

Orthaus, Selina; Pelger, Christoph; Kuhner, Christoph

Article — Published Version

The Eternal Debate Over Conservatism and Prudence: A Historical Perspective on the Conceptualization of Asymmetry in Financial Accounting Theory

Contemporary Accounting Research

Provided in Cooperation with:

John Wiley & Sons

Suggested Citation: Orthaus, Selina; Pelger, Christoph; Kuhner, Christoph (2022) : The Eternal Debate Over Conservatism and Prudence: A Historical Perspective on the Conceptualization of Asymmetry in Financial Accounting Theory, Contemporary Accounting Research, ISSN 1911-3846, John Wiley & Sons, Inc., Hoboken, USA, Vol. 40, Iss. 1, pp. 41-88,
<https://doi.org/10.1111/1911-3846.12812>

This Version is available at:

<https://hdl.handle.net/10419/287918>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.


If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<http://creativecommons.org/licenses/by/4.0/>

The Eternal Debate Over Conservatism and Prudence: A Historical Perspective on the Conceptualization of Asymmetry in Financial Accounting Theory*

SELINA ORTHAUS, *University of Cologne*[†]

CHRISTOPH PELGER , *University of Passau, Norwegian School of Economics*

CHRISTOPH KUHNER, *University of Cologne*[‡]

ABSTRACT

The recent revisions of conceptual frameworks (CFs) by the IASB and the FASB included changes to the status of prudence/conservatism, accompanied by a broader debate about the meaning and role of asymmetry in financial accounting theory (FinAT). This paper adopts a historical perspective to identify possible sources of the current controversies by examining how the discourse on asymmetry has developed over time. For this purpose, we trace the conceptualization of asymmetry in FinAT building from the 19th century until 2018, covering contributions to the US FinAT literature and the conceptual reasoning of standard setters (and their constituents) in the United States and at the international level. We identify four distinct constructs of asymmetry (ultra-, specified, discretionary, and neutral asymmetry) developed in FinAT under the headings of “conservatism” and/or “prudence.” Our analysis reveals that the respective historical circumstances strongly influenced which notion and role of asymmetry were commonly accepted in FinAT, while the arguments underlying the debates were going in circles and were characterized by an increasing level of abstraction over time. We conclude that the controversy about asymmetry is partially due to conceptual ambiguity but also due to different assumptions about the objective of financial reporting and attributes of the preparer, which are indicative of two conflicting paradigms shaping the FinAT discourse on asymmetry. Our findings point to gaps and limitations in the deductive CFs currently employed by the IASB and FASB. Our study highlights future research potential regarding the construction of the preparer in standard setting and analyses of the ways in which deductive CFs (fail to) translate into consistent standards.

This is an open access article under the terms of the [Creative Commons Attribution](#) License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.

* Accepted by Yves Gendron. Selina Orthaus and Christoph Pelger dedicate this paper to the memory of Christoph Kuhner. We would like to thank Yves Gendron (editor), two anonymous reviewers, David Alexander, David Cairns, Kees Camfferman, Roy Chandler (IPA discussant), Omiros Georgiou, Chris Humphrey, Anne McGeachin, Andrea Mennicken, Ann Tarca, Carien van Mourik, Stephen Zeff, and participants at presentations at the University of Manchester, the 13th Workshop on European Financial Reporting (EUFIN) in Florence, the Annual Accounting Conference (AAC) 2018 in Berlin, the 80th Annual Meeting of the Verband der Hochschullehrer für Betriebswirtschaft e.V. (VHB) in Magdeburg, the 41st Annual Congress of the European Accounting Association (EAA) in Milan, the 12th Interdisciplinary Perspectives on Accounting (IPA) Conference in Edinburgh, and the 8th EIASM Workshop on Accounting and Regulation in Siena for valuable comments on prior versions of this paper. Selina Orthaus thanks the IPaK program of the University of Cologne for funding the conference participation at the IPA. An earlier version of this paper was entitled “Be Prudent in Using the Term ‘Prudence’—A Historical Perspective on the Conceptual Transformation of Prudence in Financial Reporting.” Open Access funding was enabled and organized by Projekt DEAL.

[†] Corresponding author.

[‡] Deceased.

© 2022 The Authors. *Contemporary Accounting Research* published by Wiley Periodicals LLC on behalf of the Canadian Academic Accounting Association.

Vol. 40 No. 1 (Spring 2023) pp. 41–88

doi:10.1111/1911-3846.12812

Keywords: accounting history, asymmetry, conceptual framework, conservatism, financial accounting theory, prudence

L'éternel débat sur le conservatisme et la prudence : perspective historique sur la conceptualisation de l'asymétrie dans la théorie de la comptabilité financière

RÉSUMÉ

Des changements touchant le statut de la prudence et du conservatisme ont été apportés dans le cadre des récentes modifications des cadres conceptuels du CNCI et du FASB, en même temps qu'avait lieu un débat plus vaste sur la signification et le rôle de l'asymétrie dans la théorie de la comptabilité financière (TCF). La présente étude adopte une perspective historique pour cerner les sources possibles des controverses actuelles en examinant de quelle façon le discours sur l'asymétrie a évolué avec le temps. À cette fin, nous nous penchons sur la conceptualisation de l'asymétrie dans la TCF à partir du dix-neuvième siècle jusqu'en 2018, en nous attardant aux contributions à la littérature américaine sur la TCF et au raisonnement conceptuel des organismes de normalisation (et de leurs membres) tant aux États-Unis qu'à l'échelle internationale. Nous dégageons quatre concepts distincts de l'asymétrie (ultra-asymétrie, asymétrie déterminée, asymétrie discrétionnaire et asymétrie neutre) élaborés dans le cadre de la TCF sous les appellations « conservatisme » ou « prudence ». Notre analyse montre que les circonstances historiques respectives ont fortement influencé la notion et le rôle de l'asymétrie généralement acceptés dans la TCF, alors que les arguments sous-tendant les débats tournaient en rond et étaient caractérisés par un degré d'abstraction de plus en plus élevé au fil du temps. Nous concluons que la controverse associée à l'asymétrie est en partie attribuable à l'ambiguïté conceptuelle, mais également aux différentes hypothèses sur l'objectif des rapports financiers et les qualités des préparateurs de rapports, lesquelles reflètent les deux paradigmes contradictoires inhérents au discours sur l'asymétrie dans la TCF. Nos résultats font ressortir les lacunes et les limites des cadres conceptuels déductifs qu'utilisent actuellement le CNCI et le FASB. Notre étude dégage des possibilités de recherche à venir concernant la construction des préparateurs des rapports financiers sur le plan de l'établissement des normes et présente des analyses sur les façons dont les cadres conceptuels déductifs se traduisent (ou non) en normes cohérentes.

Mots-clés : histoire de la comptabilité, asymétrie, cadre conceptuel, conservatisme, théorie de la comptabilité financière, prudence

1. Introduction

Dating back to medieval times, the asymmetric treatment of (un)realized gains and losses (and, respectively, assets and liabilities) in the direction of understatement is one of the oldest features of financial accounting (Sterling 1967a; Chatfield and Vangermeersch 1996, 160–66) and still forms part of financial reporting standards today (Glover 2014; Barker and McGeachin 2015). In recent years, however, the role and meaning of asymmetry has been subject to a lively debate in standard setters' revisions of their conceptual frameworks (CFs).¹ In 2010, the IASB and the FASB decided against including “prudence” or “conservatism” in the set of desirable qualitative characteristics (QCs) identified in their joint CF. In a subsequent IASB-only CF revision in 2018, however, the IASB introduced “cautious prudence” as part of its QCs (Georgiou 2015; Pelger 2020). From the perspective of the IASB, the debates accompanying these developments

1. Abbreviations used in this paper are defined in the [Appendix](#).

reflected “confusion caused by . . . ambiguity” (Cooper 2015, 1; see also IASB 2018b, BC2.40) surrounding “prudence” that also pertained to its interrelation with “conservatism” (Barker 2015).

Previous research has outlined the constructed nature of concepts frequently mobilized in financial reporting standard setting, such as reliability (Erb and Pelger 2015), materiality (Edgley 2014), or the user of financial statements (Young 2006), implying that the meaning and role of such concepts is not immutably defined, but subject to continuous (re)negotiations in the discourse on financial accounting theory (FinAT)² (Littleton and Zimmerman 1962). Studies in this area have demonstrated the relevance of looking back at the development of the FinAT discourse to understand how concepts discussed (or taken for granted) in current financial reporting standard setting were constructed and reconstructed in different historical contexts (Napier 2006; N. B. Macintosh 2009).

A historical perspective “throws light on the origins of concepts . . . in use today, yielding insight for the solution of modern accounting problems” (Committee on Accounting History 1970, 53). In this vein, this paper explores the conditions of possibility for controversies surrounding the role and meaning of asymmetry in FinAT today by tracing how it was conceptualized under the headings of “conservatism” and “prudence” over the course of modern FinAT building. For this purpose, we conduct a historical discourse analysis of major strands of the English-speaking FinAT debate, consisting of an extensive body of hand-collected historical documents from practitioners, academics, and standard-setting institutions discussing (un)desirable forms of asymmetry in a controversial exchange of ideas in the period from the 19th century until 2018. More specifically, our study focuses on the FinAT discourse in the US literature and the conceptual reasoning of US and international standard setters (and their constituents).

As “the past is a permanent dimension of the present” (N. B. Macintosh 2009, 1), tracing the historical understandings of asymmetry allows us to elucidate how attributes of asymmetry constructs, which emerged in different historical contexts, still influence current discussions. This helps us to develop a better understanding of the difficulties in the conceptualization of asymmetry which emerged in the course of the recent CF revisions, despite the ongoing importance of asymmetry in current IFRS and US GAAP (Glover 2014; Barker and McGeachin 2015; Giner and Mora 2019).

Our paper intends to contribute to the literature on asymmetry and to research concerned with the historical construction of key concepts in FinAT. In the first strand of literature, a broad set of quantitative-empirical and conceptual research has dealt with the effects of asymmetry in financial reporting (for overviews, see Watts 2003a, 2003b; Xie 2015) but has rarely considered the constructed nature of asymmetry. The specific contribution of our paper lies in tracing the conceptualization of asymmetry under the headings of “prudence” and “conservatism” from a long-term perspective in FinAT. Overall, we identify four conceptualizations of asymmetry (ultra-, specified, discretionary, and neutral asymmetry) that have been developed in the discourse on FinAT and have been differently associated with the terms “prudence” and “conservatism” in different times and contexts. The four constructs, relating either to best practices/accounting requirements or the preparer’s use of judgments, differ in the accepted extent of asymmetry. We also show that in different contexts, the constructs of asymmetry have been differently associated with attributes of virtue, deception, safety, and neutrality.

Our analysis complements the historical study of Watts and Zuo (2016), who trace the importance of asymmetry in Anglo-American accounting *practice* since the 19th century. Regarding FinAT building, our findings extend the work of Zeff (2013), who discussed prudence and conservatism as part of a historical survey of the objectives of financial reporting, but limited his analysis to the status of asymmetry in CFs, leaving its altered meaning in different contexts unheeded. A long-term historical study is likewise offered by Maltby (2000), who traced the

2. Following Lee (2020, 160), we define FinAT very broadly as “any linguistic statement of belief about the function of financial accounting, expressed in logical argument, and intended to rationalize, explain, or predict financial accounting practice . . . arguing to conclusions that assist in understanding the nature, role, and impact of financial accounting information.”

meaning of prudence in the United Kingdom from the 15th to the early 20th century and highlights its transformation from a moral virtue to a business virtue aligned with the interests of long-term investors. Our paper extends her work by analyzing the conceptualization of asymmetry in the context of the reasoning of modern FinAT building taking place in the United States and the international standard-setting sphere, providing a closer link to today's CF discussions.

Our historical insight into the constructions of asymmetry contributes to current debates on asymmetry in FinAT. While Barker (2015) explores in detail how the definition of prudence in the IASB's CF facilitates its compatibility with neutrality and proposes a theoretical distinction from conservatism, our findings on the basis of a long-term analysis of the FinAT discourse suggest more nuanced differences between different notions of asymmetry. Furthermore, our study provides explanations for the finding by Pelger (2020) that the recent introduction of "cautious prudence" into the CF has not changed the IASB's conceptual thinking, highlighting the compromise character of this concept.

Regarding the second strand of literature (Young 2006; Georgiou and Jack 2011; Edgley 2014; Erb and Pelger 2015), our historical tracing reveals that FinAT has promoted different constructs of asymmetry under different historical conditions, calling attention to the influence of the respective environment on the discourse on FinAT. This shows some parallels to the rise of the user (Young 2006) in FinAT, to the construction of reliability (Erb and Pelger 2015) and to discussions on current/fair value accounting (Georgiou and Jack 2011; Whittington 2015). On the one hand, episodes in which asymmetry has been challenged are typically times when the investor focus in financial reporting has prevailed and current value accounting has been emphasized to the detriment of reliability. On the other hand, in post-crisis periods, the respective zeitgeist has tended to favor asymmetry. The latter finding is in line with Georgiou (2015), who specifically analyzes the political processes surrounding the recent abandonment and reintroduction of prudence in the IASB's CF 2018 after the financial crisis.

Going beyond existing studies, our paper sheds light on the dynamics of the FinAT discourse. In particular, we reveal that the arguments used to highlight the merits or problems of different forms of asymmetry have been repeated over time, thus going in circles throughout the 140 years of examined discourse. What has changed, however, is the level of abstraction with which asymmetry has been discussed in the different episodes. On this basis, our historical tracing of asymmetry points to the limitations of deductively derived CFs, as we show conditions which hinder them from consistently and meaningfully shaping financial reporting standard setting. Moreover, we show that the role and characteristics of the preparer actually lack explicit consideration and reflection in CF projects, but implicitly underlie many arguments in favor or against asymmetry. In a similar way to the construction of the user (Young 2006; Stenka and Jaworska 2019), deeper consideration of the preparer's attributes might promote the development of a stronger theoretical foundation for financial reporting.

Overall, our analysis points to a more general paradigmatic fight underlying the FinAT discourse on asymmetry since the early 20th century. More specifically, two knowledge templates compete with each other: one inductively driven, reflecting practical conventions and favoring (different extents of) asymmetry, and the other deducted from an ideal of accuracy or decision usefulness and entailing a desire for symmetric representations in financial accounting. This finding implies that any endeavor to bring the two perspectives together by way of a compromise, such as in the IASB's CF 2018, necessarily leads to an abstract and artificial construction of asymmetry within a decision-usefulness framework. Thus, we would predict that the debate on asymmetry will continue as long as standard setters employ a deductive decision-usefulness CF but feel unable to consistently develop their standards on this basis.

2. Research method

According to the classification by Previts et al. (1990, 140), this paper belongs to a strand of historical research concerned with the “development of accounting thought.” To study the conceptualization process of asymmetry during the last century, we apply the method of historical discourse analysis (Wodak 2001). Our examination pursues the general aim of discourse analysis—understanding the constituting role of language in shaping (social) phenomena, categories, knowledge, and relations (Fairclough 2003; Khalifa and Mahama 2017)—by particularly taking into account the specific historical context when interpreting the discourses examined (Wodak 2001; Jóhannesson 2010).³

A discourse can be generally defined as “a group of statements which provide a language for talking about—that is, a way of representing—a particular kind of knowledge about a topic . . . and makes it possible to construct the topic in a certain way. . . . Discourse is about the production of knowledge through language. But it is itself produced by a practice: ‘discursive practice’—the practice of producing meaning” (Hall 2018, 155). The specific discourse examined in this paper consists of historical written documents produced over the time horizon from the 1880s to 2018 in the FinAT literature in the United States, as well as by US and international financial reporting standard setters and their constituents. In this discourse, we analyze the discussions on different forms of asymmetry under the labels of conservatism and/or prudence in order to illuminate the origins of controversies on the meaning and status of asymmetry observable during the recent endeavors of the IASB and the FASB in revising their CFs.

During different time periods, different actors were involved in FinAT building. While the initial development since the late 19th century was driven by accounting practitioners, academics increasingly joined around 1900 and shaped FinAT during the first half of the 20th century (Lee 2020, 161). From the 1960s onward, standard setters, in their quest for a CF, took over the development of FinAT, while involving practitioners and academics through consultations as part of their due process (Baker and Burlaud 2015; Baker 2017; Lee 2020, 176–77). In line with the goal of historical discourse analysis to reveal patterns in the underlying debates over time (Jóhannesson 2010), our analysis aims to capture differences and similarities in the reasoning of the parties involved in the process of FinAT building—that is, practitioners, academics, and US and international standard-setting bodies, respectively (Whittington 1985; Lee 2020). Thereby, we adopt an inductive approach to identifying the main arguments employed in the discourse over time.

Conducting a broad review provided us with a vast set of literature sources: to ensure a comprehensive review, we specifically drew on academic search engines (EBSCOhost and Google Scholar) to collect contributions (papers, textbooks, monographs, and institutional studies) that contain the term “accounting” along with “prudence,” “prudent,” “conservatism,” or “conservative,” capturing the time horizon of 1880–2018. Furthermore, we manually screened volumes of the *Journal of Accountancy* (1905–2018) and *The Accounting Review* (1926–2018) for relevant articles dealing with the development of accounting principles in general or specific asymmetric accounting issues.⁴ Although the material collected is inevitably not exhaustive, we are confident that, in line with similar research (Edgley 2014; Erb and Pelger 2015), the literature collected provides sufficient quantity and quality of data to ensure a representative view of the argumentation patterns employed.⁵

-
3. We provide a detailed description of our methodological approach in supporting information in online Appendix A.
 4. References in these sources to papers on prudence/conservatism in further journals, monographs, and other publications were also considered.
 5. A few of the studies that we identified as part of our literature search provide (descriptive) historical reviews on asymmetry or asymmetric requirements (Parker 1965; Sterling 1967a). We considered the findings and conclusions of these reviews in their respective context, but principally drew on the primary sources to inform our own arguments. More recent historical studies (Maltby 2000; Zeff 2013), in turn, were treated as related literature. See section 1 for an outline of our contributions to this literature, and see supporting information in online Appendix A for further details on our approach.

With respect to the period from the 1960s until 2018, we additionally consider, to the best of our knowledge, all the available institutional studies, as well as those commissioned by standard setters, in addition to conceptual documents and final versions of the CF in the US context. At the international standard-setting level, we take into account all the accessible documents published in the course of the CF development activities undertaken by the IASC and later by the IASB, which comprise discussion papers (DPs), exposure drafts (EDs), and final versions of the CF, as well as related agenda papers for board meetings.⁶ Furthermore, our examination covers the comment letters (CLs) sent to the standard setters during the two revisions of their CF (lasting from 2004 to 2010 (IASB/FASB) and from 2012 to 2018 (IASB-only)).⁷ The CLs were analyzed with respect to the constituents' support/rejection of the concrete proposals in the standard-setting documents. Furthermore, we provide insights into the constituents' views on whether and how asymmetry should be included in the CF. In contrast to lobbying studies, our analysis of CLs does not trace which constituents prevailed in influencing the standard setters' decision-making, but aims to identify different understandings of and views on (different forms of) asymmetry discussed within the standard setters' constituencies.

3. Framework for historical analysis

To provide a structured analysis of the FinAT discourse on asymmetry and its broader context, we have developed a set of specific aspects to be considered in our historical discourse analysis. We identified four major episodes in the FinAT discourse—that is, accounting as unregulated practice in the 19th century, pre-classical theory building between the 1890s and 1920s, classical theory building between the 1930s and 1960s, and theory building in standard setting (1960s until 2018).

To trace the impact of the changing historical environment on the discourse, our analysis takes into account the following dimensions: (1) “Role of state and markets” captures the general regulatory spirit shaping the political, social and economic sphere in the respective period; (2) “Impetus for changes” refers to the environmental factors which have led discourse participants to challenge extant FinAT and to rethink the role and meaning of asymmetry, respectively; (3) “Arenas of change” represents the institutional context in which FinAT was most vividly discussed and thus reformulated; (4) “Actors” reveals the types of actors most actively involved in the discourse on FinAT; and (5) “Dominant role of financial reporting in FinAT” explains the objective of financial reporting as promulgated by the greater part of FinAT contributions. With a focus on asymmetry, (6) “Central constructs of asymmetry in FinAT discourse” indicates which of the four conceptualizations of asymmetry, which we identify in our analysis, were most actively discussed, while (7) “Recognition of asymmetry in FinAT” covers the extent to which asymmetry was accepted by the broader part of FinAT in the respective period.

Table 1 provides a synthesis of our results along these dimensions and can be used as an accompanying guide for our historical analysis presented in the following sections.

6. Documents on the two CF revisions were retrieved from the IFRS Foundation website.

7. We included CLs sent in response to DP 2006 (179 CLs) (available at: <https://www.ifrs.org/projects/completed-projects/2010/conceptual-framework-2010/dp-cf-objective-characteristics/#view-the-comment-letters>), ED 2008 (142 CLs) (available at: <https://www.ifrs.org/projects/completed-projects/2010/conceptual-framework-2010/ed-cf-objective-characteristics/#view-the-comment-letters>), DP 2013 (220 CLs) (available at: <https://www.ifrs.org/projects/completed-projects/2018/conceptual-framework/dp-review-of-conceptual-framework/#view-the-comment-letters>), and ED 2015 (233 CLs) (available at: <https://www.ifrs.org/projects/completed-projects/2018/conceptual-framework/ed-conceptual-framework/#view-the-comment-letters>). In our analysis, we refer to individual CLs by mentioning the name of the organization writing the letter, the document (DP or ED), and the year of the consultation. The comments received in response to the early CF documents of FASB and IASC are not publicly available and were therefore not part of our analysis.

TABLE 1
Framework for the historical analysis of the FinAT discourse on asymmetry

Episode	Period	Unregulated practice	Pre-classical theory building	Classical theory building	Theory building in standard setting			
					1960s–1970s	1970s–2000s	2000s–2010	2010–2018
(1) Role of state and markets	19th century	Liberalism	1890s–1920s	Keynesian economics, regulatory interventions	Neoliberalism			
(2) Impetus for changes	Accelerated economic growth				Professional-led standard setting	Independent standard setting	Financialization, globalization of capital markets	Post-crisis interventions
(3) Arenas of change	Practice and courts	Academic and practitioner contributions	Rise of capital markets and academic theory building	Institutional studies (profession, academics), academic and practitioner contributions	Commissioned research, institutional studies, academic contributions	CFs	Collaboration of FASB and IASB	Financial crisis
(4) Actors	Practitioners				Standard-setting bodies, academics, practitioners	FASB and its constituents	FASB and IASB, and their constituents	IASB and its constituents

(The table is continued on the next page.)

TABLE 1 (continued)

Episode	Unregulated practice	Pre-classical theory building	Classical theory building	Theory building in standard setting			
Period	19th century	1890s–1920s	1930s–1960s	1960s–1970s	1970s–2000s	2000s–2010	2010–2018
(5) Dominant role of financial reporting in FinAT	Basis for banks' lending decisions	Information source for investment decisions on capital markets	Investor protection	Decision-useful information for capital allocation decisions	Decision-useful information for capital allocation decisions	Decision-useful information for capital allocation (and stewardship) decisions	
(6) Central constructs of asymmetry in FinAT discourse	Ultra-asymmetry						
		Specified asymmetry					
		Discretionary asymmetry					
(7) Recognition of asymmetry in FinAT	Neutral asymmetry						
	Accepted (virtuous)	Challenged (deceptive)	Accepted (safe)	Challenged (bias)	Abandoned (bias)	Compromised (neutral)	

4. The conceptualization of asymmetry in US FinAT building

Accounting as unregulated practice during the 19th century

Reflecting the liberal laissez-faire spirit predominant during the 19th century, the United States did not involve the state in the codification of specific accounting requirements, apart from some sporadic statutes on general disclosures, until the 20th century (Littleton and Zimmerman 1962, 94; Hawkins 1963; Hatfield 1966, 171). In the 18th and 19th centuries, the development of accounting techniques lay in the hands of practitioners, whose actions were solely limited by court decisions, mostly dealing with the restriction of dividend distributions when suspecting fraudulent behavior (Kehl 1939; Lee 2020, 161–62).⁸

In the environment of a rapidly industrializing and expanding economy in the 19th century, banks served as the major capital providers for US corporations, which often drew on short-term loans to finance their growing capital requirements (Joseph 1911; Chatfield 1977, 72; Baskin 1988, 215–19). The banks demanded conservatively determined accounting figures as protection against inflated collateral values and excessive dividend payments (Chatfield 1977, 72, 127, 233). Hence, the early balance sheet was prepared as a “cash statistic” (Previts and Merino 1998, 125), which mainly provided lenders with information on liquidity and debt repayment ability rather than earnings power (Littleton and Zimmerman 1962, 92–95; Chatfield 1977, 72). Furthermore, US accounting practice at that time was deeply influenced by the British practice (Murphy 1961; Chatfield 1977, 150–51), in which asymmetric accounting procedures had been well established since the middle of the 19th century (Maltby 2000; Napier 2010; J. R. Edwards and Boyns 2022).

As a consequence, preparers of financial accounts created large amounts of secret reserves (Racine 1917, 222; Hatfield 1927, 321), which were defined by Joplin (1914, 408, emphasis added) as

a device by which the condition of a business is made to appear less favorable than it actually is, *through the action of the managers*, without the knowledge of the board of directors; or of the board itself, without the knowledge of the other stockholders.

For instance, this systematic understatement of the firm’s financial position was induced by disproportionate depreciation which charged the value of the asset more rapidly than the asset was actually wasted, the overstatement of provisions and allowances, or excessive write-downs of long-lived assets and inventories (Greendlinger 1911, 440; Joplin 1914, 408; Kester 1922, 418). For our analysis, we refer to such accounting techniques as ultra-asymmetry—that is, the deliberate understatement of net assets or income by preparers.

During the 19th century, ultra-asymmetry was perceived as a *virtue* of accountants and was associated with the “prudent” practices of “thorough, sound business men” (Greendlinger 1911, 365). By protecting creditors (and long-term shareholders) in limited liability companies against speculative actions by the increasing number of short-term investors (Joplin 1914, 408–10; Chatfield 1977, 99),⁹ secret reserves were an accepted means to ensure the financial strength of the company (Nixon and Stagg 1907, 115):

8. In the second half of the 19th century, a series of court decisions fostered asymmetric accounting treatments to restrict the surplus available for dividend distribution (Weiner 1929; Weiner and Bonbright 1930; Reid 1988a). However, American case law was not uniform and did not engage in the development of a comprehensive accounting theory, and so the development of concrete accounting principles for the calculation of surplus was largely left to the emerging accounting profession (Reid 1988b).

9. By understating the company’s financial position and depressing stock prices, secret reserves prevent short-term investors from demanding excessive dividends and making quick profits through stock price increases (Chatfield 1977, 99). Thus, it was claimed that secret reserves corresponded to the interests of long-term shareholders and creditors in the long-term financial strength of a company (Joplin 1914, 408–10). For further reflections, see also Maltby (2000, 62–65).

Secret reserves are right and proper and tend toward the maintenance of the company as a permanent institution and . . . in fact without these secret reserves it is quite impossible, having regard to the fluctuations of both financial and trading operations to exist beyond a very limited period. (Pixley at the Congress of Accountants at the World's Fair at St. Louis in 1904, cited in Greendlinger 1911, 365)

Toward the end of the 19th century, the accountancy profession, which was slowly taking shape,¹⁰ started to promote “best” accepted accounting practices (Chatfield 1977, 150–56; Zeff 2003). Simultaneously, the first attempts at a broader theorization of financial accounting began to replace the hitherto mostly descriptive accounting literature, which primarily dealt with technical issues of correct bookkeeping procedures (Littleton 1933, 165; Sampson 1960). In contrast to the common practice at the time, this preconceptual thinking started to question the merits of ultra-asymmetry, and thereby triggered a transformation in the construction of asymmetry. The major developments in US FinAT building and their influence on the status and meaning of asymmetry are depicted in detail in the next subsections.

Pre-classical theory building: Early literature debates until the 1920s

From the 1890s, the consolidation of transregional railroads and telecommunication systems allowed an increasing number of industrial entrepreneurs in the United States to approach a national market with their goods and services through the use of mass production technologies (Smith and Sylla 1993, 19). These large-scale activities quickly exceeded the financial resources of families and owner-managers with the result that the US economy was characterized by the steadily growing importance of financing via equity markets for large (manager-run) corporations (Greenspan and Wooldridge 2018, 123–49).

The rise of financial capitalism since the late 19th century, which involved the separation of ownership and control (Previts and Merino 1998, 183), made financial reporting information—which was broadly voluntarily published at the discretion of corporate managers (Chatfield and Vangermeersch 1996, 140–41)—the central basis for investment decisions (Smith and Sylla 1993; Moehrle and Reynold-Moehrle 2011, 108–10). A wave of corporate abuses and trust failures in the 1890s, however, revealed the “eroded . . . moral base” (Berle 1963, cited in Previts and Merino 1998, 183) brought about by financial capitalism and the risks of unregulated financial reporting (Previts and Merino 1998, 182–84). This prompted calls for stronger governmental intervention to improve corporations’ financial reporting; however, in the liberal environment, this was only hesitantly taken up until the federal regulations of the 1930s (Littleton and Zimmerman 1962, 94, 98–99; Hawkins 1963; Previts and Merino 1998, 182–87).

The increasing importance of financial reporting stimulated the discourse on how accounting in this changing environment should be conducted. The US FinAT literature, which consisted of contributions by practitioners as well as the emerging group of academics, rapidly expanded in the early 1900s (Lee 2020, 164–65). Besides the identification of the primary addressee of financial statements (proprietary theory vs. entity theory),¹¹ debate ignited on the question of whether and to what extent accountants should intentionally understate the financial position of a firm (Moehrle and Reynold-Moehrle 2011, 111–13).

10. The American Association of Public Accountants (AAPA), the predecessor of AICPA, was founded in 1887 (Zeff 1972, 110). In 1916, the AAPA was succeeded by the Institute of Public Accountants, which was renamed the American Institute of Accountants (AIA) in 1917.

11. Proprietary theory sees the purpose of a business as increasing the wealth of its owners. Hence, accounting should focus primarily on the balance sheet as a tool for measuring the net wealth accruing to the proprietor (Previts and Merino 1998, 214–15). Entity theory admits that the information interests of other stakeholders, such as investors, creditors, or oversight authorities, should also be served by accounting (Moehrle and Reynold-Moehrle 2011, 112). Apart from a supportive statement by Paton (1922), entity theory lacked widespread acceptance at that time.

The use of financial reporting in the context of capital markets (Gilman 1939, 27–28) put existent “ultra-conservative” (Paton 1932, 262) accounting practices under pressure (MacNeal 1939b). Harshly criticized for distorting stock market transactions and dividend payouts (Walton 1909, 467–68; Joplin 1914, 409–11, 413; Ripley 1927, 150), the creation of secret reserves was now perceived as defrauding stockholders and bondholders (Paton and Stevenson 1918, 468–69) and was accused of having “been made to cover a multitude of sins” (Esquerré 1917, 377). The “real” periodical result of an entity was found to be “hocus-pocussed with per cent . . . reductions, hidden allowances and secret reserves” (Chase 1907, 5), leading Esquerré (1917, 377) to wonder who the corporate manager wanted to deceive: “the stockholders, the government, the public, or himself?”

The critics of ultra-asymmetry highlighted that secret reserves were “theoretically indefensible because it is as improper to understate as it is to overstate the profitable nature of an undertaking” (Greendlinger 1911, 365). Instead, it was deemed important to show the “true nature” (Joplin 1914, 412) of the firm. Thus, asymmetry, discussed under the label of “conservatism,” was increasingly assessed against the “value of accuracy” (Hatfield 1909, 85) in depicting the “true financial position” (Dickinson 1914, 94) to enable meaningful “comparisons” over time and between firms (Esquerré 1917, 307).

Basically, ultra-asymmetry was rejected for three reasons. First, the critics of secret reserve accounting felt that accountants made “unnecessary” (Gerstenberg 1923, 752) understatements “beyond the limits of the probable or the possible” (Esquerré 1917, 370), exceeding “the expectations of the greatest pessimist” (Greendlinger 1911, 365). Thus, the *extent* of understatement was deemed “exceptionally large” (Racine 1917, 221), leading Ripley (1927, 150) to conclude that “there is unquestionably a point beyond which conservatism . . . becomes a vice instead of a virtue” (see also Chase 1907, 4–5). Second, secret reserve accounting was rejected for its “arbitrary” (Racine 1917, 221) nature, as the extent of understatement lay at “the discretion of one or two men [directors] . . . allowing them to supply the stockholders with whatever information their wisdom would permit” (Joplin 1914, 413). Third, a variety of authors criticized secret reserves for the *concealment* of the understatement, enabling hidden earnings management, which, it was claimed, harmed financial stability rather than restored it due to the inherent potential for insider trading and concealment of risks (Gilman 1916, 343; Racine 1917, 222; Kester 1922, 420). Overall, ultra-asymmetry lost its original virtuous connotation and was increasingly associated with a *deceptive* (“misleading”; Chase 1907, 4) nature by the emerging FinAT literature.

Some authors, in turn, acknowledged the general advantages of *disclosed* reserves (Walton 1909, 467; Joplin 1914, 409, 412; Kester 1922, 419–21). This resonated with the main argument of “accuracy” proponents, who challenged the overall meaninglessness—that is, the “fetish of secrecy” (McLaren 1947, 31–32)—of balance sheets for failing to provide essential information due to *secret* reserves, rather than the general tendency to solve issues of uncertainty in the direction of understatement (Hatfield 1909, 83–85). For instance, Paton and Stevenson (1918, 467) noted that “a clear distinction should be made between conservatism and downright concealment.”

Typically, these theorists emphasized the value of a more moderate form of asymmetry under which allowances were not accumulated on an excessive basis but established “bona fide” (Pixley, cited in Joplin 1914, 410) with the “wise discretion” (Dickinson 1914, 151) of a “prudent businessman” (Knight 1908, 199) acting with the best intentions. In this vein, Chase (1907, 4–5) noted:

So long as such allowances are truly conservative and safe ones and the practice does not reach the point where the books become misleading, we may all properly agree with such a standpoint.

Along this line, some early theorists in the 20th century, who generally promoted the use of “truthful values” in the balance sheet (MacNeal 1939a, 28), advocated specific asymmetric accounting techniques that actually diluted accuracy by tolerating bias in the direction of

understatement (e.g., Kester, McKinsey cited in Scott 1931, 152–54; MacNeal 1939a, 28–32).¹² For instance, Hatfield, who was a leading pioneer in the theorization of financial accounting, was initially willing to accept the need for asymmetry due to the “incurably optimistic” nature of humankind when justifying why internally generated goodwill should not be included in the balance sheet (Hatfield 1909, 108–9), and regarded an “undervaluation of certain assets” as adequate if it “is merely an attempt to secure a more truthful conspectus of the entire situation” (Hatfield 1909, 84). On the same grounds, Montgomery, in one of his early pieces, advocated the asymmetric lower-of-cost-or-market principle, which requires the recording of losses from declining market prices, but prohibits the recognition of gains when market prices increase, asserting that “conservatism in valuation of assets, especially in inventory is *the safest course* since one could otherwise deceive both the banker and the creditor” (Montgomery 1912, cited in Previts and Merino 1998, 220; emphasis added).¹³ Hence, we observe that the FinAT literature started to develop forays into a new construct of asymmetry under the label of “conservatism”—that is, the notion of *specified asymmetry*. This understanding limited asymmetry to specific areas of financial reporting in which the asymmetry is commonly considered to be acceptable as a margin of safety under conditions of uncertainty.

These views resonated with the first textbooks on financial accounting, published by practitioners, which continued to promote (specific) asymmetric accounting techniques (Broaker and Chapman 1897, 96, 101–2, 138; Racine 1917, 73; Rittenhouse and Clapp 1918, 61). In particular, the realization principle, which was applied to the recognition of gains (Heilman 1929, 80), while losses were commonly taken into account with less confirmatory evidence for their existence (Windal 1959), gained importance in the aftermath of the First World War (AIA 1952, 23–28; Chatfield and Vangermeersch 1996, 491–94).¹⁴ In the context of the measurement of balance sheet items, the realization principle fostered the use of the (historical) cost constraint for (fixed) assets (Storey 1959, 237; see, e.g., Walton and Crosby 1915).

However, when a short period of deteriorating prices (deflation) at the beginning of the 1920s¹⁵ led firms to increasingly rely on capital markets for their financing (Littleton and Zimmerman 1962, 95–96), FinAT also began to challenge specific asymmetric accounting treatments (Previts and Merino 1998, 259–61). Since the purpose of financial reporting was now widely perceived as providing information to shareholders and investors rather than to creditors (Ripley 1926; Hoxsey 1930, 251–52; May 1953, 19–25), the determination of income was now regarded as the focal task of accounting to assess the firm’s earning power (Littleton and Zimmerman 1962, 96–97). When prices rose again and management optimism and stock market speculations were widespread, balance sheet values were perceived to be “so undervalued that they could no longer fairly present the company’s financial position” (Littleton and Zimmerman 1962, 97–98).

In this environment, during the 1920s, a clear trend toward advocating the full use of current values became apparent in FinAT building (Paton 1922; Canning 1929). Particularly, the inequality in the treatment of (un)realized gains and losses prompted criticism from accounting theorists (Previts and Merino 1998, 259–63). In line with earlier critics who had considered it “unfair,” especially in a growing economy, to exclude the appreciation of capital assets from accounts

12. Likewise, auditors were encouraged to distinguish between “moderate” and “excessive” understatements (Joplin 1914, 416).

13. Like Hatfield, Montgomery changed his view in later works (Previts and Merino 1998, 219–20).

14. For a historical study on the acceptance of asymmetric (i.e., earlier) recognition of losses, see Devine (1955).

15. Due to the extreme decline in wholesale prices of up to 40%, the debt-paying ability of lenders, assessed on the basis of balance sheets, which mainly indicated the capacity to convert inventory into cash, was questioned by bankers, who therefore hesitated to renew loans. As a consequence, funding via short-term bank loans was increasingly substituted by financing via capital markets, which hence experienced a boom (Littleton and Zimmerman 1962, 95–96). This period of deflation needs to be distinguished from the deflation which accompanied the Great Depression during the early 1930s.

(Dickinson 1914, 80–82), Hatfield (1927, 256) commented in the context of asset appreciation gains: “The accountant transcends the conservatism of the proverb ‘Do not count your chickens before they are hatched’ saying ‘Here are a lot of chickens safely hatched, but . . . use discretion and don’t count them all, for perhaps some will die.’” On the same basis, the lower-of-cost-or-market approach to inventory valuation came under such a severe attack from theorists (Parker 1965, 165) that some authors even felt encouraged to announce an “obituary” notice (Scott 1926, 18). These trends in FinAT were similarly reflected in the financial reports published during the 1920s, which went beyond the upper limit set by historical cost with respect to fixed asset valuation (Weston 1953; Walker 1992, 4–6), resulting in “indiscriminate write-up practices” (Zeff 2007, 51) in the heat of the stock market bubble preceding the crash in 1929 (Previts and Merino 1998, 260–67).

Overall, we observe that ultra-asymmetry was widely abandoned in US FinAT by the 1920s as it was commonly found to be *deceptive* in nature, thereby losing its original *virtuous* connotation. Nevertheless, as part of the general ongoing desire to standardize accounting practice, some specific asymmetric accounting techniques, at least until the 1920s, formed part of FinAT. The accompanying debates focused on specified asymmetry, which involved an occasional understatement in specific cases in the face of uncertainty to incorporate a degree of *safety* in financial reporting.

In the period studied in this subsection, in the United States, “conservatism” denoted (different degrees of) asymmetry in accounting—that is, ultra-asymmetry as well as specified asymmetry—whereas the term “prudence” more generally referred to the sound and cautious behavior of honest businessmen. During the 19th century, when the focus of financial accounting was on lenders’ demands, secret reserve accounting, reflecting ultra-asymmetry, was said to be conducted by *prudent* practitioners. When the role of financial accounting shifted toward capital markets, however, ultra-asymmetry was seen to conflict with the behavior of prudent businessmen. Instead, the newly emerging construct of specified asymmetry was considered to be consistent with prudent business conduct in a major stream of pre-classical FinAT literature,¹⁶ while some more revolutionary FinAT authors from the early 1920s onward rejected any form of asymmetry.

Notably, the discussions in the phase of pre-classical FinAT building analyzed in this subsection revolved foremost around the concrete implications of (ultra-)asymmetric accounting practices (Knight 1908; Walton 1909) rather than discussing asymmetry from a general conceptual perspective, which characterized the quest for the conceptual underpinning of financial reporting initiated in the 1930s, primarily in US accounting academia (Lee 2020, 161, 167–71). This debate is depicted in detail in the following subsection.

Classical theory building: 1930s–1960s

Institutional involvement and commissioned research

The euphoria of the “golden 1920s” abruptly ended with the stock market crash of 1929. In the course of the subsequent Great Depression, the US economy witnessed its severest downturn so far and suffered heavily from high rates of unemployment and deflation (Greenspan and Wooldridge 2018, 220–37). In light of the crisis, the liberal promise of an equilibrium produced by free markets lost its persuasive power, and calls for stronger involvement of the state dominated political and economic thinking (Hansen 2014, 617–18). With the rise of Keynesian economics, the idea of a (limited) welfare state became established in the United States, and regulations were developed and extended during the New Deal era of the 1930s (Rauchway 2015).

16. In this regard, Scott (1931, 152–53) noted that “an attitude of business men, approving conservative standards of business conduct . . . showed itself early in accounting . . . as for example in the prevailing, but unjustifiable rule to take inventories at cost or market whichever is lower.”

This new spirit of regulation also affected the field of financial reporting, as the divergence of loosely regulated accounting practices was accused of having contributed to the Wall Street collapse in 1929 (Littleton and Zimmerman 1962, 98–100; Watts and Zuo 2016, 414). In particular, corporate disclosure requirements and standardization of the underlying accounting practices were identified as ways to restrict management’s power to abusively run corporate affairs in their own interests (J. C. C. Macintosh 1999). This formed part of a broader initiative in US securities legislation which intended to strengthen the protection of shareholders and investors (Berle 1931; Berle and Means 1932) and became manifest in the Securities Act of 1933 and the Securities Exchange Act of 1934.

In light of these developments, the AIA, which formed the representative body of practicing accountants, and the American Accounting Association (AAA)—that is, the society of accounting educators and academics—began increasingly to engage in FinAT building during the 1930s (Kohler 1966; Previts and Merino 1998, 276–87; Lee 2020, 167–68). In the early 1930s, the NYSE, the then recently established SEC, and the AIA entered into a debate on whether and how to develop binding and uniform accounting principles (AIA 1934; Carey 1969, 172–80).

The deteriorating economic conditions during the Great Depression were quickly reflected in financial statements. The write-ups of the 1920s were followed by enormous write-downs in the early 1930s (Daniels 1934, 114–15; Weston 1953). As “many people believed that investors were misled during the 1920s by ‘inflated’ accounting statements” (Benston 1969, 530) produced by corporate directors abusing current value accounting, the activities of regulatory and professional bodies endeavored to restrict these opportunities by curbing “questionable and dangerous” accounting practices (Littleton and Zimmerman 1962, 131; see also 98–102).

In the 1930s, asymmetry experienced a renaissance in which the notion of specified asymmetry was further solidified. While Hoxsey, a staffer of the NYSE, urged the accounting profession to “drop some of [its] *over-conservatism*” (Hoxsey 1930, 276; emphasis added), obviously alluding to ultra-asymmetry, in 1931 the AIA emphasized the stabilizing economic effects of income smoothing allowed by specific asymmetric accounting techniques (Previts and Merino 1998, 278). The AIA’s preference for specified asymmetry became particularly evident in a correspondence with the NYSE (AIA 1934), lasting from 1932 to 1934, in which the AIA propagated asymmetric accounting requirements. Specified asymmetry was also favored by the SEC, which deemed it an adequate instrument for reestablishing confidence in the capital markets in the aftermath of the Great Depression (Previts and Merino 1998, 276; Merino 2003, 286–87). In particular, the SEC promoted rigid application of the historical cost convention by prohibiting any kind of upward asset revaluation (Walker 1992; Zeff 2007, 49–51) and simultaneously fostered write-downs of current and fixed assets (Kaplan and Reaugh 1939; Previts and Merino 1998, 276).

In 1938, the Committee on Accounting Procedure (CAP) was established by the AIA, and the SEC deferred the authority to develop compulsory accounting principles to this body (Zeff 1972, 134–39). From 1939 to 1959, CAP issued 51 Accounting Research Bulletins, which dealt with specific accounting issues on a “case-by-case basis” (Zeff 1999, 92) but were not comparable to a comprehensive set of basic accounting principles (Chatfield 1977, 294–95) or an attempt to formulate an accounting theory (Previts and Merino 1979, 263–64). Specified asymmetry continued to shape the recommendations of CAP which, for instance, recommended the lower-of-cost-or-market rule (CAP 1947, 238).

As a counterpart to the endeavors of practicing accountants, the AAA began to engage in the development of a theoretical framework of financial accounting, which evoked significant tensions between practitioners and academia (Zeff 1991, 33–51).¹⁷ While the AAA’s first

17. In 1935, the primarily teaching-oriented AAA decided to become more active in accounting research (Zeff 1991, 35–38). As such, the documents published later had no binding effect on practitioners, but rather aimed to “arouse discussion” based on which a “more comprehensive formulation” of principles was expected to develop (AAA 1936, 187).

commissioned research study, *A Tentative Statement of Accounting Principles Affecting Corporate Reports*, emphasized that the income of reporting entities should not be “artificially stabilized” via (secret) reserve accounting (AAA 1936, 190), it did not explicitly discuss asymmetry from a broader conceptual perspective. The Statement was dedicated to historical cost accounting and rejected any use of current values for the purpose of income determination (AAA 1936, 189).¹⁸ In the same vein, the AAA’s subsequent attempt at FinAT building, the monograph *An Introduction to Corporate Accounting Standards* by Paton and Littleton, published in 1940, continued to perpetuate historical cost accounting “as much as any single publication” in the United States (Zeff 1999, 90).¹⁹ Paton and Littleton (1940, 18) emphasized that “verifiable, objective evidence” should guide the recognition of *both* revenues and expenditures. On this basis, they—even more than the tentative statement by the AAA in 1936—opposed the implications of accounting requirements that treat gains and losses asymmetrically by illustrating their harmful potential for management discretion and misrepresentation with reference to the lower-of-cost-or-market rule (Paton and Littleton 1940, 80–81, 126–29; see also Parker 1965, 168–69).²⁰

Thus, by fostering pure (symmetric) historical cost accounting, the AAA “silently” crowded out specified asymmetry as an underlying assumption of financial reporting. Nevertheless—or perhaps as a consequence of not explicitly outlining its criticism of asymmetry—the AAA’s proposals (AAA 1936) were subject to fierce criticism from some academics, who felt that historical cost accounting exhibited too much of “the old conservatism for conservatism’s sake” (Lorig 1937, 401), which was said to be a “rule of thumb” (Scott 1937, 298) of practitioners rather than an academic approach (Merino 2003, 281). As those authors still promoted the full use of current values—that is, the equal treatment of value increases and decreases, which had been already in vogue in the 1920s—they considered historical cost an undesirable conservative limitation.

The AAA’s 1936 publication provoked a response (*A Statement of Accounting Principles*) originally commissioned by practitioners and later published by the AIA in 1938 (Sanders et al. 1938) in which the academics Sanders, Hatfield, and Moore provided a depiction of prevalent asymmetric accounting practice (Previts and Merino 1998, 283–84).²¹ The authors root the existence of asymmetry in the acknowledgment that accuracy in financial statements is desirable but “in a literal sense . . . not possible,” as many items require judgment in which under- or overstatement cannot be avoided (Sanders et al. 1938, 12). In this light, asymmetry (labeled conservatism) was conceptualized as reflecting “the more essential truth” under conditions of uncertainty (Sanders et al. 1938, 12). Summarizing the three major arguments then most frequently used to justify asymmetry in financial reporting, Sanders et al. (1938) probably presented the broadest conceptual discussion of asymmetry in these early FinAT attempts. First, mischief on the part of management could be prevented more effectively by understatement than by overstatement. Second, the human tendency to “err on the side of optimism” needed to be counteracted. Last,

-
18. The AAA issued a series of revisions of the *Tentative Statement* in 1941, 1948, and 1957, accompanied by a couple of supplements during the 1950s, which in essence followed the spirit of the original document (Zeff 1991, 46–51). In these documents, the emphasis on historical cost accounting increased steadily until 1948 (Storey 1964, 44–45), leading Newcomer (1948, 11) to conclude that the 1948 version incorporated the historical cost convention “in toto.”
 19. For various practical reasons, like dividend payments and taxation issues, by the 1930s, the “value man” (Paton 1980, 630) Paton favored current cost only as supplementary information (Zeff 2018). Therefore, the authors encouraged preparers to disclose pertinent information, particularly market-based data, outside the main body of financial statements (Paton and Littleton 1940, 127–28).
 20. These remarks were included in the last section of the monograph entitled “Interpretation,” which was solely written by Paton, with Littleton’s consent (Paton 1980, 629; Zeff 2013, 271).
 21. As the document was often misunderstood as an essay on commendable rather than existent accounting principles (Previts and Merino 1998, 283–84), the authors were heavily criticized by academics (Barr 1938; Paton 1938).

and most profoundly, reserves for unforeseeable contingencies guaranteed the robustness of a firm's financial strength (Sanders et al. 1938, 12–13).

Notably, Sanders et al. (1938, 14–15) alluded to the construct of specified asymmetry by providing some examples (e.g., contingency reserves, the lower-of-cost-or-market rule, or the write-down of goodwill) which they considered acceptable applications of conservatism—that is, “within the limits ‘that differences of opinion might condone’” (Sanders et al. 1938, 15). Such practices were referred to as “sound accounting” (Sanders et al. 1938, 17) and were explicitly demarcated from the undesired “deliberate understatement or concealment of profits” or “arbitrary valuations” (Sanders et al. 1938, 16). Thus, ultra-asymmetry was rejected as it constitutes “a misstatement of fact” (Sanders et al. 1938, 16).

Individual contributions to FinAT building

Institutionalized attempts to shape accounting theory and practice in the United States were embedded in a broad collection of independent individual FinAT building attempts that became increasingly based on academic literature contributions in the 1930s. Overall, these undertakings were either based on inductive reasoning, aiming to derive an underlying FinAT from accepted (observable) accounting practices, or adopted a deductive approach, developing theoretical principles by the logical deduction from hypothetical assumptions, for instance, about the objective of financial statements (Whittington 1985; Lee 2020).

In line with the approach of Sanders et al. (1938), the more inductively oriented “moderate” stream of US accounting thought started to provide a conceptual justification for the asymmetric accounting practices fostered by the SEC and the AIA due to their stabilizing effects (Previts and Merino 1998, 274–80; Merino 2003). Acknowledging its enduring importance in financial reporting practice (Byrne 1937, 372–73), this stream of research started to define acceptable degrees of asymmetry, trying to bring accounting practice and theory into harmony. While ultra-asymmetric accounting techniques, resulting in the deliberate creation of secret or hidden reserves, were unequivocally rejected, this literature started to envision a role for “reasonable” (Couchman 1940, 263; May 1940, 76), “sane” (Gilman 1944, 116), or “appropriate use of” (Stempf 1941, 112) asymmetry that “should not be carried to the point of serious understatement” (Gilman 1939, 232; see also Sanders 1934, 208; Devine 1963, 133–37). Pointedly, May (1940, 76) noted: “We should be conservative even in our exercise of conservatism.” The difficulty of defining and agreeing on an appropriate level of asymmetry, however, was acknowledged by Couchman (1940, 263), for instance, who noted that

it is doubtful if there ever will be universal acceptance of any measurement as being the ideal degree of conservatism. In the absence of any such measurement, perhaps it is conservative to exceed such theoretical degree rather than be content with a degree which may fall below the ideal. How conservative one should be in measuring conservatism, I will leave to philosophers or economists.

In particular, this literature outlined the benefits of asymmetry as a “preservation in safety” (Wilcox and Hassler 1941, 311) or a “margin of safety” (Couchman 1940, 263) which guarantees the financial strength of a company (Greer 1937, 82; Couchman 1940, 263). As such, specified asymmetry became further established in this strand of literature, providing theoretical justification for the occasional understatement in defined settings of uncertainty, as induced by prevalent specific asymmetric accounting practices like the lower-of-cost-or-market rule or the realization principle.

Another stream of US conceptual thinkers, in contrast, continued to follow the 1920s trend of challenging and slaughtering the “sacred cow . . . [of] . . . conservatism” (Paton 1948, 279, see also Gilman 1939, 234–36; MacNeal 1939a, 51–52) by rejecting it as an outdated and old-fashioned tradition in the environment of large-scale corporations and the importance of stock markets (May 1936, 70; Lorig 1937, 401; May 1943, 192). Typically, these deductively oriented

authors did not limit their criticism to ultra-asymmetry but rejected any kind of asymmetry in financial reporting, including specified asymmetry. Even though it was acknowledged that “an effort has been made by the profession to limit and control the area of understatement,” it was found that those endeavors could “never be anything more than a sugar-coating of what is basically the wrong approach” (Paton 1948, 280). Most harshly, asymmetry was criticized as violating accuracy, to which financial reporting in a free market economy should be dedicated (Vance 1942, 381; Paton 1948, 279–80). Highlighting that “there is no virtue in either understatement or overstatement” (Paton 1948, 279), it was furthermore outlined that each understatement was followed by an overstatement in future periods (Bailey 1941, 144; Paton 1949, 820–21).

Deductively oriented authors stipulated that investors were severely harmed by any inaccuracy (Werntz 1940, 27), as “conservatism” had become a “cloak” for practices that served the management’s intentions rather than the interests of the shareholders (Daniels 1934, 116). Challenging specified asymmetry, Scott (cited in Paton 1949, 162), for instance, criticized that

conservatism muddies up the accounting waters. It dulls the accountant’s sense of accuracy and gives him a false sense of security and righteousness. It impairs the usefulness of his results for purposes of analysis, comparison, and prediction.

Along the lines of accuracy, it was instead stipulated to “let the facts speak for themselves” and “preserve the integrity of the particular period” (Paton 1932, 262). “Accounting rules, procedures and techniques should be fair, unbiased and impartial . . . and embody the principles of justice, fairness and truth” (Scott 1941, 343). Those critics thus advocated that (unrealized) losses and gains should be treated equally, and rejected most of the prevalent asymmetric accounting practices on this basis (Scott 1931, 152–53; Mason 1950, 134).

However, even those deductive FinAT contributions acknowledged that asymmetry was sometimes unavoidable—for instance, if items were “hard to measure” (Paton 1949, 306). In this regard, Bailey (1941, 144; emphasis added) clarified that asymmetry should only “be applied in the field of doubt, where conclusive objective evidence does not exist,” leading him to propose to operate with a “cost-or-market-if-lower-where-necessary” principle. Thus, even though deductive FinAT literature harshly rejected specified asymmetry as a general underlying principle of accounting, it accepted its limited use as a “last resort” under situations of extreme uncertainty.

Similar to commissioned research,²² the individual contributions to FinAT highlighted the role of judgment on the part of the preparer of the financial report. In light of the subjective nature of such judgments, this literature cautioned against preparers’ inherent optimism (Sanders 1934, 208; Couchman 1940, 262–63; Devine 1955, 310–11), as “businessmen tend to slant their representations; and their statements are therefore often biased to favor their immediate goals” (Devine 1963, 130). Thus, both inductive and deductive FinAT contributions started to conceptualize asymmetry as being exercised by the preparer when making judgments.

It may well be noted that conservatism in stating the assets . . . is not a principle to guide calculations of net income, *but a rule of caution in interpreting the results of accounting measurements made according to a coherent body of doctrine.* (Paton and Littleton 1940, 128; emphasis added)²³

22. For instance, while the AAA emphasized that “the determination of income is a complex accounting operation requiring the use of estimates and the exercise of judgment” (AAA 1957, 540), the AIA outlined that “most investors realize today that balance sheets and income accounts are largely the reflection of individual judgments, and that their value is therefore to a large extent dependent on the competence and honesty of the persons exercising the necessary judgment” (AIA 1934, 8).

23. In the monograph, “interpretation” is understood as the performance of accountants which distinguishes their task from “bare recording.” Hence, accounting is defined as “a technical mode of interpreting financial data for the information of managers, owners, and other interested parties” (Paton and Littleton 1940, 118–19).

In subsequent publications, Paton further elaborated that “the stress in accounting should be on the careful, competent measurement, not on conservatism in the sense of understatement” (Paton 1948, 280). Therefore, he envisioned a role for asymmetry as “reasonableness and the exercise of care and good judgment” (Paton 1949, 161), reflecting its more traditional connotation as a “cardinal virtue” of accountants (May 1940, 75).

These emerging conceptualizations can be understood as forerunners of a further notion of asymmetry which we label *discretionary asymmetry*. In contrast to specified asymmetry, which operates at the level of specific (standardized) accounting requirements or best practices, this construct is characterized by the explicit consideration of asymmetry by the *preparer* when making judgments under conditions of uncertainty, and is exercised in a *moderate* way, distinguishing it from the notion of ultra-asymmetry (Sanders 1934, 208; Greer 1937, 82).

The individual undertakings in FinAT building were part of a wider open discourse that had hitherto lacked any authoritative backing. Believing that stronger involvement of the AIA in research would also support the Institute’s endeavors to develop binding accounting standards, the AIA established the Accounting Principles Board (APB) in 1959 as a successor to CAP, which had largely focused on ad hoc case-by-case standard setting (Zeff 1999, 92–93).

From the 1960s, conceptual academic accounting literature broadly regressed toward a commenting voice (Devine 1963; Sterling 1967a; Sterling 1967b) rather than forming the impetus for new developments (exceptions include E. O. Edwards and Bell 1961; Staubus 1961; Mattessich 1964; Ijiri 1975).²⁴ In general, accounting research began to move from a normative to a positivist-descriptive approach, focusing primarily on the empirical validation of the economic consequences of accounting (Jeanjean and Ramirez 2009).²⁵ Thus, the systematic search for a coherent set of normative qualities of financial reporting was now primarily consigned to the sphere of standard setters (Baker and Burlaud 2015). In the following, we focus on tracing the construction of asymmetry in the ongoing institutional research endeavors as well as in the conceptual reasoning of US standard setters.

Standard-setting activities in the United States (1960s–2000s)

Inspired by the works of Friedrich August von Hayek, scholars such as Milton Friedman and George Stigler at the University of Chicago began to shift the focus from market failure to government failure after the Second World War (Moss 2011; Hansen 2014, 622–24; Stedman 2014). This paved the way for a neoliberal turn based on the idea that “human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade” (Harvey 2007, 2; see also Colclough 1991). As the second economic crisis in the United States of the mid-1970s, known as the stagflation crisis, also provoked a public loss of confidence in Keynesian demand management, the following political era, starting with the election of Ronald Reagan in the United States in 1980, was characterized by “deregulation, privatization, and tax cuts” (Hansen 2014, 623).

The rise of neoliberalism was accompanied by the discipline of financial economics, in which the efficient market hypothesis, stipulated by Fama (1965, 1970) and Samuelson (1965a, 1965b), became the central premise of capital market theory. This thinking also encroached on financial accounting research, as well as on the work of financial reporting standard setters (Fleming

24. The *Statement of Accounting Theory and Theory Acceptance* commissioned by the AAA in 1977 demonstrates this development very clearly: when listing the most influential contributions to accounting theory building, it becomes obvious that only 2 of the 13 listed monographs had been published since the 1960s, and had not been commissioned research (AAA 1977, 5).

25. This shift in academic research was a consequence of broad efforts by the Ford and Carnegie Foundations to make business schools in the United States more “scientific” (Jeanjean and Ramirez 2009, 115–17), resulting in a greater focus on quantitative (analytical and empirical) research and doctoral training in “appropriate” methods (Zeff 2019, 163–64). This was in marked contrast to the business schools’ earlier focus on teaching and conceptual theory building (Zeff 2019, 160–63).

et al. 2000; Reiter and Williams 2002) where capital market participants and their information needs were constructed as the hypothetical benchmark for the design of financial reporting requirements (Young 2006). The monograph *A Theory of Accounting to Investors* by Staubus (1961) was the “first major advocate of the decision usefulness approach” (Zeff 2016, 136, see also Staubus 2000, 3–5), under which financial reporting was regarded as a tool for users (i.e., capital providers) to predict future cash flows (Staubus 2000, 5–8). Experiencing “instantaneous acceptance” in academia, the decision-usefulness objective reportedly “became the nucleus of a snowball that, once it started to roll, picked up all of the other features of the [decision-usefulness] theory” (Staubus 2000, 159).

As the asymmetric treatment of (un)realized gains and losses was found to be in conflict with the idea of providing users with decision-useful financial information following current value measurement, the standing of asymmetry in FinAT became further contested. Staubus (1961, 113) had already stipulated that the “basic amounts on all statements should be the most accurate figures that can be obtained without leaning toward either underestimation or overestimation.” In the subsequent concept-based standard-setting documents (see Table 2), which further advanced the decision-usefulness approach, a new argument was developed: asymmetry was rejected because it introduced *bias* into financial reporting information and thus was perceived to conflict with the desired characteristic of freedom from bias or neutrality.

From the 1960s to the 1980s, the quest for a CF defining the principles to guide the development of financial reporting led to several FinAT documents, including publications (commissioned) by the APB and its successor, the FASB, but also institutional studies published by the AAA and the AICPA (see Table 2). While all documents unanimously rejected ultra-asymmetry (Moonitz 1961, 47–48; Grady 1965, 35; APB 1970, para. 171; AICPA 1973, 58–59; FASB 1980, para. 93), more “moderate” forms of specified and discretionary asymmetry were treated differently in these documents depending on whether they employed an inductive approach (Grady 1965; APB 1970) or deductive reasoning (all other documents listed in Table 2).

In the early phase of its existence, the APB considered it a priority to identify the basic postulates and principles that should underlie the board’s future work (Zeff 2016, 135). Initially, the APB-commissioned *Research Study No. 1* and *Research Study No. 3* seemed to follow a reform path, as they endeavored to develop a normative basis for improved future financial reporting which would shift the focus away from the predominant historical cost accounting, as fostered by the SEC (Zeff 1999, 94). Regarding conservatism as a concept that had arisen out of “experience” but not out of “logic” (Moonitz 1961, 48), these studies rejected any form of asymmetry as a desirable postulate (Moonitz 1961, 47–48) and advocated the expansion of the full use of current values (Sprouse and Moonitz 1962, 55–59). Recalling arguments well known from earlier FinAT contributions, asymmetry was found to be in conflict with the concepts of disclosure and consistency, thus problematizing concealment as well as the fact that unwarranted understatements are followed by later overstatements (Moonitz 1961, 47; Sprouse and Moonitz 1962, 31). The inability or unwillingness of the practitioners, who dominated the APB, to accept a deductively derived normative set of accounting concepts,²⁶ however, finally led to a more moderate view from the APB on asymmetry (Zeff 1999, 94–96).

The inductively oriented APB documents not only continued to deem specified asymmetry (referred to as “conservatism”) a desirable characteristic of accounting, but also contributed to the construction of discretionary asymmetry. Grady (1965, 36) advocated inclusion of the realization

26. The proposals of *Research Study No. 1* and *Research Study No. 3* elicited harsh criticism from the SEC, while the APB rejected them as being “too radically different from present generally accepted accounting principles for acceptance at this time” (Anonymous 1962, 10), which explains the APB’s subsequent turn to inductive reasoning (Zeff 2016, 135–36).

TABLE 2
US standard-setting documents

Year	Institution	Title	Type of reasoning	Role of asymmetry
1961	APB commissioned (Moonitz 1961)	The Basic Postulates of Accounting: Accounting Research Study No. 1	Deductive	Asymmetry rejected
1962	APB commissioned (Sprouse and Moonitz 1962)	A Tentative Set of Broad Accounting Principles for Business Enterprises: Accounting Research Study No. 3	Deductive	Asymmetry rejected
1965	APB commissioned (Grady 1965)	Inventory of Generally Accepted Accounting Principles for Business Enterprises	Inductive	<ul style="list-style-type: none"> • Specified asymmetry incorporated • Discretionary asymmetry incorporated
1966	AAA	A Statement of Basic Accounting Theory (ASOBAT)	Deductive	Asymmetry rejected
1970	APB	Statement No. 4: Basic Concepts and Accounting Principles underlying Financial Statements of Business Enterprises	Inductive	<ul style="list-style-type: none"> • Specified asymmetry incorporated • Discretionary asymmetry incorporated
1973	AICPA	Objectives of Financial Statements (Trueblood Report)	Deductive	Asymmetry rejected
1980	FASB	Statements of Financial Accounting Concepts No. 2: Qualitative Characteristics of Accounting Information (SFAC 2)	Deductive	<ul style="list-style-type: none"> • Specified asymmetry rejected • Discretionary asymmetry mentioned

principle, while anticipating losses, which reflects specified asymmetry, and emphasized the role of discretionary asymmetry exercised by the preparer:

Conservatism is not a justification for deliberate understatement. It's rather a *quality of judgment* to be exercised in evaluating the uncertainties and risks present in a business entity to assure that *reasonable* provisions are made for potential losses in the realization of recorded assets and in the settlement of actual and contingent liabilities. (Grady 1965, 35; emphasis added)

Likewise, APB's *Statement No. 4*,²⁷ which saw a role for conservatism as a "convention" (APB 1970, para. 171), comprised both specified and discretionary asymmetry. On the one hand, the APB mentioned the lower-of-cost-or-market rule as an example (APB 1970, para. 171); on the other hand, conventions in the APB's *Statement No. 4* were understood as "a means of

27. Published in the form of a statement and not as an opinion, the content of the APB's *Statement No. 4* was not mandatory (Zeff 1999, 95).

substituting the collective judgment of the profession for that of the individual accountant” (APB 1970, para. 170), so that asymmetry was also assigned to the sphere of the preparer, reflecting the notion of discretionary asymmetry.

Due to their inductive nature, these APB documents did not provide conceptual reasons for the incorporation of asymmetry. Instead, they regarded asymmetry as an idea or rule “drawn from experience” (Grady 1965, 36), and argued that “historically, managers, investors, and accountants have generally preferred that possible errors in measurements be in the direction of understatement rather than overstatement of net income and net assets” (APB 1970, para. 171).

In contrast to the APB, which was preserving the status quo, a number of accounting academics were breaking new ground (Zeff 1999, 96). In 1964, the AAA established a committee to develop “an appropriate conceptual framework for a coordinated statement of accounting theory” (AAA 1966, v), resulting in the publication of *A Statement of Basic Accounting Theory* (ASOBAT) in 1966. From today’s perspective, ASOBAT is reckoned to be one of the seminal pieces of FinAT building from that time (Chatfield and Vangermeersch 1996, 3), particularly due to the strictly deductive way of developing the principles that should form the conceptual foundation for future financial reporting (Sterling 1967b). ASOBAT changed the “world-view” at that time (Sterling 1967b, 100) by representing the first institutional commitment to the objective of decision usefulness, and particularly advocating a future orientation in measurement (Zeff 2013, 278).

While the ASOBAT committee did not explicitly refer to any previous FinAT contributions when introducing the decision-usefulness objective (Zeff 2013, 278),²⁸ Sterling (1967b, 95) outlined that “the ideas presented in the Statement can readily be traced to the literature.” In particular, the proposals can be rooted in the actors who shaped the AAA’s thinking on FinAT (Zeff 2013, 278). Among the most influential members of the ASOBAT drafting committee, for instance, was George Sorter, a professor of accounting at the University of Chicago (Zeff 2016, 138–39), who had reviewed Staubus (1961) for *The Accounting Review* (Sorter 1963; Staubus 2000, 158–59) and generally promoted the development of FinAT in the neoliberal spirit of the Chicago School of Economics (Whittington 1985, 20–24; Previts and Merino 1998, 321; Zeff 2017).

Defining the objective of financial reporting as supporting users in making informed decisions about providing scarce resources (AAA 1966, 4), ASOBAT listed four basic standards to “provide criteria to be used in evaluating potential accounting information”: relevance, verifiability, freedom from bias, and quantifiability (AAA 1966, 8). Freedom from bias, meaning “that facts have been impartially determined and reported” (AAA 1966, 7), was deemed to be of particular importance as “the presence of bias which may serve the needs of one set of users cannot be assumed to aid or even leave unharmed the interests of others” (AAA 1966, 11).

Under the heading of “conservatism,” asymmetry, understood as “understatement of assets and ‘premature’ expense recognition,” was considered to produce biased accounting information that conflicted with the criterion of freedom from bias (AAA 1966, 29). Notably, the importance of asymmetry in the decision-usefulness regime had diminished in such a way that ASOBAT devoted only one sentence to conservatism, discussing it alongside other sources of bias such as management’s overoptimism, inflation, and income tax law (AAA 1966, 28–29). ASOBAT can be identified as the first standard-setting document which introduced the conceptual argument to reject asymmetry on the basis of bias.

More pronounced than ASOBAT, the *Trueblood Report*, which was issued by a special committee of the AICPA in 1973 as a response to criticism of the APB’s ineffectiveness, reinforced the centrality of enabling investors and creditors to estimate future cash flows following the decision-usefulness approach (Zeff 1999, 99; Zeff 2016). For that purpose, the *Trueblood Report*

28. Instead, it was stated that the decision was “based on the committee’s observations of the society in which accounting functions, and establishes usefulness of information as the basic criterion by which accounting information is judged” (Fertig 1967, 666).

identified several QCs of reporting, namely relevance and materiality, form and substance, reliability, freedom from bias, comparability, consistency, and understandability (AICPA 1973, 57–60). Following ASOBAT's argumentation, the *Trueblood Report* pointed out that a commitment to the avoidance of bias logically results in the abandonment of asymmetry in any form (AICPA 1973, 58).

Facing continued criticism for its inability to establish sound accounting principles, in 1973 the APB was replaced by the FASB, which almost immediately focused on the development of a “fully-fledged” CF (Zeff 1999, 102). Drawing on both ASOBAT and the *Trueblood Report*, the FASB adopted the decision-usefulness objective (Gore 1992) and outlined in the *Statement of Financial Accounting Concepts No. 1* that financial information should support users “in assessing the amounts, timing, and uncertainty of prospective cash receipts” (FASB 1978, para. 37).

In 1980, the FASB issued the *Statement of Financial Accounting Concepts No. 2* (SFAC 2), which outlined the QCs of financial reporting (FASB 1980). Following ASOBAT and the *Trueblood Report*, the FASB did not grant conservatism the status of a primary or subsidiary QC, as its application was seen to be in conflict with the other QCs identified, specifically representational faithfulness, comparability (including consistency), and freedom from bias, which was renamed and discussed in SFAC 2 in terms of neutrality (FASB 1980, para. 92). Nevertheless, the FASB inserted an extensive section on conservatism which outlined the altered understanding of conservatism in accounting in more detail than any preceding standard-setting document. According to the FASB, conservatism should be decoupled from its traditional connotation of a “deliberate, consistent understatement of net assets and profits,” which had developed historically as a “virtue” or a “margin of safety” due to lender protection (FASB 1980, para. 93).

Even though the FASB did not see any systematic role for specified asymmetry in the standards, it envisioned “a place for a convention such as conservatism—meaning *prudence*—in financial accounting and reporting” (FASB 1980, para. 92), with asymmetry being conceptualized as “a *prudent* reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered” (FASB 1980, para. 95; emphasis added). Highlighting that “healthy skepticism” was warranted when making estimates about the future to avoid “imprudent reporting” (FASB 1980, para. 97), the FASB assigned asymmetry to the sphere of the *preparers*, reflecting discretionary asymmetry. In this regard, the FASB cautioned that “unjustified excesses in either direction”—that is, an “overly conservative or unconservative” bias in estimates (FASB 1980, para. 96)—were not warranted.

Remarkably, the FASB employed the term “prudence” to denote discretionary asymmetry exercised by preparers, and thus introduced a more precise wording to distinguish it from asymmetry incorporated in the standards, which it termed “conservatism.” This choice of terminology is in line with the early discourse related to pre-classical FinAT building in the United States, where prudence was understood as a *human characteristic* associated with the practices of honest and diligent businessmen. However, the implications of the discussion of discretionary asymmetry in SFAC 2 remained unclear, since the document was not officially binding for preparers, but rather served primarily as a basis for the FASB's future standard setting (Storey and Storey 1998, 85–88).

After the publication of SFAC 2 in 1980, the development of conceptual thought on FinAT largely lay fallow in the United States until the early 2000s, when the FASB started to cooperate with the IASB to develop a joint CF and revisited the QCs. This step is analyzed in the following section.

Summary: Conceptualization of asymmetry in US financial accounting theory

Our historical tracing in the US context reveals that three different conceptualizations of asymmetry were developed in the discourse on FinAT since the 19th century: the notions of ultra-asymmetry, specified asymmetry, and discretionary asymmetry. As the role of financial reporting shifted from informing lenders to serve as a basis for investment decisions on stock markets in

the early 20th century, the emerging literature on FinAT commonly rejected ultra-asymmetry because of its allegedly arbitrary and misleading character. Yet, the literature was divided about granting asymmetry a more specific role in the evolving standardization of accounting techniques. While deductive accounting thought tended to call for the abandonment of any asymmetry in favor of accuracy, inductive FinAT was still prone to hold on to asymmetry in defined situations of uncertainty as a margin of safety (i.e., specified asymmetry).

In the time after the stock market crash, when regulation focused on the further standardization of accounting techniques, the role of the preparer was reemphasized in FinAT. Acknowledging that judgments by the preparer are inevitable, both inductive and deductive research started to develop and accept discretionary asymmetry as a means to counteract potential overoptimistic management bias. In this light, the construct of discretionary asymmetry took on virtuous characteristics, which had earlier been ascribed to ultra-asymmetry in the unregulated pre-stock market environment of the mid-19th century.

In the quest for a CF in the standard-setting sphere, the objective of decision usefulness became firmly established from the 1960s onward and was deemed to be incompatible with conservatism as a desirable QC. In particular, key documents, such as ASOBAT and the *Trueblood Report*, unequivocally rejected specified asymmetry, mobilizing the neutrality argument that financial reporting should be kept free from any (upward or downward) bias. While the understanding of discretionary asymmetry (now labeled prudence) was acknowledged by the FASB in SFAC 2, it remained at odds with the purpose of the FASB's CF, as it was to assist the standard setter rather than provide guidance for preparers.

The FASB's CF had a broader global impact as it formed the role model for the endeavors in other (Anglo-American) countries and at the level of the international standard setter, the IASC, to develop a CF (Gore 1992, 124–30). However, the IASC's *Conceptual Framework for the Preparation and Presentation of Financial Reporting*, published in 1989, differed in some regards from the FASB's approach as it put more emphasis on the stewardship function of financial reporting as an objective next to decision usefulness (IASC 1989, paras. 12–14). Moreover, the IASC explicitly took up “prudence”²⁹ next to neutrality as a component of the principal QC “reliability” (IASC 1989, para. 37). Notably, the IASC CF 1989 simultaneously contained the understandings of specified asymmetry, as prudence was explicitly part of the QCs to be considered by the IASC in its standard setting, and discretionary asymmetry, as the definition of prudence required “the inclusion of a degree of caution in the exercise of the judgements” and referred to the preparers' sphere (IASC 1989, para. 37).³⁰

The international standard-setting arena became central in the FinAT discourse in the early 2000s when countries all around the world considered the adoption of IFRS. The next section studies the CF revisions conducted by the IASB and the FASB with regard to their contributions to the FinAT discourse on asymmetry.

5. Revisions of the CFs by the IASB and the FASB (2000s–2018)

The joint revision by the IASB and the FASB (2004–2010)

In 2001, the IASC, as an initiative of professional accountancy bodies, was restructured into the private, independent IASB, following the role model of the FASB, to increase its standards' attractiveness for adoption (Botzem 2012). In 2002, the EU decided formally to require IFRS³¹ in the consolidated financial statements of listed companies from 2005 onward. Many other

29. The IASC, in contrast to the FASB, adopted the British terminology of “prudence” to denote specified asymmetry, thereby avoiding the term “conservatism,” which was associated with ultra-asymmetry in the United Kingdom.

30. More detailed reflections on the IASC's conceptual reasoning are presented in supporting information in online Appendix B.

31. Corresponding to the restructuring of the IASC into the IASB, the term used for the system of accounting standards (and for newly developed standards) changed from International Accounting Standards (IAS) to IFRS.

countries in the world followed the EU example, which allowed IFRS to quickly reshape “the world map of company financial reporting” (Zeff 2012, 807). Following a number of accounting scandals, such as Enron and WorldCom, interest in IFRS was also beginning to emerge in the United States, first manifesting in the Norwalk Agreement of the IASB and FASB in 2002, a document in which the two standard setters committed to converge IFRS and US GAAP (Camfferman and Zeff 2015, 75–77).³²

The rise of IFRS is closely interlinked with the phenomenon of financialization—that is, “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies” (Epstein 2005, 3) that gained particular traction in the 1990s following the global spread of capitalism after the collapse of Communist regimes, in particular in Eastern Europe.³³ Globalization, and in particular the rise of global capital markets (Blecker 2005; Sawyer 2013), took the decision-usefulness approach, developed in the United States in the 1960s/1970s, to a global level (Pelger 2016). In a globalized, financialized world, the purpose of financial reporting is to ensure financial market efficiency, enabling informed economic decision-making by (international) capital providers by supporting their cash flow predictions (Zhang and Andrew 2014; Williams and Ravenscroft 2015). This renewed emphasis on capital market actors led financial reporting standard setters to favor current value accounting in the form of fair values, reflected, for instance, in several standards published and proposed by the IASC/IASB in the 1990s and early 2000s (Nölke and Perry 2007; Georgiou and Jack 2011).

While the IASB in 2001 had simply taken up the IASC’s CF from 1989 without making any changes, from 2004 onward, as part of their convergence activities, the IASB and FASB worked on a comprehensive revision of their CFs. Their joint work lasted until 2010, when two chapters of the new CF were published, dealing with the objective of financial reporting and the QCs. In the context of financialization, the CF 2010 reflects the decision-usefulness approach implemented in complete purity, paving the way for a potential extension of fair value accounting in the standards (Pelger 2020). More specifically, the Boards decided (i) to focus solely on financial reporting as an input in capital providers’ valuation decisions, denying any (separate) role for a stewardship purpose (IASB 2010, OB2, BC1.24–28); (ii) to drop any reference to the concept of reliability and to replace this with “faithful representation” (IASB 2010, QC4, BC3.19–25); and (iii) not to include prudence or conservatism in their set of QCs (IASB 2010, BC3.27–28).

In the development of their revised CF, the Boards agreed early on to reject the notion of specified asymmetry in the CF (IASB and FASB 2005b, QC.7). This was justified by the perceived inconsistency of “the accounting traditions of prudence and conservatism” with the allegedly indispensable “non-issue” neutrality (IASB and FASB 2005a, para. 29; see also IASB 2010, BC3.27), while including both characteristics was considered to be “as glaring as putting orange next to pink” (IASB and FASB 2005a, para. 31). In a DP published in 2006, as well as an ED of 2008, it was argued under the headline of neutrality that “prudence or conservatism”³⁴ conflicts with freedom from bias (IASB 2006, BC2.22; 2008, BC2.21) and thus distorts investors’ decision-making (IASB and FASB 2005a, para. 31).

32. The SEC strongly supported these convergence efforts by the Boards and some years later, on November 15, 2007, even decided to allow foreign issuers to file their financial statements in accordance with IFRS as issued by the IASB. However, the SEC never came to a final decision on whether to allow or require US issuers the use of IFRS, and so US issuers still have to follow US GAAP in their financial statements (Camfferman and Zeff 2015, 177–99, 505–17).

33. Financialization builds on key ideas of neoliberalism, with its emphasis on deregulation and the central role of markets, but in particular reflects the “systemic transition of profit making from traditional production to the financial sector” (Zhang and Andrew 2014, 19) and the increasing importance of financial actors and markets.

34. In light of the history of conservatism/prudence, it is remarkable that the Boards and their staff neither distinguished between the two terms nor explored the historical connotations of the terms.

However, the Boards' staff had initially considered that "the framework should note the continuing need to be careful in the face of uncertainty" separate from the QCs (IASB and FASB 2005b, QC.7). In this regard, the term "care" was introduced and defined as

searching for additional information to reduce uncertainty, reflecting the uncertainty of a range of potential amounts in making an estimate, or selecting an amount from the midpoint of a range if a point estimate is required. (IASB 2006, BC2.22; 2008, BC2.21)

Understood as an instrument that balances overoptimistic management bias without harming a neutral outcome, care does not reflect discretionary asymmetry, but can be interpreted as a precursor of a *neutral* notion of asymmetry, which was further developed in the subsequent framework revision by the IASB (see the next subsection). However, "care" was not taken up in the Boards' final CF 2010.

Discretionary asymmetry as a notion of "*prudence or conservatism . . . going beyond care*" to counteract excessive management optimism was said to be associated too deeply with deliberate understatement of the reported financial position and financial performance (IASB 2006, BC2.22; 2008, BC2.21). In the Boards' view, even the explicit prohibition of a deliberate understatement of net assets, as included in both earlier frameworks, would not be able to prevent this downward bias (IASB 2006, BC2.22; 2008, BC2.21).³⁵ Thus, the Boards essentially argued that a distinction between deliberate ultra-asymmetry and discretionary asymmetry was difficult to uphold and therefore any reference to the terms "prudence" or "conservatism" in the CF should be avoided. In this vein, the Boards associated discretionary asymmetry with the misleading nature of ultra-asymmetry. By abandoning any reference to asymmetry, the joint CF 2010 went beyond the FASB's approach in SFAC 2, which rejected specified asymmetry but envisioned a role for discretionary asymmetry applied by the preparer.

The arguments used by the Boards bear some resemblance to the discussions surrounding the other changes made in the CF 2010. The stewardship objective, the concept of reliability, and prudence (or conservatism) were all allegedly subject to misunderstanding, which was used as a rationalization for their abandonment, but basically meant that at least some constituents were relating those ideas to historical cost accounting, which was not desired by the Boards at the time of the CF revision (Erb and Pelger 2015; Pelger 2016). Standard setters explicitly regarded CFs as the way to overcome "vague principles and conventions, such as . . . prudence, stewardship, conservatism" (McCahey and McGegor 2013, 4; see also Barth 2014), and the momentum of financialization provided them with the opportunity to push these changes through, even against some resistance.

While the Boards faced strong opposition, with the vast majority of the CLs on the DP rejecting the abandonment of stewardship and the replacement of reliability with faithful representation (Erb and Pelger 2015; Pelger 2016), the removal of prudence provoked relatively little resistance. Of the 179 CLs on the DP received in 2006, 36 CLs (20%) criticized the removal of prudence. Among the 142 respondents to the ED 2008, only 15 CLs (11%) argued for prudence as a QC.

Following the standard setters' arguments, the Boards' constituents mainly evaluated prudence or conservatism in the light of its interrelation with neutrality. In this regard, the majority of the CLs criticizing the removal of prudence took the position that prudence as incorporated in the CF 1989 did not need revision since it did not conflict with neutrality (e.g., Shell CL DP 2006, 11), considering it an effective means to counteract (over) optimistic management bias (e.g., European Association of Co-operative Banks CL DP 2006, 7). Some constituents explicitly stated that prudence was rejected because of a "misunderstanding of the

35. It should be noted that in the view of IASB and FASB (2007, para. 36), SFAC 2 acknowledged the tension between neutrality and discretionary asymmetry but did not assert their incompatibility.

concept” (Institute of Public Auditors in Germany (IDW) CL DP 2006, 8) by the Boards, as prudence “has never required an entity to halve its revenue figures or ignore a proportion of its physical assets” (SwissHoldings CL DP 2006, 9). These constituents thus saw the opportunity to distinguish between discretionary and ultra-asymmetry. In this vein, constituents repeatedly argued that if the term “prudence” needed to be eliminated due to unwarranted connotations, at least a reference to “diligence” (IDW CL ED 2008, 6), “caution” (European Financial Reporting Advisory Group (EFRAG) CL DP 2006, 24) or being “careful” in making judgments under uncertainty (International Association of Insurance Supervisors CL DP 2006, 5) should be kept in the CF.

While these CLs argued for the role of prudence as a QC, the Boards did not see any reason to reconsider the issue in their redeliberations, but stuck to their initial idea to eliminate any reference to asymmetry from the CF. While specified asymmetry was abandoned on the basis of a conflict with neutrality as a central premise in the decision-usefulness framework, discretionary asymmetry was rejected for being inseparable from ultra-asymmetry in practice.

IASB revision (2012–2018)

In 2008, the financial crisis brought to light the fragility of financialized economies (Zhang and Andrew 2014) and led to a wave of reregulation, which covered the capital requirements in the banking sector in particular, but also encroached on global capital markets (Langevoort 2010; Porter 2014). Given the global impact of the financial crisis, it was deemed increasingly important to coordinate national regulation through transnational committees, such as the newly established Financial Stability Board or the G20, which immediately endeavored to identify and tackle the sources of financial turmoil (Porter 2014).

In the post-crisis environment, criticism also related to the role of financial reporting in fostering the economic boom preceding the crisis and then aggravating the crisis, in particular through the allegedly excessive use of fair value accounting (for a discussion of this criticism, see Laux and Leuz 2009) and insufficient provisioning for credit losses (Pucci and Skærbæk 2020). This criticism led to political pressure on the IASB and the FASB to reconsider their standards in light of the implications for financial stability (Bengtsson 2011). Such concerns—related to potentially “imprudent” financial reporting (Hoogervorst and Prada 2015, 6)—did not influence the further development of the CF 2010 (Pelger 2016), which was already on the way when the crisis occurred. Nevertheless, they were reflected in asymmetric standards published by the Boards in the aftermath of the financial crisis, in particular, in the revised impairment model of financial instruments based on expected credit losses (Giner and Mora 2019).

In the context of debates about the role of asymmetry in IFRS in the aftermath of the financial crisis, the IASB Chairman, Hoogervorst (2012), gave a widely noted speech on the topic in 2012. He attributed the earlier abandonment of prudence in the CF 2010 to the convergence with US GAAP, “which did not have a definition of Prudence,” and to persistent connotations of prudence with ultra-asymmetry: “many felt that in practice the concept of Prudence was often used as a pretext for cookie jar accounting” (Hoogervorst 2012, 3).³⁶ Interestingly, he tried to downplay criticism on the removal of prudence from the CF 2010 by highlighting that prudence “is still very much engrained in our standards” (Hoogervorst 2012, 4), which also pertains to the standards developed after publication of the CF 2010 (Barker and McGeachin 2015).

When the IASB restarted its work on the CF in 2012 as an IASB-only revision, the focus was on the CF chapters that had not yet been dealt with in the joint work with the FASB.³⁷ Thus,

36. “A systemic bias toward conservatism undermines the value of earnings as a performance indicator. . . IASB felt a need to be completely unambiguous about this issue by removing the Concept of Prudence from our Conceptual Framework” (Hoogervorst 2012, 7).

37. At the time, the FASB saw no need for a further revision of its CF. While the FASB also restarted independent work on its CF in 2014, it has not reconsidered the chapters on the objective and the QCs.

the DP, published by the IASB in 2013, included only a small defensive section on the elimination of prudence from the CF 2010 (IASB 2013, paras. 9.15–9.22). However, the feedback received by constituents,³⁸ along with political pressure (Georgiou 2015),³⁹ led the IASB to reconsider the issue and ultimately agree on the reintroduction of asymmetry into the CF, noting that “there is no common understanding of what the term [prudence] means” among these actors (IASB 2014, para. 12 (a)). This observation is in line with the earlier arguments used by the FASB and IASB in their joint CF revision that there were various understandings of prudence and that detaching prudence from the notion of ultra-asymmetry was perceived as impossible. In its subsequent drafting, the IASB tried to address this issue by introducing an explicit distinction between two forms of prudence, termed “cautious prudence” and “asymmetric prudence,” for the first time in an ED published in 2015 (IASB 2015, BC2.6), and then in the final CF published in 2018.

“Cautious prudence,” described as “the exercise of caution when making judgements under conditions of uncertainty,” is said to be supportive of the achievement of neutrality in financial reporting (IASB 2018a, para. 2.16; 2018b, BC2.39). While financial information is considered to be neutral when it is free from bias—that is, “not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users” (IASB 2018a, para. 2.15)—the exercise of cautious prudence ensures neutrality in such a way

that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods. (IASB 2018a, para. 2.16)

By introducing cautious prudence into the CF, the IASB, on the one hand, intended to assist preparers, auditors, and regulators in counteracting the natural optimistic bias that management may have in applying the reporting entity’s accounting policies and, on the other hand, to help itself to develop accounting standards that restrict management bias (IASB 2018b, BC2.39). According to the IASB, cautious prudence is compatible with the neutral application of accounting policies—that is, applying the selected accounting policies in a neutral unbiased manner—since caution works in both directions, in that assets and liabilities are neither over- nor understated (IASB 2018b, BC2.40). Thus, cautious prudence does not allow for any understatement of the final accounting outcome, and resembles the construct of care, which had been discussed in the early phase of the FASB/IASB CF revision.⁴⁰ Cautious prudence thus reflects *neutral asymmetry*, as it requires the preparer to balance their overoptimistic bias downward to a neutral level.

However, “asymmetric prudence,” as defined in the CF 2018, introduces bias into financial reporting, in the IASB’s view, as it implies, for example, “a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses” (IASB 2018a, para. 2.17; see also IASB 2018b, BC2.42). As such, asymmetric

38. Almost 60% of the respondents to the DP 2013 (131 out of 220 CLs) made a reference to “prudence.” Even though the variety of meanings attached to the term “prudence” was acknowledged by 43% of the respondents (i.e., 56 out of 131 CLs), 63% (i.e., 83 out of 131 CLs) explicitly urged the IASB to reintroduce the concept and to clarify its understanding of asymmetry (e.g., International Federation of Accountants CL DP 2013, 5–6).

39. In light of the increased political interest in accounting standards and financial stability concerns, in 2014 the European Union threatened to cut its contribution to the IFRS Foundation’s budget if the IASB refused to reintroduce prudence in its CF in the way it had been incorporated in the CF 1989 (Regulation (EU) No 258/2014 of the European Parliament and of the Council of April 3, 2014; see in detail Georgiou 2015, 10–11).

40. However, these earlier reflections on the construct of “care” (IASB 2006, BC2.22; 2008, BC2.21) were not explicitly taken up by the IASB. Nonetheless, some constituents proposed to reword “cautious prudence” as “balance,” “carefulness” (Australian Accounting Standards Board CL ED 2015, 4), or “the unbiased consideration of available information” (AAA CL ED 2015, 4) to avoid any connotation of bias introduced by the “prudence” label” (University of Gothenburg CL ED 2015, 2).

prudence reflects the construct of specified asymmetry and is rejected by the IASB as a general characteristic of the CF due to its incompatibility with the QC of neutrality and a pending conflict with relevance (IASB 2018b, BC2.42). Nevertheless, the IASB noted that “not all asymmetry is inconsistent with neutrality” (IASB 2018b, BC2.44): the selection of neutral accounting policies by the standard setter could occasionally comprise asymmetric treatments of gains and losses if the asymmetric accounting results in “the most relevant information that faithfully represents what it purports to represent” (IASB 2018b, BC2.45). As such, the IASB reserves the right to decide on a case-by-case basis whether asymmetric standard setting is deemed to be appropriate without explicitly including asymmetric prudence in the QCs, thus putting it somewhat outside the balancing of QCs for the sake of decision-useful information. In this light, the newly introduced dichotomy of cautious and asymmetric prudence served as a vehicle for the IASB to incorporate asymmetry in a decision-usefulness framework.

Constituents intensively discussed the reinclusion of prudence in the CF in their CLs to the ED 2015, nearly 75% (i.e., 175 out of 233 CLs) referring to the proposed handling of prudence. These numbers reveal a far stronger interest in the issue of prudence compared to the earlier CF revision by the FASB/IASB, which can be explained by the experience of the financial crisis, but also by the politicization of the prudence issue (Georgiou 2015). While the reference to “cautious prudence” was widely welcomed by constituents—only 23% (40 out of 175 CLs) explicitly rejected this proposal—the IASB’s treatment of “asymmetric prudence” was discussed more controversially, with 36% of the constituents rejecting the idea that asymmetric prudence should be considered in the CF at all (representing 63 CLs).

Triggered by the IASB’s proposals, the interrelation of neutrality and asymmetry formed the focal point of discussion among the constituents commenting on the ED 2015. Overall, we identified four main positions taken by the constituents with respect to the incorporation of “cautious prudence” as proposed by the IASB: (i) Advocates of neutral asymmetry typically appreciated the role of asymmetry as a supporting element of neutrality, since it balances the overoptimistic management bias downward to a neutral level (e.g., European Securities and Markets Authority (ESMA) CL ED 2015, 4–5); (ii) In contrast, general opponents of asymmetry stated that it introduces a bias into financial reporting, which is inconsistent with neutrality, and demanded the abandoning of prudence from the CF (e.g., Institute of Public Accountants (IPA) CL ED 2015, 5); (iii) A last group expressed the view that “cautious prudence,” conceptualized as neutral asymmetry by the IASB, is already part of neutrality (e.g., Austrian Financial Reporting and Auditing Committee CL ED 2015, 3),⁴¹ and thus denied that neutral asymmetry is a valid, self-sufficient concept beyond neutrality; and (iv) Among the last group, supporters of discretionary asymmetry aimed for an even stronger role of asymmetry in the CF, arguing that it should form an independent concept positioned equally with neutrality (e.g., Business Europe CL ED 2015, 3–4), thereby emphasizing the relationship between the two, as it was already intended by the way in which asymmetry was incorporated in the CF 1989 (e.g., EFRAG CL ED 2015, 6–8). These different views on “cautious prudence” reveal that the concept of neutral asymmetry, as developed by the IASB, was neither uniformly understood nor universally accepted among constituents.

We find two opposing views on the consistency of asymmetric prudence with neutrality. Some constituents still supported the view expressed in the CF 2010, which regarded these concepts as incompatible in light of bias (e.g., AAA CL ED 2015, 20). The other group, while acknowledging a theoretical conflict, still argued for the consideration of asymmetric

41. The ED of 2015 also contained an alternative view by Patrick Finnegan, an IASB member from the United States, who voted against the explicit reference to prudence. Finnegan argued that neutrality already comprised what cautious prudence—that is, neutral asymmetry—intends to produce: financial reporting that is free from bias. He feared that the reintroduction of prudence could bring a bias into financial reporting and cause confusion about whether and how to apply the concept from the preparer’s perspective (IASB 2015, AV15–16).

prudence. Some constituents based this view on the argument that investors might be particularly interested in downside risks in certain situations, so that both neutrality and asymmetric prudence would represent essential features of decision-useful information (e.g., *Crédit Agricole CL ED 2015*, 4). Constituents also argued in favor of asymmetric prudence to achieve consistency of the CF with the existing (asymmetric) standards (e.g., *Business Europe CL ED 2015*, 4). Some of these CLs therefore advocated the inclusion of asymmetric prudence in the CF and not only in the Basis for Conclusions (e.g., *Financial Reporting Council CL ED 2015*, 7–8, 40).

To sum up, we observe that the latest IASB-only revision results in the FASB and IASB officially presenting different views in their CFs on the proper place of asymmetry in financial accounting. The way in which prudence was reintroduced in the IASB CF 2018 reflects a further conceptualization of asymmetry developed in FinAT—that is, the construct of neutral asymmetry.

6. Discussion and conclusion

The aim of this paper was to trace conceptualizations of asymmetry in the FinAT discourse to provide indications of how prudence and conservatism became subject to controversies in recent revisions of CFs by the FASB and IASB. In the following, we outline our major findings and discuss possible implications for standard setting and future research.

Constructs of asymmetry

Based on our historical tracing, we identify four constructs of asymmetry which have been developed in the analyzed FinAT discourse over time (see Table 3). These notions differ with respect to the extent of asymmetry that they allow, and are also assigned to different spheres of the financial reporting process—that is, either to best practices/specific requirements (specified asymmetry) or to the preparer's judgment (ultra-, discretionary, and neutral asymmetry). While the constructs of ultra-, specified, and discretionary asymmetry emerged in both the US and the international discourse on FinAT, neutral asymmetry was exclusively developed recently in the international sphere by the IASB.

As indicated in Table 1, the constructs of asymmetry were successively developed over the course of FinAT building. In this process, a newly emerging construct did not fully replace the existent conceptualization(s) of asymmetry, but the different notions of asymmetry were successively all becoming part of the discourse. Thus, by 2018, we find at least four coexisting constructs of asymmetry in FinAT, which, to some extent, explains the state of confusion observable during the latest IASB CF revision.

Addressing the unclear boundaries between the concepts of prudence and conservatism noted, for instance, by Barker (2015) or Mora and Walker (2015), our historical analysis reveals that over time the four identified notions of asymmetry have been variously associated with the terms “prudence” and “conservatism” in FinAT in the United States and internationally (see Table 4). In both settings, ultra-asymmetry has been associated with conservatism. Discretionary asymmetry was first discussed under the heading of “conservatism” in US FinAT, while this changed in SFAC 2, which referred to “prudence” in line with international conventions. The link between prudence and discretionary asymmetry apparently stems from the understanding of prudence as a human characteristic, or the state of mind of a “prudent businessman” in the English-speaking hemisphere (Maltby 2000, 60). With respect to specified asymmetry, terminology differs between the United States, where this has been referred to as “conservatism,” and the international sphere, where the IASB in its CF 1989 took up the UK terminology of “prudence.” Neutral asymmetry was discussed as (cautious) prudence by the IASB. Thus, we observe that, historically, both conservatism (ultra-, specified, and discretionary asymmetry) and prudence (specified, discretionary, and neutral asymmetry) have had up to three different meanings, which indicates the complexity in discussing desirable extents of asymmetry when using these two terms.

TABLE 3
Constructs of asymmetry

Level of accepted asymmetry ↑ Max.	Ultra-asymmetry <ul style="list-style-type: none"> • Deliberate understatement of the financial position of the preparer • Typical expression: creation of secret/hidden reserves by preparers
	Specified asymmetry <ul style="list-style-type: none"> • Occasional moderate understatement of the financial position of a firm in defined settings of uncertainty via asymmetric accounting requirements (defined by best practices and/or requirements (standards)) • Typical expressions: asymmetric realization rule, lower-of-cost-or-market rule, impairment tests
	Discretionary asymmetry <ul style="list-style-type: none"> • Human characteristic: the preparer should exercise caution when making judgments under conditions of uncertainty in the application of accounting standards to counteract management's (over) optimism. The resulting accounting outcome may include a slight degree of asymmetry, as potential errors in the accounting of assets (liabilities) and income (expenses) should be in the direction of understatement (overstatement) rather than overstatement (understatement) • Typical expressions: the preparer might, for instance, be more pessimistic when forecasting future cash inflows than cash outflows
	Neutral asymmetry <ul style="list-style-type: none"> • The preparer should exercise caution when making judgments under conditions of uncertainty to balance their inherent management bias toward a neutral level. The resulting accounting outcome is neutral—that is, purely symmetric. The preparer is not allowed to make any asymmetric accounting decision
	Min. <ul style="list-style-type: none"> • Typical expressions: ?

TABLE 4
Constructs of asymmetry and their link to the labels of “conservatism” and “prudence” in the US and international FinAT discourses

	US FinAT discourse		International FinAT discourse	
	Conservatism	Prudence	Conservatism	Prudence
Ultra-asymmetry	X		X	
Specified asymmetry	X			X
Discretionary asymmetry	X	X		X
Neutral asymmetry				X

This finding of various associations with the terms of “prudence” and “conservatism” implies that current confusion might be mitigated by introducing new or refined terminology to more clearly outline the respective underlying notion of asymmetry. In this regard, Barker (2015) aims to establish a clear theoretical distinction between conservatism and prudence, which might be regarded as a precursor to the IASB’s introduction of the terms “asymmetric prudence” and “cautious prudence” in its CF 2018. This distinction can be considered an initial attempt toward the terminological clarification of different conceptualizations of asymmetry in FinAT by introducing refined terminology. Future research might evaluate how consistently the new terminology introduced by the IASB is applied by the standard setter and its constituents in future standard-setting projects and whether it provides a meaningful basis for discussions.

Role of the historical context

As a second finding of our study, we observe that the extent of asymmetry which FinAT contributions deem appropriate is linked to the respective historical setting (see Table 1). In settings where the role of financial accounting was primarily seen in informing capital market participants' valuation decisions, FinAT tended to be skeptical of asymmetry. When the importance of capital markets grew (since the late 19th century), when the neoliberal belief in the efficiency of markets gained traction (1960s onward), and when global capital markets became a major engine of financialization (2000s), deductive FinAT rejected ultra-, specified, and later also discretionary asymmetry as deceptive because it would allegedly mislead investors and distort markets. This was the case during the rise of capital markets in the United States at the beginning of the 20th century, when FinAT rejected ultra-asymmetry and was divided about whether (some form of) specified asymmetry was desirable. In particular, advocates of "accurate" financial statements, who promoted the use of current values (Georgiou and Jack 2011), largely considered (specified) asymmetry deceptive. This line of thinking was further advanced during the development of a CF in the United States in the 1960s/1970s, when deductive FinAT contributions followed the decision-usefulness approach and highlighted the importance of neutrality. When the FASB/IASB strengthened their focus on decision usefulness in their joint CF revision in the 2000s, they rejected even a very limited role of asymmetry in financial reporting.

On the other hand, a stronger role of asymmetry has been promoted in settings where financial reporting is regarded as protecting the interests of creditors and in the aftermath of severe economic downturns, when trust in markets deteriorated. In the unregulated, credit-based US economy of the 19th century, ultra-asymmetry was appreciated in FinAT as a means to protect lenders against excessive dividend payouts and overstated collateral values, and was thus perceived to be a virtue reflecting honest and diligent business conduct. Similarly, after the stock market crash in 1929 and after the financial crisis of 2008/2009, FinAT started to reconsider the desirability of specified asymmetry to provide a stabilizing cushioning function for the real economy and restrict "greedy" management behavior. In such environments, the "safe" connotations associated with specified asymmetry regained support in FinAT, also driven by political and regulatory agendas—for instance, in the 1930s in the United States by the newly developed SEC (Previts and Merino 1998, 276), and in the 2010s by the European Parliament (Georgiou 2015).

Our second finding points to the limits of deductive CFs which aimed to develop a pure approach to conceptualizing financial reporting and thereby deliberately aimed to break new ground. As a consequence, traditional conventions, such as specified asymmetry, were rejected at a conceptual level (McCahey and McGegor 2013).⁴² However, it has proven difficult for standard setters to break with traditional conventions at the level of specific standards, even when conditions seem more favorable to pursuing a pure decision-usefulness approach. In the early 2000s, some attempts were made by the FASB and the IASB to change their accounting standards in areas such as revenue recognition (Baudot 2018) or provision accounting (Morley 2016) that have traditionally been shaped by specified asymmetry. However, these attempts were ultimately unsuccessful. Instead, a multitude of standards still include asymmetry (Hoogervorst 2012; Glover 2014; Barker and McGeachin 2015). This indicates a mismatch between the conceptual thinking of standard setters and their standards, and underlines the limited ability of deductive

42. Interestingly, we observe that some deductive CFs (SFAC 2 (FASB 1980), IASC CF (IASC 1989), IASB CF (IASB 2018a)) still accepted asymmetry as an attribute of preparers, reflecting their concern about the use of preparers' judgments in light of uncertainty arising from more forward-looking decision-useful information (Barker and Penman 2020). Chahed (2021) illustrates that the rise of market-based measurement has been accompanied by the increasing use of explanatory narratives and disclosure over time. The inclusion of discretionary, and later neutral, asymmetry as appeals to preparers can similarly be regarded as a tool to counter overoptimism in the context of judgments under uncertainty.

ideas, developed in the “ivory tower” of “‘pure’ theory” (Whittington 1985, 6), to proliferate into concrete standards (Lee 2020; Georgiou et al. 2021).

The operational limits of deductive CFs become even more obvious in disruptive post-crises environments, for instance, when looking at recent changes in the aftermath of the 2008/2009 financial crisis. Even though asymmetry was rejected on the basis of neutrality in their CF 2010, around the same time, the IASB and the FASB developed an impairment model for financial instruments based on expected credit losses which arguably represents a new strong asymmetric feature in IFRS and US GAAP (Giner and Mora 2019; Hashim et al. 2019).⁴³ More generally, this case reflects that the deductive CFs following the decision-usefulness approach meet pragmatic and political concerns when implemented in specific standard-setting projects, in particular in the aftermath of crises (Pucci and Skærbæk 2020). While this raises questions as to the usefulness of deductive CFs in producing consistent standards in different settings, it also provides opportunities for future research to explore systematically how the CF is actually mobilized in standard setting, for example, by contrasting the pre-/post-financial crisis periods.

Against this background, the way in which the IASB considered asymmetric prudence in its CF 2018 can be interpreted as a new attempt of the standard setter to address the incoherence between the standards and their theoretical foundation: By including asymmetric prudence only in the Basis for Conclusions, while explicitly excluding it from the main body of the CF, the IASB retains the option to draw on asymmetry when considered appropriate, but avoids a commitment to asymmetry as an overall principle guiding the development of its future standards. This approach can be regarded as opening a backdoor to introduce asymmetry on a case-by-case basis in spite of a decision-usefulness framework that promotes neutrality.

Arguments in the discourse

Our third major finding is that different conceptualizations of asymmetry have been subject to the same arguments regarding their merits and problems, so that the reasoning for and against asymmetry to some extent has gone around in circles throughout the 140 years of discourse examined in this paper. The circular nature of the discourse is demonstrated in the following example. In the early 20th century, ultra-asymmetry—that is, secret reserve accounting—was accused of harming investors’ decision-making (Joplin 1914, 409–10, 413) or allowing for earnings management (Gerstenberg 1923, 752). For the same reasons, specified asymmetry was criticized in a stream of FinAT in the 1920s (Scott 1926, 19; Montgomery 1927, 251–52; Bennett 1928, 427–28) and later by standard setters (FASB 1980, paras. 94, 96). Likewise, in the context of the CF revisions in the early 21st century, discretionary asymmetry (IASB and FASB 2005a, para. 31) and neutral asymmetry were condemned because they allegedly negatively influence investors’ decision-making due to “cookie-jar-accounting” (Singapore Management University CL ED 2015, 3). In turn, all of these conceptualizations, in different contexts, were supported in some FinAT contributions as an appropriate means to approach situations of uncertainty in accounting (Cole 1915, 217–18; Paton 1949, 306; IASC 1989, para. 37; IASB 2018a, para. 2.16).

These revolving dynamics are illustrated in Table 5, which presents the main arguments employed in the FinAT discourse on asymmetry by assigning them to the three groups of actors participating in the FinAT discourse: practitioners, academics, and standard setters. Overall, the main arguments used in the FinAT discourse either (1) addressed the purpose of financial reporting or (2) were related to assumptions about preparers’ attributes.

Regarding the first aspect, asymmetry was favored by those FinAT contributions that saw a role for financial reporting along the lines of creditor protection, economic and financial stability, dividend payout, or stewardship, while FinAT contributions which regarded financial reporting

43. While both standard-setters generally shifted to an expected credit loss approach, the impairment models of the IASB and FASB differ in their concrete specifications (Hashim et al. 2019).

TABLE 5
Arguments employed in the FinAT discourse on asymmetry

Pro asymmetry (Asymmetry is supported as . . .)	Contra asymmetry (Asymmetry is rejected as . . .)
(1) Purpose of financial reporting (e.g., creditor protection, economic and financial stability, stewardship, dividends, investment decisions)	
(2) Assumptions about preparer's characteristics (e.g., overoptimism, concealment, income smoothing)	
1890s–1920s	
<i>Practitioners</i>	
<ul style="list-style-type: none"> (1) It protects creditors and bankers (Montgomery, cited in Previts and Merino 1998, 220; Dickinson 1914, 152; Bliss 1924, 111–12) (1) It prevents extraordinary stock market reactions by ensuring stable profits (Dickinson 1914, 152) (1) It guarantees the financial strength of the company (Pixley cited in Greendlinger 1911, 365; Dickinson 1914, 151–52; Racine 1917, 221) and economic stability (Gilman 1916, 342–43) (1) It assures stable dividend payment in bad years (Racine 1917, 221–22) (2) It is sound advice for business conduct (Bliss 1924, 110) and reflects the behavior of “thorough, sound business men” (Greendlinger 1911, 365) 	<ul style="list-style-type: none"> (1) The true nature/financial position of a corporation needs to be shown accurately as a basis for investment decisions (Joplin 1914, 412; Gilman 1916, 342; Montgomery 1927, 251–52) (1) The buying investor is privileged over the selling shareholder due to a lower market price (Joplin 1914, 409–10) (1) Corporations are the property of the stockholders, who therefore have a “right” to dividends (Joplin 1914, 413–14) (2) Intelligent management should be fostered, no mechanism of concealment (Racine 1917, 222) (2) It offers the potential for stock manipulations by directors (Joplin 1914, 409, 413; Gilman 1916, 343)
<i>Academics</i>	
<ul style="list-style-type: none"> (1) It protects creditors and bankers (Scott 1926, 18) (1) It prevents extraordinary stock market reactions by ensuring stable profits (Kester 1922, 419) (1) It guarantees the financial strength of the company (Gerstenberg 1923, 752) and economic stability (Cole 1915, 217–218) (1) It prevents the over-distribution of dividends (Cole 1915, 217–218) and ensures stable dividend payouts (Gerstenberg 1923, 752) (2) Management optimism needs to be counteracted (Hatfield 1909, 108) (2) It offsets management’s tendency to exaggerate profits (Scott 1926, 18) (2) Exact accuracy cannot be attained in practice (Scott 1926, 19) (2) It prevents management from pursuing “unwise business policies” (Rorem 1929, 93) 	<ul style="list-style-type: none"> (1) The true nature/position of a corporation needs to be shown accurately as a basis for investment and selling decisions (Bentley 1911, 151; Kester 1922, 420; Hatfield 1927, 322) (1) The buying investor is privileged over the selling shareholder due to a lower market price (Gerstenberg 1923, 752) (1) Shareholders might be disappointed if dividends are low (Ripley 1927, 150) as they have a “right” to dividends (Bentley 1911, 151; Kester 1922, 420) (2) It offers the potential for stock price manipulations by directors (Kester 1922, 420; Gerstenberg 1923, 752) (2) Understatement by rules may even aggravate the management’s tendency to be overoptimistic (Scott 1926, 19)

(The table is continued on the next page.)

TABLE 5 (continued)

Pro asymmetry (Asymmetry is supported as . . .)	Contra asymmetry (Asymmetry is rejected as . . .)
1930s–1960s	
<i>Practitioners</i>	
<ul style="list-style-type: none"> (1) Lending decisions for creditors are facilitated (Gilman 1939, 232); creditors are protected (MacNeal 1939a, 51–52) (1) The financial strength of the company is ensured (Couchman 1940, 263) (1) The general interest—i.e., economic stability—is ensured (May 1940, 76) (2) It is a “cardinal virtue” of accountants, indicating and inducing sound business practices (May 1940, 75; Stempf 1942, 70) (2) Overoptimistic management bias in the face of uncertainty needs to be counteracted (Couchman 1940, 262) 	<ul style="list-style-type: none"> (1) It misleads stockholders by incorporating an “untruth” in accounting (MacNeal 1939a, 51–52) (1) Purchasing investors might be privileged over existent (selling) stockholders (Peloubet, cited in AIA 1937, 356) (1) “Unwarranted” understatements will be followed by overstatements (Rolnik, cited in AIA 1937, 355; Gilman 1939, 234; May 1940, 75)
<i>Academics</i>	
<ul style="list-style-type: none"> (1) It protects creditors (Littleton 1941, 339) (1) The financial strength of the company is ensured (Greer 1937, 82) (2) Diligent business practices are evoked (Greer 1937, 82) (2) Management’s overoptimism under uncertainty needs to be counteracted (Sanders 1934, 208; Sanders et al. 1938, 13) (2) Accuracy is not reachable in management’s judgment (Sanders et al. 1938, 12) 	<ul style="list-style-type: none"> (1) The “real value”/“economic facts” of a corporation need to be shown for investment decisions (Paton 1948, 278–79) (1) It conflicts with the concepts of accuracy (Paton 1948, 279), precision (Littleton 1941, 339), and truth (Scott 1941, 343) (1) It disturbs the information function of accounting for management (Scott 1940, 507; Paton 1948, 278–79) (2) Unwarranted earnings manipulation or income smoothing is enabled (Paton 1932, 262; Sanders et al. 1938, 12; AAA 1941, 137) (2) Management may intentionally mislead the stock market (Daniels 1934, 116)
1960s–2000s	
<i>Standard setters (including commissioned and institutional studies)</i>	
<ul style="list-style-type: none"> (1) It protects creditors (Grady 1965, 35) (2) A “counterweight of caution” against the preparer’s overoptimistic bias is necessary when making judgments under uncertainty (Moonitz 1961, 47; Grady 1965, 35–36; FASB 1980, para. 95) (2) Possible errors in judgment under uncertainty should be in the direction of understatement (APB 1970, para. 171; IASC 1975, para. 9(a); 1989, para. 37) to make accounting reliable (IASC 1989, para. 37) 	<ul style="list-style-type: none"> (1) It “produces information which discriminates in favor of those acquiring as opposed to those disposing of equities” (Sprouse and Moonitz 1962, 31–32) (1) It introduces a bias into accounting which might benefit the interest of one group at the expense of another group, and thus conflicts with neutrality as an important attribute of decision usefulness (AAA 1966, 28–29; AICPA 1973, 58; FASB 1980, paras. 92, 96) (1) It clashes with consistency, logic, and comparability, as understatements are followed by overstatements (Moonitz 1961, 47; Sprouse and Moonitz 1962, 31–32; FASB 1980, paras. 92, 94)

(The table is continued on the next page.)

TABLE 5 (continued)

Pro asymmetry (Asymmetry is supported as . . .)	Contra asymmetry (Asymmetry is rejected as . . .)
2000s–2018	
<i>Practitioners (in standard-setting consultations)</i>	
<ul style="list-style-type: none"> (1) It fosters creditor protection (Swiss GAAP FER CL DP 2006, 3; Freudenberg & Co. CL ED 2008, 6) as it avoids over-distribution of dividends (European Committee of Central Balance-Sheet Data Offices (ECCBSO) CL DP 2006, 7) (1) It enhances the entity's solvency (ECCBSO CL DP 2006, 7) and fosters sustainable development (Böhler-Uddeholm AG CL DP 2006, 1) (1) It fosters financial stability (Sarasin Bank CL ED 2015, 2) (1) Users might be misled in the absence of asymmetry (Association of Chartered Certified Accountants (ACCA) CL DP 2006, 3–4) (2) Preparers' overoptimism under uncertainty needs to be adjusted downward (to a neutral level) (European Association of Co-operative Banks CL DP 2006, 7; IDW CL DP 2006, 8; Zentraler Kreditausschuss CL DP 2006, 6; IDW CL ED 2015, 3) (2) It prevents aggressive upward earnings management (Swiss GAAP FER CL DP 2006, 3) (2) It is preferable that preparers err on the side of caution (New York State Society of Certified Public Accountants CL DP 2006, 5) (2) Neutrality is not reachable in practice (Mind the GAAP CL DP 2006, 10) 	<ul style="list-style-type: none"> (1) It conflicts with neutrality (freedom from bias), which is essential for users' decision-making (CFA Institute CL DP 2006, 3; Ernst & Young CL DP 2006, 10; Deutsche Bank CL DP 2013, 15–16; South African Institute of Chartered Accountants CL DP 2013, 16) (1) Understatements will reverse into overstatements (Deutsche Bank CL DP 2013, 16; The Linde Group CL ED 2015, 2; Pricewaterhouse Coopers CL ED 2015, 2) (2) It allows for earnings management and income smoothing (ACCA CL ED 2015, 4; IPA CL ED 2015, 5)
<i>Academics (in standard-setting consultations)</i>	
<ul style="list-style-type: none"> (1) As it might be more relevant to risk averse users to know the downside risks (British Accounting Association CL ED 2008, 3) (1) It results in less misleading financial reporting and thereby makes capital markets more efficient (Hanken School of Economics CL ED 2015, 1) (1) It serves stewardship purposes (Page and Hines CL DP 2006, 7; British Accounting Association CL ED 2008, 2) (2) It counteracts managements bias in situations of uncertainty downward to a neutral level (AAA CL DP 2006, 8; Page and Hines CL DP 2006, 7; Ohio Northern University CL ED 2008, 1) and prevents upward manipulation of earnings (Asper School of Business CL DP 2006, 2) (2) Neutrality is not attainable in practice (Gore CL DP 2006, 5–6) 	<ul style="list-style-type: none"> (1) It introduces a bias into accounting which is not neutral and thus not decision-useful (Singapore Management University CL ED 2015, 3) (1) It destroys information and cannot support optimal decision-making, and thus endangers market efficiency (Nash CL DP 2006, 38, 50) (2) It introduces a bias in judgment which allows for income smoothing and cookie jar accounting (Singapore Management University CL ED 2015, 3)

(The table is continued on the next page.)

TABLE 5 (continued)

Pro asymmetry (Asymmetry is supported as . . .)	Contra asymmetry (Asymmetry is rejected as . . .)
2000s–2018	
<i>Standard setters</i>	
<p>(1) It might produce more relevant information as investors might be more interested in downside risk than in upside potential (IASB 2018b, para. BC2.41)</p> <p>(1) The general purpose of financial statements is not to show the value of a reporting entity (IASB 2018b, BC2.44(a))</p> <p>(2) Preparers' overoptimism under uncertainty needs to be adjusted downward to a neutral level (IASB 2018a, para. 2.16, 2018b, BC2.39(a))</p>	<p>(1) Investors might be discouraged from actually profitable investments (IASB and FASB 2005a, para. 31)</p> <p>(1) It introduces a bias into accounting which conflicts with neutrality and faithful representation, so it does not provide decision-useful information (IASB 2010, BC3.27–28)</p> <p>(1) Understatements are followed by overstatements, which conflicts with neutrality (IASB 2010, BC3.28)</p> <p>(2) It can be misused for cookie jar accounting (Hoogervorst 2012, 3)</p>

solely as an instrument to facilitate decisions on capital markets tended to reject asymmetry on the basis of accuracy, consistency, or neutrality. These arguments reflect a broader controversy on the role of financial reporting that started in FinAT in the early 20th century (May 1953; Zeff 2013) and also shaped recent CF revisions (Pelger 2016, 2020).

Regarding the second aspect, disagreement on the role of asymmetry arose due to different assumptions about preparers' attributes in FinAT. If the preparer was constructed as having incentives for concealment, earnings understatement, or income smoothing, asymmetry was rejected and the need for neutrality was emphasized. From this perspective, any form of asymmetry in financial reporting would run the risk of being turned into ultra-asymmetry by managers, as it would provide them with a tool to conceal the "real" situation of a company. Along this line, purely decision-usefulness-oriented standard-setting FinAT documents, in particular the CF 2010 by the FASB/IASB, implicitly constructed the preparer as leaning toward concealment, earnings understatement, or income smoothing (Hoogervorst 2012). Therefore, any reference to asymmetry was rejected as it was considered to introduce the potential to create hidden reserves and thus harming neutrality.

If the preparer was constructed as overoptimistic or having incentives for earnings overstatement, however, asymmetry in different forms was regarded as an appropriate instrument to counteract the "overstating" tendencies of the preparer. This perspective mirrors the principal-agent view which posits that, in the presence of information asymmetries and the divergent interests of owners and employed managers, preparers have incentives to manipulate earnings for their own benefit. In such a setting, which is linked to a stewardship role of financial reporting, asymmetry in financial accounting is regarded as a tool to mitigate this problem (Mora and Walker 2015; Watts and Zuo 2016).⁴⁴ Thus, CFs which consider a role for stewardship as an objective of financial reporting—in particular the IASC's CF 1989—have seen a place for (specified and discretionary) asymmetry in line with mitigating preparers' incentives for overstatement (Whittington 2008).

According to empirical findings, both constellations—that is, incentives for understatement and overstatement, assumed in the construction of preparers in the FinAT discourse, exist in the

44. CLs submitted during the CF 2018 revision provide a case in point for these different assumptions. While proponents of asymmetry typically assume that the preparer has an inherent overoptimistic bias which needs asymmetry to be counteracted downward to, or toward, a neutral level (e.g., ESMA CL ED 2015, 4–5), critics stipulate that an additional reference to asymmetry might lead to unwarranted understatement, as neutral assessments are already free from bias (e.g., Linde Group CL ED 2015, 2).

real world (Healy and Wahlen 1999). However, our historical tracing indicates that CFs make different assumptions about the preparer only implicitly and lack reflections on their (empirical) validity. Moreover, during recent revisions of CFs, standard setters have tended to look at these issues in isolation—the role of stewardship vis-à-vis decision usefulness, the importance of asymmetry, and the importance of reliability (Pelger 2020). It would enrich further discussions if the linkages between these concepts were more fully considered (Watts and Zuo 2016), and if underlying assumptions about preparers and their incentives were made more explicit by standard setters and were subject to debate during consultations with their constituents. In other words, more focus on the construction of the *preparer* than on the construction of users (Young 2006; Stenka and Jaworska 2019) seems warranted at the level of CFs. Future research could shed some light on the construction of the preparer in standard setting, which might take place as an imaginative exercise or an empirically grounded approach.

Level of abstraction

Ultimately, our historical discourse analysis reveals that while the arguments recurred at different times, the reasoning in regard to asymmetry was characterized by an increasing level of abstraction. This development can be exemplified by the argument group (1) in Table 5, which refers to the decision-making of capital providers. In the early decades of the 20th century, practitioners' FinAT contributions concretely criticized asymmetry in financial reporting for putting the selling shareholder at a disadvantage compared to the buying investor due to the unfairly low market price of securities (Joplin 1914, 409–10). The group of academics emerging during the first half of the 20th century took this argument to a higher level of abstraction when they rejected asymmetry in FinAT on the basis of accuracy, which they regarded as the appropriate conceptual basis for facilitating investors' decision-making (Hatfield 1909, 85; Paton 1948, 279). With the rise of the decision-usefulness approach since the 1960s, deductively oriented thinking on FinAT made the argument even more abstract by introducing the theoretical concept of neutrality/freedom from bias (AICPA 1973, 58; FASB 1980, paras. 92, 96). The increasing level of abstraction might also have caused the arguments to go in circles because it created the illusion of progress in the reasoning on FinAT, while in fact the discussions still revolved around the same basic issues, in particular the purpose of financial reporting and assumptions about preparers.

While the rising level of abstraction was originally due to the conceptualizations introduced by academics, it was later intensified in the conceptual documents prepared for or by standard setters. In particular, recent endeavors by the IASB to include some form of asymmetry in a decision-usefulness framework have given rise to complex reflections on the interrelation of the triangle formed by management bias, asymmetry, and neutrality. These debates culminated in the idea of “cautious prudence”—that is, neutral asymmetry—which is based on the abstract theoretical premise that asymmetry can be perfectly calibrated to a neutral level, reflecting a rather hypothetical or artificial conceptualization of asymmetry. As such, the IASB's definition of cautious prudence as neutral asymmetry remained rather vague and abstract, providing a concept without substance, which raises doubts about its potential impact for standard setting (Pelger 2020).⁴⁵ On this basis, the finding by Pelger (2020), who shows that cautious prudence is not taken up at all in other chapters of the CF 2018, is unsurprising as its introduction seems to be intended mainly to appease those constituents who wanted a reference to some form of asymmetry in the CF. That this new concept mainly serves the legitimacy purposes of the standard setter (Hines 1991; Georgiou 2015) is corroborated by the almost fatalistic statement by Michel Prada, former Chairman of the IFRS Foundation Trustees:

If it is easier to make people comfortable by reintroducing a philosophical concept [i.e., prudence], then why not? (Prada, cited by Crump 2014)

45. In a similar vein, Hayoun (2019) and Georgiou et al. (2021) reveal problems resulting from the use of abstract concepts and assumptions in the IASB's CF.

More generally, in terms of professional knowledge development, the continuously contested status of (different forms of) asymmetry as well as the cyclical nature of arguments and the different assumptions (implicitly) underlying the debate are indicative of an ongoing paradigmatic fight that has been shaping the FinAT discourse on asymmetry since the early 20th century.⁴⁶ The two competing paradigms (or knowledge templates, Reybold 2008; Durocher and Gendron 2014; Baudot 2018) are, first, an asymmetry paradigm that is more inductively driven, based on practical conventions, and promotes (different extents of) asymmetry in financial accounting and, second, a symmetry paradigm that was deducted from ideals of accuracy and decision usefulness. CFs reflecting the symmetry paradigm did not include asymmetry as a desirable characteristic (FASB 1980; IASB 2010) and thus were conceptually clear in this regard but paid a price for their conceptual clarity: their inconsistency with the existing standards and vagueness regarding the handling of asymmetry in standard-setting practice. Due to its rather inductive nature, the asymmetry paradigm, in turn, is more fragmented and conceptually “messy,” as it does not unequivocally support one form of asymmetry for all constellations, but has been adaptive to different contexts. However, this feature of the asymmetry paradigm is at odds with the logic of standard setters’ CFs and entails the risk of reverting to ad hoc case-by-case standard setting.

As the two paradigms are rooted in distinct abstract knowledge bases that cannot be reconciled given their conflicting underlying assumptions (Stenka 2021), attempts, driven by the need for political compromise, to incorporate asymmetry into a decision-usefulness CF necessarily remain abstract and artificial, most clearly in the case of the IASB’s CF 2018. On this basis, we would predict the FinAT debate on asymmetry will continue along the previous lines as long as standard setters use a deductive decision-usefulness CF but feel unable to consistently develop their standards on this deductive basis.

Appendix: Abbreviations

Abbreviation	Description
AAA	American Accounting Association
AAPA	American Association of Public Accountants
ACCA	Association of Chartered Certified Accountants
AIA	American Institute of Accountants
APB	Accounting Principles Board
ASOBAT	A Statement of Basic Accounting Theory
ASSC	Accounting Standards Steering Committee
AV	Alternative view
BC	Basis for Conclusions
CAP	Committee on Accounting Procedure
CF	Conceptual framework
CL	Comment letter
DP	Discussion paper
ECCBSO	European Committee of Central Balance-Sheet Data Offices
ED	Exposure draft
EEC	European Economic Community
EFRAG	European Financial Reporting Advisory Group
ESMA	European Securities and Markets Authority
FinAT	Financial accounting theory
IAS	International Accounting Standards
IASC	International Accounting Standards Committee

(The table is continued on the next page.)

46. We thank the editor for pointing us to this conclusion.

(continued)

Abbreviation	Description
ICAEW	Institute of Chartered Accountants in England and Wales
IDW	Institute of Public Auditors in Germany
IPA	Institute of Public Accountants
OB	Objective
QC	Qualitative characteristic
SFAC	Statement of Financial Accounting Concepts
SSAP	Statement of Standard Accounting Practice

References

- AAA (American Accounting Association). 1936. A tentative statement of accounting principles affecting corporate reports. *The Accounting Review* 11 (2): 187–91.
- AAA (American Accounting Association). 1941. Accounting principles underlying corporate financial statements. *The Accounting Review* 16 (2): 133–9.
- AAA (American Accounting Association). 1957. Accounting and reporting standards for corporate financial statements 1957 revision. *The Accounting Review* 32 (4): 536–46.
- AAA (American Accounting Association). 1966. *A Statement of Basic Accounting Theory*. Evanston: AAA.
- AAA (American Accounting Association). 1977. *Statement on Accounting Theory and Theory Acceptance*. Sarasota: AAA.
- AIA (American Institute of Accountants). 1934. *Audits of Corporate Accounts: Correspondence between the Special Committee on Co-operation with the Stock Exchanges of the American Institute of Accountants and the Committee on Stock List of the New York Stock Exchange, 1932–1934*. New York: AIA.
- AIA (American Institute of Accountants). 1937. *Fiftieth Anniversary Celebration*. New Hampshire: Rumford Press.
- AIA (American Institute of Accountants). 1952. *Changing Concepts of Business Income: Report of the Study Group of Business Income*. New York: Macmillan.
- AICPA. 1973. *Objectives of Financial Statements. Report of the Study Group on Objectives of Financial Statements*. New York: AICPA.
- Anonymous. 1962. News report: Accounting principles board comments on “broad principles.” *Journal of Accountancy* 113 (5): 9–10.
- APB (Accounting Principles Board of the AICPA). 1970. *Statement No. 4: Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*. New York: AICPA, APB.
- Bailey, G. D. 1941. Problems of inventory pricing. *Journal of Accountancy* 72 (2): 143–8.
- Baker, C. R. 2017. The influence of accounting theory on the FASB conceptual framework. *Accounting Historians Journal* 44 (2): 109–24, <https://doi.org/10.2308/aahj-10555>
- Baker, C. R., and A. Burlaud. 2015. The historical evolution from accounting theory to conceptual framework in financial standards setting. *The CPA Journal* 85 (8): 54–60.
- Barker, R. 2015. Conservatism, prudence and the IASB’s conceptual framework. *Accounting and Business Research* 45 (4): 514–38, <https://doi.org/10.1080/00014788.2015.1031983>
- Barker, R., and A. McGeachin. 2015. An analysis of concepts and evidence on the question of whether IFRS should be conservative. *Abacus* 51 (2): 169–207, <https://doi.org/10.1111/abac.12049>
- Barker, R., and S. Penman. 2020. Moving the conceptual framework forward: Accounting for uncertainty. *Contemporary Accounting Research* 37 (1): 322–57, <https://doi.org/10.1111/1911-3846.12585>
- Barr, A. 1938. Comments on “A statement of accounting principles.” *Journal of Accountancy* 65 (4): 318–23.
- Barth, M. E. 2014. Measurement in financial reporting: The need for concepts. *Accounting Horizons* 28 (2): 331–52, <https://doi.org/10.2308/acch-50689>

- Baskin, B. J. 1988. The development of corporate financial markets in Britain and the United States, 1600–1914: Overcoming asymmetric information. *Business History Review* 62 (2): 199–237, <https://doi.org/10.2307/3115999>
- Baudot, L. 2018. On commitment toward knowledge templates in global standard setting: The case of the FASB-IASB revenue project. *Contemporary Accounting Research* 35 (2): 657–95, <https://doi.org/10.1111/1911-3846.12396>
- Bengtsson, E. 2011. Repoliticalization of accounting standard setting—The IASB, the EU and the global financial crisis. *Critical Perspectives on Accounting* 22 (6): 567–80, <https://doi.org/10.1016/j.cpa.2011.04.001>
- Bennett, G. E. 1928. Treatment of appreciation. *Journal of Accountancy* 45 (6): 427–40.
- Benston, G. J. 1969. The value of the SEC's accounting disclosure requirements. *The Accounting Review* 44 (3): 515–32.
- Bentley, H. C. 1911. *The Science of Accounts: A Presentation of the Underlying Principles of Modern Accounting*. New York: Ronald Press.
- Berle, A. A. 1931. Corporate powers as powers in trust. *Harvard Law Review* 44 (7): 1049–74, <https://doi.org/10.2307/1331341>
- Berle, A. A., and G. C. Means. 1932. *The Modern Corporation and Private Property*. New York: Macmillan.
- Blecker, R. A. 2005. Financial globalization, exchange rates and international trade. In *Financialization and the World Economy*, edited by G. A. Epstein, 183–209. Cheltenham: Elgar.
- Bliss, J. H. 1924. *Management through Accounts*. New York: Ronald Press.
- Botzem, S. 2012. *The Politics of Accounting Regulation*. Cheltenham, UK: Edward Elgar Publishing.
- Broaker, F., and R. M. Chapman. 1897. *The American Accountants' Manual: Volume I—Examination Questions*. New York: C. W. Gaudineer.
- Byrne, G. R. 1937. To what extent can the practice of accounting be reduced to rules and standards? *Journal of Accountancy* 64 (5): 364–79.
- Camfferman, K., and S. A. Zeff. 2015. *Aiming for Global Accounting Standards—The International Accounting Standards Board: 2001–2011*. Oxford: Oxford University Press.
- Canning, J. B. 1929. *The Economics of Accountancy: A Critical Analysis of Accounting Theory*. New York: Ronald Press.
- CAP (Committee on Accounting Procedure). 1947. *Accounting Research Bulletin No. 29*. New York: AIA.
- Carey, J. L. 1969. *The Rise of the Accounting Profession: From Technician to Professional: 1896–1936*. New York: AICPA.
- Chahed, Y. 2021. Words and numbers: Financialization and accounting standard setting in the United Kingdom. *Contemporary Accounting Research* 38 (1): 302–37, <https://doi.org/10.1111/1911-3846.12614>
- Chase, H. S. 1907. The cost of maintenance and depreciation of cotton mills: Transactions, No. 82, of the National Association of Cotton Manufacturers, Boston, MA, April 24–25, 1907, https://egrove.olemiss.edu/cgi/viewcontent.cgi?article=1142&context=acct_inst
- Chatfield, M. 1977. *A History of Accounting Thought*. Huntington, NY: Krieger Publishing.
- Chatfield, M., and R. G. J. Vangermeersch. 1996. *The History of Accounting: An International Encyclopedia*. New York: Garland Publishing Inc.
- Colclough, C. 1991. Structuralism versus neo-liberalism: An introduction. In *States or Markets? Neo-Liberalism and the Development Policy Debate*, edited by C. Colclough and J. Manor, 1–25. New York: Oxford University Press.
- Cole, W. M. 1915. *Accounts—Their Construction and Interpretation: For Business Men and Students of Affairs*. New York: Houghton Mifflin.
- Committee on Accounting History. 1970. Report to the Executive Committee of the American Accounting Association. *The Accounting Review* 45 (Supplement 1970): 53–64.
- Cooper, S. 2015. A tale of “prudence,” <https://www.ifrs.org/content/dam/ifrs/resources-for/investors/investor-perspectives/investor-perspective-jun-2015.pdf>

- Couchman, C. B. 1940. Realism in accounting. *Journal of Accountancy* 69 (4): 255–65.
- Crump, R. 2014. Interview: Michel Prada defends IFRS Foundation governance, <https://www.accountancyage.com/aa/interview/2355361/interview-michel-prada-defends-ifrs-foundation-governance>
- Daniels, M. B. 1934. Principles of asset valuation. *The Accounting Review* 9 (2): 114–21.
- Devine, C. T. 1955. Loss recognition. *Accounting Research* 6 (4): 310–20.
- Devine, C. T. 1963. The rule of conservatism reexamined. *Journal of Accounting Research* 1 (2): 127–38, <https://doi.org/10.2307/2489851>
- Dickinson, A. L. 1914. *Accounting Practice and Procedure*. New York: Ronald Press.
- Durocher, S., and Y. Gendron. 2014. Epistemic commitment and cognitive disunity toward fair-value accounting. *Accounting and Business Research* 44 (6): 630–55, <https://doi.org/10.1080/00014788.2014.938012>
- Edgley, C. 2014. A genealogy of accounting materiality. *Critical Perspectives on Accounting* 25 (3): 255–71, <https://doi.org/10.1016/j.cpa.2013.06.001>
- Edwards, E. O., and P. W. Bell. 1961. *The Theory and Measurement of Business Income*. Berkeley, CA: University of California Press.
- Edwards, J. R., and T. Boyns. 2022. Published accounts, stewardship, and decision making: A case study 1863–1940. *Abacus* 58: 300–33, <https://doi.org/10.1111/abac.12251>
- Epstein, G. A. 2005. Introduction: Financialization and the world economy. In *Financialization and the World Economy*, edited by G. A. Epstein, 3–16. Cheltenham, UK: Elgar.
- Erb, C., and C. Pelger. 2015. “Twisting words”? A study of the construction and reconstruction of reliability in financial reporting standard-setting. *Accounting, Organizations and Society* 40: 13–40, <https://doi.org/10.1016/j.aos.2014.11.001>
- Esquerré, P.-J. 1917. *The Applied Theory of Accounts*. New York: Ronald Press.
- Fairclough, N. 2003. *Analysing Discourse: Textual Analysis for Social Research*. London: Routledge.
- Fama, E. F. 1965. The behavior of stock-market prices. *Journal of Business* 38 (1): 34–105.
- Fama, E. F. 1970. Efficient capital markets: A review of theory and empirical work. *Journal of Finance* 25 (2): 383–417, <https://doi.org/10.2307/2325486>
- FASB. 1978. *Statement of Financial Accounting Concepts No. 1: Objectives of Financial Reporting by Business Enterprises*. Norwalk, CT: FASB.
- FASB. 1980. *Statement of Financial Accounting Concepts No. 2: Qualitative Characteristics of Accounting Information*. Stamford, CT: FASB.
- Fertig, P. E. 1967. A statement of basic accounting theory. *New York Certified Public Accountant* 37 (9): 663–71.
- Fleming, R. J., S. P. Graci, and J. E. Thompson. 2000. The dawning of the age of quantitative/empirical methods in accounting research: Evidence from the leading authors of *The Accounting Review*, 1966–1985. *Accounting Historians Journal* 27 (1): 43–72, <https://doi.org/10.2308/0148-4184.27.1.43>
- Georgiou, O. 2015. The removal and reinstatement of prudence in accounting: How politics of acceptance defeats financialisation. Working paper, University of Manchester.
- Georgiou, O., and L. Jack. 2011. In pursuit of legitimacy: A history behind fair value accounting. *British Accounting Review* 43 (4): 311–23, <https://doi.org/10.1016/j.bar.2011.08.001>
- Georgiou, O., E. Mantzari, and J. Mundy. 2021. Problematising the decision-usefulness of fair values: Empirical evidence from UK financial analysts. *Accounting and Business Research* 51 (4): 307–46, <https://doi.org/10.1080/00014788.2020.1814687>
- Gerstenberg, C. W. 1923. *Principles of Business*. New York: Prentice-Hall.
- Gilman, S. 1916. *Principles of Accounting*. Chicago: LaSalle Extension University.
- Gilman, S. 1939. *Accounting Concepts of Profit*. New York: Ronald Press.
- Gilman, S. 1944. Accounting principles and the current classification. *The Accounting Review* 19 (2): 109–16.
- Giner, B., and A. Mora. 2019. Bank loan loss accounting and its contracting effects: The new expected loss models. *Accounting and Business Research* 49 (6): 726–52, <https://doi.org/10.1080/00014788.2019.1609898>

- Glover, J. 2014. Have academic accountants and financial accounting standard setters traded places? *Accounting, Economics and Law* 4 (1): 17–26, <https://doi.org/10.1515/ael-2014-0001>
- Gore, P. 1992. *The FASB Conceptual Framework Project 1973–1985: An Analysis*. Manchester, UK: Manchester University Press.
- Grady, P. 1965. *Inventory of Generally Accepted Accounting Principles for Business Enterprises*. New York: AICPA.
- Greendlinger, L. 1911. *Accounting Theory and Practice: A Comprehensive Statement of Accounting Principles and Methods, Illustrated by Modern Forms and Problems*. New York: Alexander Hamilton Institute.
- Greenspan, A., and A. Wooldridge. 2018. *Capitalism in America: An Economic History of the United States*. New York: Penguin Press.
- Greer, H. C. 1937. Comments on the statement of accounting principles: A reply by Professor Greer. *The Accounting Review* 12 (1): 79–82.
- Hall, S. 2018. The west and the rest: Discourse and power [1992]. In *Essential Essays: Identity and Diaspora*, edited by D. Morley, C. Hall, B. Schwarz, and S. Hall, 141–84. Durham, London: Duke University Press.
- Hansen, P. H. 2014. From finance capitalism to financialization: A cultural and narrative perspective on 150 years of financial history. *Enterprise & Society* 15 (4): 605–42, <https://doi.org/10.1017/S1467222700016049>
- Harvey, D. 2007. *A Brief History of Neoliberalism*. New York: Oxford University Press.
- Hashim, N., W. Li, and J. O'Hanlon. 2019. Reflections on the development of the FASB's and IASB's expected-loss methods of accounting for credit losses. *Accounting and Business Research* 49 (6): 682–725, <https://doi.org/10.1080/00014788.2018.1526665>
- Hatfield, H. R. 1909. *Modern Accounting: Its Principles and Some of Its Problems*. New York: D. Appleton and Company.
- Hatfield, H. R. 1927. *Accounting, Its Principles and Problems*. New York: D. Appleton and Company.
- Hatfield, H. R. 1966. Some variations in accounting practice in England, France, Germany and the United States. *Journal of Accounting Research* 4 (2): 169–82, <https://doi.org/10.2307/2489952>
- Hawkins, D. F. 1963. The development of modern financial reporting practices among American manufacturing corporations. *Business History Review* 37 (3): 135–68, <https://doi.org/10.2307/3112231>
- Hayoun, S. 2019. How fair value is both market-based and entity-specific: The irreducibility of value constellations to market prices. *Accounting, Organizations and Society* 73: 68–82, <https://doi.org/10.1016/j.aos.2018.05.013>
- Healy, P. M., and J. M. Wahlen. 1999. A review of the earnings management literature and its implications for standard setting. *Accounting Horizons* 13 (4): 365–83, <https://doi.org/10.2308/acch.1999.13.4.365>
- Heilman, E. A. 1929. Realized income. *The Accounting Review* 4 (2): 80–7.
- Hines, R. D. 1991. The FASB's conceptual framework, financial accounting and the maintenance of the social world. *Accounting, Organizations and Society* 16 (4): 313–31, [https://doi.org/10.1016/0361-3682\(91\)90025-A](https://doi.org/10.1016/0361-3682(91)90025-A)
- Hoogervorst, H. 2012. The concept of prudence: Dead or alive? Speech presented at the FEE Conference on corporate reporting of the future, September 18, Brussels, Belgium, <https://www.ifrs.org/content/dam/ifrs/news/speeches/2012/hans-hoogervorst-fee-september-2012.pdf>
- Hoogervorst, H., and M. Prada. 2015. Working in the public interest: The IFRS Foundation and the IASB, <https://www.ifrs.org/-/media/feature/about-us/who-we-are/working-in-the-public-interest.pdf>
- Hoxsey, J. M. B. 1930. Accounting for investors. *Journal of Accountancy* 50 (4): 251–84.
- IASB. 2006. Preliminary views on an improved conceptual framework for financial reporting: The objective of financial reporting and qualitative characteristics of decision-useful financial reporting information (discussion paper), <https://www.ifrs.org/content/dam/ifrs/project/conceptual-framework-2010/dp-conceptualframework.pdf>
- IASB. 2008. Exposure draft of an improved conceptual framework for financial reporting: Chapter 1: The objective of financial reporting; Chapter 2: Qualitative characteristics and constraints of decision-useful

- financial reporting information, <https://www.ifrs.org/content/dam/ifrs/project/conceptual-framework-2010/conceptual-framework-exposure-draft.pdf>
- IASB. 2010. *Conceptual Framework for Financial Reporting 2010*. London: IFRS Foundation.
- IASB. 2013. Discussion paper—A review of the conceptual framework for financial reporting (dp/2013/1), <https://www.ifrs.org/content/dam/ifrs/project/conceptual-framework/discussion-paper/published-documents/dp-conceptual-framework.pdf>
- IASB. 2014. Prudence: Agenda paper 10I, IASB meeting, May.
- IASB. 2015. Exposure draft—Conceptual framework for financial reporting (ED/2015/3): Basis for conclusions, <https://www.ifrs.org/content/dam/ifrs/project/conceptual-framework/exposure-draft/published-documents/ed-conceptual-framework-basis-conclusions.pdf>
- IASB. 2018a. *Conceptual Framework for Financial Reporting 2018*. London: IFRS Foundation.
- IASB. 2018b. *Conceptual Framework for Financial Reporting 2018: Basis for Conclusions*. London: IFRS Foundation.
- IASB and FASB. 2005a. Conceptual framework—Qualitative characteristics 1: Relevance and reliability, IASB agenda paper 7.
- IASB and FASB. 2005b. Conceptual framework—Qualitative characteristics 2: Qualitative characteristics other than relevance and reliability (faithful representation), IASB agenda paper 6.
- IASB and FASB. 2007. Conceptual framework—Phase A redeliberations: Qualitative characteristics of decision-useful financial reporting information, IASB agenda paper 5.
- IASC (International Accounting Standards Committee). 1975. *IAS 1: Disclosure of Accounting Policies*. London: IASC.
- IASC (International Accounting Standards Committee). 1989. *Framework for the Preparation and Presentation of Financial Statements*. London: IASC.
- Ijiri, Y. 1975. *Theory of Accounting Measurement*. Sarasota, FL: AAA.
- Jeanjean, T., and C. Ramirez. 2009. Back to the origins of positive theories: A contribution to an analysis of paradigm changes in accounting research. *Accounting in Europe* 6 (1): 107–26, <https://doi.org/10.1080/17449480902896510>
- Jóhannesson, I. A. 2010. The politics of historical discourse analysis: A qualitative research method? *Discourse: Studies in the Cultural Politics of Education* 31 (2): 251–64, <https://doi.org/10.1080/01596301003679768>
- Joplin, J. P. 1914. Secret reserves. *Journal of Accountancy* 18 (6): 407–17.
- Joseph, L. 1911. *Industrial Finance: A Comparison between Home and Foreign Developments*. London: Frederick Printing.
- Kaplan, M. C., and D. M. Reaugh. 1939. Accounting, reports to stockholders, and the SEC. *The Accounting Review* 14 (3): 203–36.
- Kehl, D. 1939. The origin and early development of American dividend law. *Harvard Law Review* 53 (1): 36–67, <https://doi.org/10.2307/1334142>
- Kester, R. B. 1922. *Accounting Theory and Practice*. New York: Ronald Press.
- Khalifa, R., and H. Mahama. 2017. Discourse analysis in accounting research. In *The Routledge Companion to Qualitative Accounting Research Methods*, edited by Z. Hoque, L. D. Parker, M. A. Covalleski, and K. Haynes, 250–64. New York: Routledge.
- Knight, A. 1908. Depreciation and other reserves. *Journal of Accountancy* 5 (3): 189–200.
- Kohler, E. L. 1966. Accounting principles and professional societies. In *Modern Accounting Theory: A Revision of Handbook of Modern Accounting Theory*, edited by M. Backer, 48–67. Englewood Cliffs, NJ: Prentice Hall.
- Langevoort, D. C. 2010. Global securities regulation after the financial crisis. *Journal of International Economic Law* 13 (3): 799–815, <https://doi.org/10.1093/jiel/jgq032>
- Laux, C., and C. Leuz. 2009. The crisis of fair-value accounting: Making sense of the recent debate. *Accounting, Organizations and Society* 34 (6–7): 826–34, <https://doi.org/10.1016/j.aos.2009.04.003>
- Lee, T. A. 2020. Financial accounting theory. In *The Routledge Companion to Accounting History*, edited by J. R. Edwards and S. P. Walker, 159–84. London: Routledge.

- Littleton, A. C. 1933. *Accounting Evolution to 1900*. New York: American Institute Publishing.
- Littleton, A. C. 1941. Questions on accounting standards. *The Accounting Review* 16 (4): 330–40.
- Littleton, A. C., and V. K. Zimmerman. 1962. *Accounting Theory, Continuity and Change*. Englewood Cliffs, NJ: Prentice-Hall.
- Lorig, A. N. 1937. Comments on: Accounting postulates: An analysis of the tentative statement of accounting principles. *The Accounting Review* 12 (4): 401–3.
- Macintosh, J. C. C. 1999. The issues, effects and consequences of the Berle-Dodd debate, 1931–1932. *Accounting, Organizations and Society* 24 (2): 139–53.
- Macintosh, N. B. 2009. Effective genealogical history: Possibilities for critical accounting history research. *Accounting Historians Journal* 36 (1): 1–27.
- MacNeal, K. 1939a. *Truth in Accounting*. Houston, TX: Scholars Book.
- MacNeal, K. 1939b. What's wrong with accounting? *The Nation* 149 (16): 409–12.
- Maltby, J. 2000. The origins of prudence in accounting. *Critical Perspectives on Accounting* 11 (1): 51–70, <https://doi.org/10.1006/cpac.1998.0283>
- Mason, P. 1950. The 1948 statement of concepts and standards. *The Accounting Review* 25 (2): 133–8.
- Matessich, R. V. 1964. *Accounting and Analytical Methods: Measurement and Projection of Income and Wealth in the Micro- and Macro-Economy*. Homewood: Irwin.
- May, G. O. 1936. *Twenty-Five Years of Accounting Responsibility: 1911–1936*. New York: American Institute Publishing.
- May, G. O. 1940. Fundamentals of accounting procedures. *New York Certified Public Accountant* 11 (2): 73–83.
- May, G. O. 1943. The nature of the financial accounting process. *The Accounting Review* 18 (3): 189–93.
- May, G. O. 1953. *Financial Accounting: A Distillation of Experience*. New York: Macmillan.
- McCahey, J., and W. J. McGregor. 2013. The conceptual framework: Cornerstone of high quality financial reporting, https://www.iasplus.com/de/publications/research-and-education/warren-mcgregor-the-conceptual-framework-cornerstone-of-high-quality-financial-reporting/at_download/file/Conceptual%20framework%20McGregor.pdf
- McLaren, N. L. 1947. *Annual Reports to Stockholders: Their Preparation and Interpretation*. New York: Ronald Press.
- Merino, B. D. 2003. Financial reporting in the 1930s in the United States preserving the status quo. *Accounting Forum* 27 (3): 270–90, <https://doi.org/10.1111/1467-6303.00106>
- Moehrle, S., and J. Reynold-Moehrle. 2011. United States. In *A Global History of Accounting, Financial Reporting and Public Policy—Americas: Studies in the Development of Accounting Thought*, edited by G. J. Previts, P. Walton, and P. Wolnizer, 105–44. Bingley, UK: Emerald.
- Montgomery, R. H. 1912. *Auditing, Theory and Practice*. New York: Ronald Press.
- Montgomery, R. H. 1927. Accountants' limitations. *Journal of Accountancy* 44 (4): 245–66.
- Moonitz, M. 1961. *The Basic Postulates of Accounting. Accounting Research Study No. 1*. New York: AICPA.
- Mora, A., and M. Walker. 2015. The implications of research on accounting conservatism for accounting standard setting. *Accounting and Business Research* 45 (5): 620–50, <https://doi.org/10.1080/00014788.2015.1048770>
- Morley, J. 2016. Internal lobbying at the IASB. *Journal of Accounting and Public Policy* 35 (3): 224–55, <https://doi.org/10.1016/j.jaccpubpol.2015.12.003>
- Moss, D. A. 2011. Reversing the null: Regulation, deregulation, and the power of ideas. In *Challenges to Business in the Twenty-First Century*, edited by G. Rosenfeld, J. W. Lorsch, and R. Khurana, 35–49. Cambridge, MA: American Academy of Arts and Science.
- Murphy, M. E. 1961. The British accounting tradition in America. *Journal of Accountancy* 111 (4): 54–63.
- Napier, C. 2010. United Kingdom. In *A Global History of Accounting, Financial Reporting and Public Policy—Europe: Studies in the Development of Accounting Thought*, edited by G. J. Previts, P. Walton, and P. Wolnizer, 243–73. Bingley, UK: Emerald.

- Napier, C. J. 2006. Accounts of change: 30 years of historical accounting research. *Accounting, Organizations and Society* 31 (4–5): 445–507, <https://doi.org/10.1016/j.aos.2005.12.004>
- Newcomer, H. L. 1948. Introductory statement. *The Accounting Review* 23 (1): 7–12.
- Nixon, A., and J. H. Stagg. 1907. *Accounting and Banking*. London, New York: University of California.
- Nölke, A., and J. Perry. 2007. The power of transnational private governance: Financialization and the IASB. *Business and Politics* 9 (3): 1–25, <https://doi.org/10.2202/1469-3569.1185>
- Parker, R. H. 1965. Lower of cost and market in Britain and the United States: An historical survey. *Abacus* 1 (2): 156–72, <https://doi.org/10.1111/j.1467-6281.1965.tb00319.x>
- Paton, W. A. 1922. *Accounting Theory: With Special Reference to the Corporate Enterprise*. New York: Ronald Press.
- Paton, W. A. 1932. Accounting problems of the depression. *The Accounting Review* 7 (4): 258–67.
- Paton, W. A. 1938. Comments on “A statement of accounting principles.” *Journal of Accountancy* 65 (3): 196–207.
- Paton, W. A. 1948. Accounting procedures and private enterprise. *Journal of Accountancy* 85 (4): 278–91.
- Paton, W. A. 1949. *Accountants’ Handbook*. New York: Ronald Press.
- Paton, W. A. 1980. Statement by William A. Paton. *The Accounting Review* 55 (4): 629–30.
- Paton, W. A., and A. C. Littleton. 1940. *An Introduction to Corporate Accounting Standards*. Chicago: American Accounting Association.
- Paton, W. A., and R. A. Stevenson. 1918. *Principles of Accounting*. New York: Macmillan.
- Pelger, C. 2016. Practices of standard-setting: An analysis of the IASB’s and FASB’s process of identifying the objective of financial reporting. *Accounting, Organizations and Society* 50: 51–73, <https://doi.org/10.1016/j.aos.2015.10.001>
- Pelger, C. 2020. The return of stewardship, reliability and prudence—A commentary on the IASB’s new conceptual framework. *Accounting in Europe* 17 (1): 33–51, <https://doi.org/10.1080/17449480.2019.1645960>
- Porter, T., ed. 2014. *Transnational Financial Regulation after the Crisis*. London: Routledge.
- Previts, G. J., and B. D. Merino. 1979. *A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting*. New York: Wiley.
- Previts, G. J., and B. D. Merino. 1998. *A History of Accountancy in the United States: The Cultural Significance of Accounting*. Columbus, OH: Ohio State University Press.
- Previts, G. J., L. D. Parker, and E. N. Coffman. 1990. An accounting historiography: Subject matter and methodology. *Abacus* 26 (2): 136–58, <https://doi.org/10.1111/j.1467-6281.1990.tb00250.x>
- Pucci, R., and P. Skærbæk. 2020. The co-performation of financial economics in accounting standard-setting: A study of the translation of the expected credit loss model in IFRS 9. *Accounting, Organizations and Society* 81: 101076, <https://doi.org/10.1016/j.aos.2019.101076>
- Racine, S. F. 1917. *Accounting Students’ Series: Accounting Principles*. Seattle, WA: The Western Institute of Accountancy, Commerce and Finance.
- Rauchway, E. 2015. *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace*. New York: Basic Books.
- Reid, J. M. 1988a. *Law and Accounting: Nineteenth Century American Legal Cases*. New York: Garland Publishing.
- Reid, J. M. 1988b. Legal acceptance of accounting principles in Great Britain and the United States: Some lessons from history. *Accounting Historians Journal* 15 (1): 1–27, <https://doi.org/10.2308/0148-4184.15.1.1>
- Reiter, S. A., and P. F. Williams. 2002. The structure and progressivity of accounting research: The crisis in the academy revisited. *Accounting, Organizations and Society* 27 (6): 575–607, [https://doi.org/10.1016/S0361-3682\(01\)00050-2](https://doi.org/10.1016/S0361-3682(01)00050-2)
- Reybold, L. E. 2008. Practitioner–faculty dialectic: Balancing professional identities in adult education. *Journal of Adult Development* 15 (3–4): 140–47, <https://doi.org/10.1007/s10804-008-9045-8>
- Ripley, W. Z. 1926. Stop, look, listen! The shareholder’s right to adequate information. *The Atlantic Monthly* (September 1926): 380–99.
- Ripley, W. Z. 1927. *Main Street and Wall Street*. Boston: Little, Brown, and Company.
- Rittenhouse, C. F., and P. F. Clapp. 1918. *Accounting Theory and Practice*. New York: McGraw-Hill.

- Rorem, C. R. 1929. Accounting as a science. *Journal of Accountancy* 48 (1): 87–98.
- Sampson, R. T. 1960. American accounting education, textbooks and public practice prior to 1900. *Business History Review* 34 (4): 459–66, <https://doi.org/10.2307/3111430>
- Samuelson, P. 1965a. Proof that properly anticipated prices fluctuate randomly. *Industrial Management Review* 6 (2): 41–9.
- Samuelson, P. 1965b. Rational theory of warrant pricing. *Industrial Management Review* 6 (2): 13–31.
- Sanders, T. H. 1934. Report to stockholders. *The Accounting Review* 9 (3): 201–19.
- Sanders, T. H., H. R. Hatfield, and U. Moore. 1938. *A Statement of Accounting Principles*. New York: American Institute of Accountants.
- Sawyer, M. 2013. What is financialization? *International Journal of Political Economy* 42 (4): 5–18, <https://doi.org/10.2753/IJP0891-1916420401>
- Scott, D. R. 1926. Conservatism in inventory valuations. *The Accounting Review* 1 (1): 18–30.
- Scott, D. R. 1931. *The Cultural Significance of Accounts*. New York: Holt.
- Scott, D. R. 1937. The tentative statement of principles. *The Accounting Review* 12 (3): 296–303.
- Scott, D. R. 1940. Selling accounting short. *The Accounting Review* 15 (4): 507–9.
- Scott, D. R. 1941. The basis for accounting principles. *The Accounting Review* 16 (4): 341–9.
- Smith, G. D., and R. Sylla. 1993. The transformation of financial capitalism: An essay on the history of American capital markets. *Financial Markets, Institutions and Instruments* 2 (2): 1–61.
- Sorter, G. H. 1963. Staubus, “A Theory of Accounting to Investors” (book review). *The Accounting Review* 38 (1): 223–4.
- Sprouse, R. T., and M. Moonitz. 1962. *A Tentative Set of Broad Accounting Principles for Business Enterprises: Accounting Research Study No. 3*. New York: AICPA.
- Staubus, G. J. 1961. *A Theory of Accounting to Investors*. Berkeley, CA: University of California Press.
- Staubus, G. J. 2000. *The Decision-Usefulness Theory of Accounting: A Limited History*. New York: Garland Publishing.
- Stedman, J. D. 2014. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics—Updated Edition*. Princeton, NJ: Princeton University Press.
- Stempf, V. H. 1941. Critique of “Accounting principles underlying corporate financial statements.” *Journal of Accountancy* 72 (2): 105–17.
- Stempf, V. H. 1942. Accounting standards. *Journal of Accountancy* 73 (1): 61–74.
- Stenka, R. 2021. Beyond intentionality in accounting regulation: Habitual strategizing by the IASB. *Critical Perspectives on Accounting*, forthcoming. <https://doi.org/10.1016/j.cpa.2021.102294>
- Stenka, R., and S. Jaworska. 2019. The use of made-up users. *Accounting, Organizations and Society* 78: 101055, <https://doi.org/10.1016/j.aos.2019.07.001>
- Sterling, R. R. 1967a. Conservatism: The fundamental principle of valuation in traditional accounting. *Abacus* 3 (2): 109–32, <https://doi.org/10.1111/j.1467-6281.1967.tb00375.x>
- Sterling, R. R. 1967b. A statement of basic accounting theory: A review article. *Journal of Accounting Research* 5 (1): 95–112, <https://doi.org/10.2307/2489988>
- Storey, R. K. 1959. Revenue realization, going concern and measurement of income. *The Accounting Review* 34 (2): 232–8.
- Storey, R. K. 1964. *The Search for Accounting Principles: Today's Problems in Perspective*. New York: American Institute of Certified Public Accountants.
- Storey, R. K., and S. Storey. 1998. *The Framework for Financial Accounting: Concepts and Standards*. Norwalk: FASB.
- Vance, L. L. 1942. Earning-power valuation of inventory. *The Accounting Review* 17 (4): 376–84.
- Walker, R. G. 1992. The SEC's ban on upward asset revaluations and the disclosure of current values. *Abacus* 28 (1): 3–35, <https://doi.org/10.1111/j.1467-6281.1992.tb00267.x>
- Walton, S. 1909. Earnings and income. *Journal of Accountancy* 7 (6): 452–69.
- Walton, S., and J. W. Crosby. 1915. Fixed assets at cost or market. *Journal of Accountancy* 19 (6): 482–3.
- Watts, R. L. 2003a. Conservatism in accounting part I: Explanations and implications. *Accounting Horizons* 17 (3): 207–21, <https://doi.org/10.2308/acch.2003.17.3.207>

- Watts, R. L. 2003b. Conservatism in accounting part II: Evidence and research opportunities. *Accounting Horizons* 17 (4): 287–301, <https://doi.org/10.2308/acch.2003.17.4.287>
- Watts, R. L., and L. Zuo. 2016. Understanding practice and institutions: A historical perspective. *Accounting Horizons* 30 (3): 409–23, <https://doi.org/10.2308/acch-51498>
- Weiner, J. L. 1929. Theory of Anglo-American dividend law: American statutes and cases. *Columbia Law Review* 29 (4): 461–82, <https://doi.org/10.2307/1112989>
- Weiner, J. L., and J. C. Bonbright. 1930. Theory of Anglo-American dividend law: Surplus and profits. *Columbia Law Review* 30 (3): 330–58, <https://doi.org/10.2307/1115306>
- Werntz, W. W. 1940. Financial statements for investors. *Journal of Accountancy* 69 (1): 22–9.
- Weston, J. F. 1953. Revaluations of fixed assets. *The Accounting Review* 28 (4): 482–90.
- Whittington, G. 1985. Financial accounting theory: An overview. *British Accounting Review* 17 (Spring): 4–41.
- Whittington, G. 2008. Fair value and the IASB/FASB conceptual framework project: An alternative view. *Abacus* 44 (2): 139–68, <https://doi.org/10.1111/j.1467-6281.2008.00255.x>
- Whittington, G. 2015. Measurement in financial reporting: Half a century of research and practice. *Abacus* 51 (4): 549–71, <https://doi.org/10.1111/abac.12061>
- Wilcox, E. B., and R. H. Hassler. 1941. A foundation for accounting principles. *Journal of Accountancy* 72 (4): 308–14.
- Williams, P. F., and S. P. Ravenscroft. 2015. Rethinking decision usefulness. *Contemporary Accounting Research* 32 (2): 763–88, <https://doi.org/10.1111/1911-3846.12083>
- Windal, F. W. 1959. The concept of realization and its application in accounting. Dissertation, University of Illinois at Urbana–Champaign.
- Wodak, R. 2001. The discourse-historical approach. In *Methods of Critical Discourse Analysis*, edited by R. Wodak and M. Meyer, 63–94. London: Sage Publications.
- Xie, Y. 2015. Confusion over accounting conservatism: A critical review. *Australian Accounting Review* 25 (2): 204–16, <https://doi.org/10.1111/auar.12061>
- Young, J. J. 2006. Making up users. *Accounting, Organizations and Society* 31 (6): 579–600, <https://doi.org/10.1016/j.aos.2005.12.005>
- Zeff, S. A. 1972. *Forging Accounting Principles in Five Countries: A History and an Analysis of Trends*. Champaign, IL: Stipes Publishing.
- Zeff, S. A. 1991. *American Accounting Association—Its First 50 Years: 1916–1966*. Sarasota, FL: The Association.
- Zeff, S. A. 1999. The evolution of the conceptual framework for business enterprises in the United States. *Accounting Historians Journal* 26 (2): 89–131, <https://doi.org/10.2308/0148-4184.26.2.89>
- Zeff, S. A. 2003. How the U.S. accounting profession got where it is today: Part I. *Accounting Horizons* 17 (3): 189–205.
- Zeff, S. A. 2007. The SEC rules historical cost accounting: 1934 to the 1970s. *Accounting and Business Research* 37 (Supplement 1 Special Issue: International Accounting Policy Forum): 49–62, <https://doi.org/10.1080/00014788.2007.9730085>
- Zeff, S. A. 2012. The evolution of the IASC into the IASB, and the challenges it faces. *The Accounting Review* 87 (3): 807–37, <https://doi.org/10.2308/accr-10246>
- Zeff, S. A. 2013. The objectives of financial reporting: A historical survey and analysis. *Accounting and Business Research* 43 (4): 262–327, <https://doi.org/10.1080/00014788.2013.782237>
- Zeff, S. A. 2016. The Trueblood Study Group on the objectives of financial statements (1971–73): A historical study. *Journal of Accounting and Public Policy* 35 (2): 134–61, <https://doi.org/10.1016/j.jaccpubpol.2015.10.001>
- Zeff, S. A. 2017. Contemplating the origin of decision-usefulness. *Accounting Historians Journal* 44 (2): 189, <https://doi.org/10.2308/aahj-10558>
- Zeff, S. A. 2018. An introduction to corporate accounting standards: Detecting Paton’s and Littleton’s influences. *Accounting Historians Journal* 45 (1): 45–67, <https://doi.org/10.2308/aahj-10578>

- Zeffer, S. A. 2019. A personal view of the evolution of the accounting professoriate. *Accounting Perspectives* 18 (3): 159–85, <https://doi.org/10.1111/1911-3838.12207>
- Zhang, Y., and J. Andrew. 2014. Financialisation and the conceptual framework. *Critical Perspectives on Accounting* 25 (1): 17–26, <https://doi.org/10.1016/j.cpa.2012.11.012>

SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article:

Appendix A. Methodological approach

Appendix B. Further background information on the conceptualization of asymmetry in international standard-setting (1970s–2000s)