



# Wanted Foundations of Measurement

EAA Symposium 13 May 2009,  
Chair - Graeme Dean, University  
of Sydney

“History may not exactly repeat  
itself but it rhymes” – attributed to  
Mark Twain.





# Outline

- Introduction by Chair

## Panellists

- Andrew Lennard
- Geoff Whittington
- Richard Macve

Plus Mary Barth, IASB member to  
ask/answer Qs

- Q and A from floor





# MOTIVATION

## 2008 EAA MEASUREMENT SYMPOSIUM

**GFC – Focus on measurement – implementation of mark-to-market for toxic assets and the institutions' (and some commentators') special pleading to have FAS 157 effectively changed.**

**Historical antecedents – 1950s and 1960s**

**Need to consider - what is measurement?**





**Three themes will be canvassed briefly:**

- 1) *Measurement – related to past, present, expectations? Canons of measurement***
- 2). *Special pleading in the GFC - a case of deja vu; and***
- 3) *Professional failure for the standards-based accounting technology to fail to adhere to the canons of measurement.***

**The introduction ends with some evidence from recent work done by Professor Clarke and myself currently under review.**





## Theme 1

- ***Measurement – since JB Canning’s work recurring calls to break “crust of custom” and follow canons of measurement – but what is measurement?***
- ***Related to events, objects - past, present, - and expectations? E.g. Mattessich v. Chambers.***
- ***Canons of measurement – common property, scale and unit.***





## Theme 2

- Special pleading previous decades have seen accounting criticised – boom and busts
- Booms – mergers and acquisitions – creative accounting – as well as problems with price level changes (inflation). Special pleading.
- Busts – „unexpected corporate collapses“ – questionable asset values – specific price problems – special pleading.





## *Special pleading in the GFC - a case of deja vu*

**Many issues are to the present (and no doubt dissimilarities - e.g. the asset classes differed like property, inventories, companies in the merger manias); matters of similarity include: undercapitalisation, excessive leverage, regulatory failures (sometimes due to deregulatory initiatives, whilst on other occasions the problems were due to poorly considered regulatory interventions), greed, etc). And of course the perennial similarity is that the 'accounting system' is the problem. But, interestingly, the forms of accounting have differed over those various sagas.**





***3. Professional failure to adhere to the canons of measurement in setting standards for accounting technology.***







Abstract

- **ARCHIVAL RESEARCH**
- **The late 1950s and early 1960s afforded an opportunity for a revolution in measurement issues, now particularly relevant in contemporary disputes regarding mark-to-market valuations of ‘toxic assets’.**
- **1950s-1960s “Golden Age” of theoretical works.**
- **Issues (albeit in theory) similar to problems of determining appropriate measures for assets and liabilities where no market exists – as with CDOs and CDSs of financial institutions in the GFC.**
- **Special pleading reigns over adherence to canons of measurement.**





**Regarding similar issues to those confronting the current standards setters in determining 'fair value' measures where no direct price exists, a prescient Chambers wrote to Weinwurm (30 July 1964):**

**The first question then is, shall we define accounting as having any dependence on feelings about the future. In my view, no [as argued in his 1961 'Towards a General Theory ...], except in the sense, that the entity shall be supposed to have a future. Given this position, uncertainty is out for accounting, though it remains for decision-making. The accounting problem is complicated by ignorance (imperfection of available information and so on) rather than uncertainty. So, if we state the rules of measurement [for Chambers to determine current cash equivalents] we shall also have to state what are acceptable methods of approximation when the general rules cannot be applied. Given this basis auditors can authenticate. They can never authenticate subjective probabilities, by definition of subjective.**

