to allay concerns of market participant.
C) TRANSPARENCY ADDRESSES VERBAL DISPARAGEMENT OF ABUSES

Although international leaders vow not to tolerate malice on the part of big business, many criticize that what they say and what they do is inconsistent: “It is fine that Greek Prime Minister George Papandreou, German Chancellor Angela Merkel, and even President Barack Obama pay lip service to cracking down on financial speculators and the big banks. But none of them has moved seriously to regulate, restrict, or punish them” (Epitropoulos 115). Due to repeated wrongdoings by entities, more than hand-slapping must be done to stop such behavior.

A different approach is needed—one that forces them to have everything disclosed. Only when everything is out in the open will investors and creditors regain confidence. While individuals do not want to be naturally distrustful, they must be prudent and not allow “accounting magic” to be tolerated. Serious financial regulatory reform should be on the radar of Washington, especially since allowing the status quo has wreaked havoc to our US economy and the European economies, as Epitropoulos suggests. He asserts, “It was Goldman Sachs and JP Morgan that were hired to hide the magnitude of the Greek debt” (Epitropoulos 115). In the accounting realm, the moral lesson is that everything must be disclosed.

D) TRANSPARENCY IS A NECESSITY

The need for transparency in markets was underscored in an article published this December, entitled, "Professional Accountants' Contribution in the Current Economic Difficulties: Enhancing Transparency and Confidence” and was published by the Federation of European Accountants, or FEE (Fédération des Experts-comptables Européens). The Deloitte report identifies FEE as “the voice of the European accountancy profession toward the EU institutions and other international organisations.” FEE is a non-profit international organization, based in Brussels, representing auditors from more than thirty European countries, including all
the 27 EU member states. It represents nearly fifty institutes of professional accountants. A central goal of the FEE is to “contribute to a more efficient, transparent, and sustainable European economy” (“Credit Crunch”). FEE “believes that the European accountancy profession needs to play a key role in the current European crisis by contributing to the transparency and reliability of financial and non-financial information,” which will “enable better decision-making and contributing to restoring public and financial market confidence” (“Credit Crunch”).

The more open the pipeline of information is to all market participants, the better off the markets will be. One could say that if auditors had scrutinized investment banks’ records that some of the Greek disaster could have been avoided. “In Greece the government is introducing punitive austerity measures on the working and middle classes to pay for the ‘accounting magic’ that Wall Street consultants, like Goldman Sachs and JP Morgan, provided to the previous government” (Epitropoulos 115). When deception is tolerated, market participants suffer. In order to avoid repeats of fraud and deception, market participants must stay alert and watch for “accounting magic” (Epitropoulos 115).

This raises the moral question of “Who can one trust?” Accounting guidelines are even more critical if one cannot trust financial institutions. Through GAAP in the U.S. and IFRS abroad, guidelines exist aiming to provide reliable, relevant, useful information to investors and creditors. Markets will function more efficiently if standards promote openness. For example, if Goldman Sachs and JP Morgan are culpable for covering up debt issues abroad, then holding these institutions accountable under accounting mandates would have prevented them from getting away with their actions.

IMPLEMENTATION OF NEW AND IMPROVED ACCOUNTING STANDARDS

The goal of accounting is to provide clear, accurate information that is useful to investors
and creditors. The current financial crisis has forced international experts to evaluate what could be learned from the crisis and how that could influence setting financial reporting standards going forward. At the Financial Executives International Annual Financial Reporting Issues Conference in New York, US SEC Commissioner Kathleen L. Casey shed light on financial reporting lessons from the Financial Crisis ("Credit Crunch").

Commissioner Casey pinpointed three primary lessons from the crisis. The first lesson was that “financial stability depends upon market confidence; and investor confidence, in turn, depends upon the transparency of financial statements” ("Credit Crunch"). The second lesson was “financial reporting and accounting standard setting must remain focused on the needs of investors. While there are many other important stakeholders that rely on financial statement reporting, investors' interests must remain paramount” ("Credit Crunch"). The final lesson was “financial reporting must remain relevant and informative to investors, and should not impose unnecessary or costly burdens that do not add to investor understanding” ("Credit Crunch"). Each lesson must be learned for stability in the financial markets.

Implementation of IFRS in the U.S. has been emphasized as American investors hold non-domestic investments; “As the number of US investors with holdings of securities of non-US companies continues to increase, the Commission and the FASB would be remiss and would fail the needs of investors if we did not continue to support the development of a single set of high quality global accounting standards” (quoted in “Credit Crunch”). This concern is further emphasized: “The desirability of convergence on certain key accounting standards – particularly those related to financial instruments and other areas relevant to the credit crisis – has been highlighted in a number of forums” ("Credit Crunch"). As the US buys more non-domestic investments, the US must participate in reforming international accounting standards.
Involvement of the US would help achieve international accounting reform. As the IAS reports, “Going forward, it is crucial that the United States continue to play a leadership role in the support and development of a single set of high quality global accounting standards” (“Credit Crunch”). Consequently, the United States is participating in this reform of IFRS. Dedicated to improving regulation of US capital markets, the Committee on Capital Markets Regulation has published *The Global Financial Crisis: A Plan for Regulatory Reform*. This work dedicates a chapter to Enhancing Accounting Standards and focuses on two issues; the use of fair value accounting and the requirements for consolidation. The report provides nearly sixty suggestions for regulatory reform, taking into account both the International Financial Accounting Standards Board and the Financial Accounting Standards Board; US involvement in this complex, but needed reform is needed for enacting the appropriate global accounting regulations.

**IFRS COULD BE “GLOBAL REMEDY TO GLOBAL CRISIS”**

Despite divergent views of the IASB and FASB, IFRS are more necessary than ever. According to the Maryland Association of Certified Public Accountants, they are potentially “a global remedy to a global crisis,” so it is important to solidify their status as the prevailing guidelines in accounting practices worldwide (M.A.C.P.A. "IFRS: A Global Remedy to a Global Crisis?"). Despite growing support, some economists criticize the reforms: “First of all, it could go a long way toward calming the hysteria over fair-value accounting, which some folks have blamed for fanning the flames -- if not outright causing -- the current financial crisis” (M.A.C.P.A.) In spite of criticism, if employed properly, IFRS will create far more good than harm. (M.A.C.P.A. "IFRS: A Global Remedy to a Global Crisis?")
CONCLUSION

Ultimately, this economic crisis forces one to consider the following moral questions: Is it better to allow weak nations to default and not rescue them? Or is ignoring a suffering nation wrong? Can ignoring and not bailing one nation in order to focus on the greater good for the entire region be justified? There are no black and white answers to the moral questions; however, one lesson is for certain: international accounting reforms can positively influence the economy. Further accounting regulation is the tool that will allow market participants to trust the markets again. The necessary proposals to reform financial reporting reliability not only are being enacted by IFRS, but also they are the appropriate measures to hasten the European economy’s recovery and to prevent another global economic crisis. With Italy’s most recent government showing more support for these IFRS measures’ implementation than the former one, there is hope that reform, from an economic and accounting perspective, is achievable.


