

BUILDING
PUBLIC
TRUST

The Future of Corporate Reporting

Samuel A. DiPiazza Jr.

CEO, PricewaterhouseCoopers

Robert G. Eccles

President, Advisory Capital Partners



JOHN WILEY & SONS, INC.

BUILDING
PUBLIC
TRUST

BUILDING
PUBLIC
TRUST

The Future of Corporate Reporting

Samuel A. DiPiazza Jr.

CEO, PricewaterhouseCoopers

Robert G. Eccles

President, Advisory Capital Partners



JOHN WILEY & SONS, INC.

This book is printed on acid-free recycled paper. ♻️

Copyright © 2002 by PricewaterhouseCoopers. PricewaterhouseCoopers refers to the individual member firms of the worldwide firm PricewaterhouseCoopers organization. All rights reserved.

Published by John Wiley & Sons, Inc., New York.

Published simultaneously in Canada.

PricewaterhouseCoopers refers to the member firms of the worldwide PricewaterhouseCoopers organization.

This document is provided by PricewaterhouseCoopers LLP for general guidance only, and does not constitute the provision of legal advice, accounting services, investment advice, or professional consulting of any kind. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation.

The information is provided “as is,” with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 750-4744. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 605 Third Avenue, New York, NY 10158-0012, (212) 850-6011, fax (212) 850-6008, e-mail: PERMREQ@WILEY.COM.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering professional services. If professional advice or other expert assistance is required, the services of a competent professional person should be sought.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products visit our Web site at www.wiley.com.

ISBN 0-471-26151-3

ISBN 0-471-27134-9 (SP-19,000)

ISBN 0-471-28169-7 (SP-1,000)

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

Foreword

For the financial services community, this is a time of important change. New technologies, especially the Internet and broadband, continue to change how we do almost everything from making markets and conducting research to reporting corporate results. Ease of access and the broad availability of financial information have brought millions of new investors into the market. But since the closing months of 2001, these enormously positive trends have been paralleled by a loud, almost universal cry for reform in how and what companies report to the capital markets, and in the disciplines and processes that underlie corporate reporting—accounting, auditing, governance, and regulation. Can the revolution in technology be the great enabler of these reforms as well?

The strongest cries for reform have come from the United States in the wake of the largest bankruptcy in that country's history, the abrupt and unanticipated failure of Enron. The cries for reform have continued, as Andersen,

one of the world's great accounting and auditing firms, has been rent asunder. But the kinds of behavior that have elicited the outcry are not limited to the United States. The problem and the challenge are global.

Because the investing public is now so large, and because employees in public companies are more aware than ever that their careers depend on the success of their companies, what might in decades past have been a crisis behind closed doors often becomes a matter of the broadest public concern. Corporate reporting is an intricate discipline, but everyone from the executive suite and corporate boardroom to the storefront brokerage firm understands its importance to themselves, to their companies, and to their countries.

It is my contention that the future of corporate reporting depends on the crafting and adoption of new concepts and practices better fitted to today's technology. The future of reporting depends *no less* on the development and adoption of new technologies than on the new concepts and practices to which many people are looking for solutions to the present crisis.

Today's capital markets are at the leading edge of complex information technology. But some things are simple and always will be simple. The effectiveness of the world's capital markets depends on public trust, and trust depends on the timely availability of complete, relevant, and reliable information—in a word, it depends on appropriate levels of *transparency*.

Ultimate responsibility for ensuring that shareholders and other stakeholders receive the information they require lies with corporate executives and their boards. Responsibility also lies with the public accounting profession, which periodically updates accounting and reporting

guidelines in cooperation with regulatory authorities, and bears responsibility for applying those guidelines with objectivity and impartiality. Investors and others who use the information also bear responsibility for using it conscientiously in assessing corporate performance and making investment decisions.

There is an urgent need for all participants in the capital markets, from investors and analysts to CEOs and regulators, to rededicate themselves to transparent corporate reporting. For this reason, I am delighted to introduce this new book co-authored by Sam DiPiazza, chief executive officer of PricewaterhouseCoopers, and Bob Eccles, formerly a professor at Harvard Business School. Pointing the way toward necessary solutions, this book enables the debate. It is well reasoned and fair. It highlights a range of needs from old-fashioned personal responsibility to powerful new financial reporting technologies like Extensible Business Reporting Language (XBRL).

I have every confidence that out of recent disappointments and ordeals there will emerge the revised, much more robust corporate reporting framework demanded by the world's financial markets. But even the best framework requires participants of integrity to deliver its potential. The future belongs to men and women—in all parts of the world—who can realize that potential through the brilliance of their innovations and their adherence to professional integrity.

WICK SIMMONS
Chairman and Chief Executive Officer
The Nasdaq Stock Market, Inc.

Preface

Some will ask, “Why have you written this book?” Our own question is different: “How could we *not* have written this book?” There is a time to stand up and be counted—to stand up and offer one’s best. Hence this book, addressing a topic that has been forcibly brought to the world’s attention: the future of corporate reporting in a time when major business failures and a stiff critique of the practices of auditors and influential securities analysts have shaken the public trust.

The epicenter of this earthquake has been in the United States, focused particularly on the Enron bankruptcy and the conduct of Enron’s independent auditor, Andersen. However, the global capital markets are so closely integrated that aftershocks have been felt around the world.

Crisis is opportunity. Virtually every participant in what we have called the Corporate Reporting Supply Chain is looking for new answers, new ways to assure investors and other stakeholders that the information they are receiving

enables them to understand companies in detail and in depth. We hope that this book stimulates dialogue among all of us who are responsible for building public trust in the markets, on which the progress of society in all parts of the world depends.

SAMUEL A. DIPIAZZA JR.

ROBERT G. ECCLES

Subject Matter Experts

Every link in what this book calls the Corporate Reporting Supply Chain is a topic in itself, to which experts are devoting their careers. We could not have hoped to write about each link, let alone propose improvements and fundamentally new reforms, without the help of a network of outstanding subject matter experts in many different countries. To our good fortune, both within PricewaterhouseCoopers and among professional friends and colleagues worldwide we have had access to an enormous wealth of experience and intellect. In this section, we wish to record our gratitude to the following PricewaterhouseCoopers subject matter experts, each of whom contributed to a specific chapter:

CHAPTER 1: THREE TIERS

Bethann B. Brault, Executive Director, Genesis Park (United States)

XII SUBJECT MATTER EXPERTS

- Hans J. C. A. Gortemaker, Eurofirm Leader, Assurance & Business Advisory Services (Netherlands)
- Rodger G. Hughes, United Kingdom Leader, Assurance & Business Advisory Services (United Kingdom)
- Jorge R. Manoel, South and Central America Theatre Leader, Assurance & Business Advisory Services (Brazil)
- John J. O'Connor, United States Leader, Assurance & Business Advisory Services (United States)
- John G. Thorn, Asia Pacific Theatre Leader, Assurance & Business Advisory Services (Australia)

CHAPTER 2: ACCOUNTING STANDARDS

- William E. Decker, Global Leader, Global Capital Markets Group (United States)
- Robert H. Herz, Retired Partner (United States)
- E. Mary Keegan, Chairman, United Kingdom Accounting Standards Board and former PricewaterhouseCoopers Partner (United Kingdom)

CHAPTER 3: INDUSTRY STANDARDS

- Willem L. J. Bröcker, Managing Partner, Global Markets (Netherlands)
- J. Frank Brown, Global Leader, Assurance & Business Advisory Services (United States)

CHAPTER 4: GOOD MANAGEMENT

- Ian Coleman, Global Leader, Valuation and Strategy (United Kingdom)

Brian J. Kinman, United States Champion, ValueReporting
(United States)

Juan A. Pujadas, Global and United States Global Risk
Management Solutions Financial Services Leader
(United States)

CHAPTER 5: CORPORATE REPORTING

Sung-Sik Hwang, Asia Pacific Theatre Champion,
ValueReporting (South Korea)

David M. H. Phillips, European Theatre Champion,
ValueReporting (United Kingdom)

Lisa J. Stewart, Australia Champion, ValueReporting
(Australia)

CHAPTER 6: THE INTERNET

Eric E. Cohen, XBRL Technical Leader (United States)

Bruno Tesnière, PricewaterhouseCoopers Global XBRL
Co-Leader (Belgium)

R. Michael Willis, Founding XBRL Chairman and
PricewaterhouseCoopers Global XBRL Co-Leader
(United States)

CHAPTER 7: FUTURE AUDITS

Richard R. Kilgust, Global and United States Public Policy
and Regulatory Leader (United States)

Ellen H. Masterson, Global and United States Assurance
Methodology Leader and Global Leader,
ValueReporting (United States)

XIV **SUBJECT MATTER EXPERTS**

David C. Morris, Global Independence Leader, Global
ABAS Professional, Technical Risk & Quality Leader
(United Kingdom)

These colleagues are not responsible for errors of fact or judgment that may remain in this book despite our best efforts. Such things are the authors' only.

Acknowledgments

In addition to the subject matter experts whose participation in this book we must again acknowledge, we are grateful to many partners, staff members, and friends of PricewaterhouseCoopers for their contributions. Without their knowledge and help, the intensive period of thinking and writing from which this book has emerged would have been a burden. With their help, it was a time of fellowship and shared purpose.

To begin, we would like to thank Rich Baird and Joel Kurtzman for the critical role they played as project managers and in providing us constructive criticism and ideas. Mark Friedlich and Roger Lipsey, in the firm's Global Thought Leadership and Innovation group, helped us maintain high standards of quality in a book written in a short period of time.

The message of this book was shaped and refined by a number of people who are highly skilled in communication, design, marketing and publication management including Mike Ascolese, Tom Craren, Katherine D'Urso,

Peter Horowitz, Mike Kelley, Rocco Maggiotto, Tess Mateo, Amanda Merritt, Karl Pfalzgraf, and Kristen Staples. All of the exhibits were done by The Design Group of PricewaterhouseCoopers in Melbourne, Australia.

We benefited from the insights of a number of experts spanning a range of industries and functional specialties. These friends of the project include David Adair, Eleanor Andrews, Erica Baird, Bob Bertolini, Doug Chambers, Pete Collins, Ken Dakdduk, Rodger Davis, Karel De Baere, Reiner Dickmann, Miles Everson, Claire Fargeot, Patrick Frotiee, Joel Gazes, Graham Gilmour, Paul Hainsworth, Jim Harrington, Jim Gerson, Helle Bank Jorgensen, Art Karacsony, Bill Kirst, Bob Moritz, Eric Ooi, Robbie Pound, Phil Rivett, Jens Roder, Brett Savill, Rick Steinberg, Clifford Tompsett, Allen Weltmann, Joachim Wolbert, and Ian Wright.

To contribute to the current public debate about how to improve our capital markets, we knew that we needed a secret weapon to meet an aggressive writing schedule. We found it in Genesis Park, an internal think tank where the best and brightest young people come from all over the world for a five-month tour of duty in order to share their ideas and creativity. The team of Jorge Anez [Colombia], Anton Esterhuizen [South Africa], Michael Gardiner [Australia], Donna Gleeson [Australia], Joanne Higham [United Kingdom], Tomasz Kobus [Poland], Jack Pullara [United States], Leanne Sardiga [United States], and Magnus Sprenger [Germany], as well as many Genesis Park alumni, proved to be just the secret weapon we needed.

We were no less reliant on the core global ValueReporting team astutely assembled by Dave Kochanowsky: Marc Bailleux, Steve Dure, Janice Lingwood, Melissa Luo, Alison Thomas, Ton van Bree, Adriano Vargas, David Whiston, Roger Wilkes, and Matt Wissell.

Conversations with a number of people at Nasdaq challenged our thinking and helped us to clarify our positions and ideas. We would like to thank Charles Balfour, Al Berkeley, Jackie Brody, Mandana Chaffa, Barbara Cosgriff, Dan Crowley, Tad Davis, Bill Harts, Tania Kerno, Ed Knight, Maggie Kelly, Vi Lilly, Mike Sanderson, Bethany Sherman, Denise Stires, Steve Storch, Paul Warburg, David Warren, David Weild, and Wick Simmons, author of the book's Foreword.

Many other friends of PricewaterhouseCoopers were generous with their time and ideas, including John Baily, Partha Bose, Art Brody, John Clarkeson, Sally Evans, Walter Hamscher, Ray Mullady, Scott Newquist, Kathy Wallman, Steve Wallman, Don Warren, and Diana Weiss.

Once again, we are pleased to be working with the team at John Wiley & Sons, including Larry Alexander, Jeff Brown, Robert Chiarelli, Sheck Cho, Peter Knapp, and Colleen Scollan.

And once again we owe a special debt of thanks to Max Russell, the professional writer who offers us lesson after lesson in the craft of communication as he continues to help our organization bring its message to the public.

We are grateful to our wives, Melody DiPiazza and Anne Laurin Eccles—and to the Eccles' children, Charlotte, Philippa, Isabelle, and Gordon—for their patience and understanding. They accepted with grace and good humor many nights and weekends on their own. We each plan to repay many times over the debt we owe them.

SAMUEL A. DIPIAZZA JR.

ROBERT G. ECCLES

Contents

FOREWORDV
PREFACEIX
SUBJECT MATTER EXPERTSXI
ACKNOWLEDGMENTSXV
PROLOGUE1
CHAPTER 19
Three Tiers	
CHAPTER 233
Accounting Standards	
CHAPTER 356
Industry Standards	
CHAPTER 481
Good Management	
CHAPTER 5104
Corporate Reporting	