



Discussion of: Accounting Alchemy

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What?

- Heuristic – association of measures with real performance, without disentangling the two
- “Earnings is king”
- Three vignettes
 - Share-based payment, Purchase versus pooling for business combinations, Other comprehensive income
- “Cosmetic” and transparent
- Much focus on fair value as problematic – decreases income, increases income volatility, procyclical



Why?

- Is accounting too complicated?
- Is the accounting not really totally transparent?
- Is economic reasoning missing something?
- Is it really possible to fool people, or is this wasted energy?
- Is everyone (except accountants and economists) happy playing the heuristic game?
- Are accounting amounts something to be managed, not simply reported?
- How did we get to this place?



Who?

- Paper concludes it is managers, not investors
- Does not explicitly consider analysts
- What about regulators?
 - Bank regulators and fair value (and OCI)
- Politicians?
 - US hearings on derivatives, business combinations, share-based payment
 - EC on many issues IASB deals with
- Are accountants just not politically savvy enough to counter these assertions?



What to do about it?

- Figure out where economics is going wrong?
- Become more heuristic ourselves?
- Change incentives of managers and others?
- Expose heuristic actions and stop accommodating them?
- Education?
- Rebut popular press?
- ????



Concluding remarks

- Unsettling
 - Those who should understand do not?
 - Do some intend to deceive?
 - Are economists missing the boat?
- Truth is probably a combination
 - Not all managers, not all investors
 - Not totally transparent
 - Accounting is used as a tool to shape perceptions
- Perhaps acknowledging the beliefs about accounting alchemy will begin process of dispelling them



Thank you!

