

The rochette affair (1908-1914): accounting and a financial scandal

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[special issue of *Gérer & Comprendre* – March 2016]

Abstract:

The disclosure of a fraud orchestrated by Henri Rochette, one of the most powerful financiers in Paris, started a scandal. Rochette, once arrested, immediately reversed accusations and claimed that his enemies had hatched a plot. After investigations established that his arrest was arbitrary, the financial scandal became political and legal. The part of accounting in this affair is examined to show its consequences on the evolution of bookkeeping standards. This paper therefore contributes to studying the relationship between a financial scandal and accounting.

Introduction

France's economic and financial history has been punctuated by scandals (Guillemainault and Singer-Lecoq, 1975; Thiveaud, 1997). First limited partnerships, then public limited companies, were beset by high-profile cases during the 19th century and in the early 20th century. Public savings were plundered by financiers who promised profits that were solely shored up by fraudulent accounting practices, fictitious share prices and misleading advertising. As savers often suffered huge losses, public opinion stirred and Parliament became nervous.

These financiers exploited loopholes in legislation, especially that created by the Act of 24 July 1867 on limited companies. Epitomising the era's predominant free-marketsteering (Lemarchand, 1993, p. 600), this Act made it easier to set up limited companies and did little to restrict their operations, in particular in respect of accounting. The effective accounting rules for these companies, and for other businesses, were very flimsy and boiled down to the requirement of producing an inventory (Lemarchand, 1994, p. 80). Since the inception of the Commercial Code in 1807, accounting in France had been part of companies' personal affairs. Lawmakers let the latter decide on the procedural and substantive rules governing the drafting of corporate financial statements. It was this unregulated accounting that, under fire for concealing the plundering of savings, was implicated in a financial scandal that was in the public eye from 1908 to 1914, namely the Rochette affair.

Drawing on this case (largely ignored by management research), this paper informs the study of the relationship between financial scandals and accounting. Accounting history researchers (Lemarchand, 1995; Praquin, 2003) have homed in on these types of scandals without making them the focus of their studies; they simply serve to highlight an era's practices and mentalities.

Sociological studies approach the financial scandal as a social phenomenon and ask "what does it transform in ways of reacting?" (Blic and Lemieux, 2005, p. 12). In one of these studies, Blic (2004), uses the cases of Union Générale (1882), the Panama Canal (1889) and Crédit Lyonnais (1994) to make accounting central to the examination of financial scandals. He believes that "it is quite impossible to report on a financial scandal without looking at the accounting systems" (Blic, 2004, p. 8). Accounting can reveal scandals but, in doing so, highlights its shortcomings and spurs its reform.

In this respect, Blic (2004, p. 8) raises the issue of the "double standard" of accounting in financial scandals. This paper takes a more in-depth look at this "double standard theory". It examines, inter alia, the extent to which this can act as a catalyst for accounting standard-setting, by analysing a classic financial scandal, the Rochette affair.

The Rochette affair: accounting at the heart of the scandal

A three-phase affair

Between 1908 and 1914, there were three major chapters in the Rochette affair (Jeanneney, 1980, pp. 23-24), that underscore the financial, political and legal entanglement. Interestingly, Garçon (1933, p. 423) refers to the "Rochette affairs".

The first chapter began with the arrest of the financier, Henri Rochette, on 23 March 1908. He was accused of having masterminded a series of frauds, which would now be called Ponzi schemes, amounting to around 120 million francs. The fraud involved paying large amounts of interest to his companies' subscribers using new savers' money on the basis of false balance sheets. On 27 July 1910, Rochette was handed a two-year prison sentence by the Paris Criminal Court. He duly appealed thus suspending enforcement of the sentence. On 27 April 1911, the case was called before the Criminal Division but Rochette managed to have it adjourned until

1 December. The first chapter only closed on 26 July 1912 when the Rouen Court of Appeal increased Rochette's sentence to three years' imprisonment. As soon as the sentence was announced, Rochette fled and began to live in anonymity.

The affair's second chapter opened in early February 1912 after *Le Figaro* newspaper published an article claiming that Rochette was only able to have the trial adjourned owing to the intervention of Ernest Monis, the President of the Council (Prime Minister), at the request of his Finance Minister, Joseph Caillaux. For more than two years, the newspaper's director, Gaston Calmette, had been threatening to publish the proof of this intervention, the so-called "Fabre document". This was an official record that had been drawn up by the

public prosecutor, Victor Fabre, in which he accuses Caillaux and Monis of having compelled him to request the adjournment of Rochette's trial. Calmette did not merely threaten Caillaux with publication of this document as, in 1914, he began to publish the latter's personal correspondence with this wife, Henriette, née Rainouard.

This sparked the start of the third and final chapter in the Rochette affair. Having had enough of the intrusion into her privacy, on 16 March 1914, Mrs Caillaux visited Calmette in his offices where she assassinated him. However, we will leave aside the "shady parliamentary deals" (Garçon, 1933, p. 423) and the ideological and "emotional" disputes (Krumeich, 1980) which led to the affair's last two chapters, to focus on the first, when the political and legal scandal followed on from the financial one and accounting was right at the centre of both scandals.

The scandal breaks

The scandal broke on the day Rochette was arrested in Paris. It was front page news for the entire week of 22 March 1908 and was subject to press scrutiny for at least three years (Jacquemont, 1913, p. 206)¹.

On 24 March 1908, *Le Petit Parisien* gave a detailed account of the preliminary investigation, Rochette's arrest and the role played by the accountants². In this respect, the newspaper drew attention to the skills displayed by Dufour, the court accounting expert tasked with assessing the grounds for the charges and his "remarkable dexterity in carrying out his assignment"³.

Starting in 1907, there were increasing numbers of complaints against Rochette, especially in the months leading up to his arrest. But, being wary of provoking the global collapse of his securities, the prosecutor's office did not arrest him but put him under surveillance⁴. In November 1907, the public prosecutor "unofficially" asked the financier to "allow the experts access to his books", but the latter resolutely refused to do so⁵.

Ultimately, the financier was arrested following a complaint from a certain Pichereau. Two charges were brought against Rochette: the complaint in question and the report from the accountant Dufour⁶. On the day of the arrest, Dufour and another accountant, Yché, were in attendance. The two accountants had been commissioned by the examining magistrate Berr, and the three of them searched Rochette's safes and books both in his home and at his various business premises. A subsequent order of 27 March 1908 assigned Dufour and Yché the responsibility of auditing the accounts relating to the businesses managed by or under the patronage of Rochette. The accountants' reports were to be submitted in January 1909⁷.

¹ AN. BB/18/2377/2. Rochette affair, press cuttings file / APP. BA 1254, Rochette affair, press cuttings file.

² *Le Petit Parisien*, p. 1, 24 March 1908.

³ *Ibid.*

⁴ *Journal officiel* (JO). Discussions, Chamber of Deputies (CD), p. 845, 20 March 1912.

⁵ AN. BB/18/2377/2: Letter from Rochette to his legal counsel following the initial complaints in 1907 (10 pages), 5 November 1907.

⁶ AN. BB/18/2377/2: Rochette affair, compendium of documents, p. 5, March-May 1908.

⁷ AN. BB/18/2377/2: Application from H. Rochette to M. Berr, examining magistrate (5 pages), 15 November 1909.

Their investigations revealed the systems underlying the financier's "scandalous accounting practices" (which we will describe below).

The financial scandal becomes an "affair"

The financial scandal that broke in the wake of Rochette's arrest very soon became an "affair".

Blic and Lemieux (2005, pp. 16-17) posit that a scandal is the public denunciation of a transgression which manifests itself in three ways: confirmation of a recognised scandal (the public is unanimous that an offence has been committed), implicit recognition that there is no scandal (relativisation by the public) or its transformation into an "affair".

Claverie (1998) makes a formal distinction between scandal and "affair"⁸. A scandal becomes an "affair" from the moment the denunciator is in turn made the object of an accusation on the part of the accused or his allies. In this case, the public tends to split into two camps that can be sharply unequal in number (Blic and Lemieux, 2005, p. 17).

Whilst, broadly speaking, public opinion and the press condemned Rochette's acts and portrayed him as a crook, this condemnation was not universal. In particular, Rochette received backing from the shareholders⁹ of his companies, who called for his release and the opening of an investigation into his arrest in early April 1908¹⁰. He was also supported by the socialist-radical press which launched a campaign against his arrest. The revelation of the political and legal dimension of the Rochette affair in 1910 stemmed from the investigations into the conditions surrounding his arrest that were conducted as part of this press campaign. Accountant Dufour's report dated 11 April 1908 played a major part in this¹¹.

At Rochette's request, Dufour was commissioned by examining magistrate Berr in late March 1908 to investigate the short sales which may have been carried out before the accused was arrested¹². However, the accountant was almost immediately faced with the refusal by the bankers/brokers carrying out transactions on Rochette's securities to disclose the accounting documents he required for his assignment¹³. As the investigation had not ordered a search, Dufour terminated his work within a few weeks. At the end of his report, he nevertheless referred to the banker, Gaudrion, who, in view of the significant number of sale orders he placed, could be presumed to have been a short seller of Rochette's securities. Indeed, the security purchase and sale ledgers of the bankers/brokers that were seen by the accountant showed no remittance of securities sold on behalf of and on his instruction¹⁴. The press latched onto the termination of Dufour's assignment and examining magistrate Berr's failure to react to Gaudrion's actions¹⁵. The editorial team of *Rappel* was

⁸ When used by Claverie (1998), this term appears in inverted commas.

⁹ AN. 19950479/10: Comments from Dr. Ungauer / Oral arguments from Maître Demange, p. 4, 27 July 1910.

¹⁰ APP. BA 1254: Rochette affair, Application to the Chambers, poster.

¹¹ AN. BB/18/2377/2: Report from Dufour, accounting expert to the Paris Court of Appeal, p. 10, 11 April 1908.

¹² *Ibid.*, pp. 1-3.

¹³ *Ibid.*, p. 10.

¹⁴ *Ibid.*, pp. 12-13.

¹⁵ *JO*. Discussions, CD, 20 March 1912, p. 853.

outraged that the accountant “had abruptly terminated his expert appraisal as he had come across names that he thought it was better not to mention”¹⁶. This was how the man who had garnered credit with the public and had been applauded by the press when Rochette was arrested, found himself under scrutiny.

Ultimately, in 1911, the committee of inquiry into the Rochette affair confirmed the arbitrary nature of the arrest of the young financier. The committee, which was chaired by Jean Jaurès (Socialist Party), had been appointed by the Chamber of Deputies on 11 July 1910¹⁷. It was bestowed with judicial authority (Monier, 2013, p. 81) and tasked with conducting an “inquiry into the circumstances paving the way for, preceding, accompanying or following the arrest of the financier Rochette”.

Following six months of interviews, it submitted a report that was constructive and unlikely to make waves on 10 March 1911. It concluded that Rochette’s arrest had been initiated by the administration on instructions from the government, without consulting the prosecutor’s office and on the grounds of a false complaint that had been totally manufactured by Rochette’s rivals.¹⁸ “A coalition formed between Gaudrion, a hedger banker who was gambling on Rochette’s share prices falling and Prévét, the director of a newspaper who was looking to stifle a competitor. As part of this alliance, Mr Gaudrion provided the plaintiff and Mr Prévét¹⁹ the influence”. Jaurès considered that “the truth is not in doubt”: when the administration, specifically police prefect Louis Lépine²⁰, acting on orders from his supervisory minister, Georges Clémenceau, launched the procedure for Rochette’s arrest, it was “either wittingly or unwittingly” the “tool” or even the “plaything” of this coalition²¹.

The Rochette case upholds the findings of Blic (2004): accounting can unveil a financial scandal. At the time, the general public began to scrutinise accounting professionals for the first time. In addition, in this case, these professionals also caused the accusation to be diverted back to the accusers and, thereby, the transformation of the scandal into an “affair”. This highlights the fact that a scandal “tests” society (Blic and Lemieux, 2005) by heightening the division of public opinion, making the situation more complicated and instilling added uncertainty as to its outcome. Basically, accounting represented a means used by the person at the root of the scandal that was paramount to the revelation of both the scandal and the “affair”. That said, could it be that it was, above all, instrumental to the scandal?

¹⁶ AN. BB/18/2377/2: Rochette affair, press cuttings file, “*La vérité en marche*”, excerpt from the newspaper, *Le Rappel* (undated).

¹⁷ JO. Discussions: CD, p. 2502, 11 July 1910.

¹⁸ APP. BA 1254: Rochette affair, report for the Prefect, dated 6 April 1908 (6 pages).

¹⁹ At the time, Prévét was a senator and director of the *Petit journal* which Rochette had been attempting to take over for several months.

²⁰ This judicial power was granted to the Prefect under Article 10 of the Criminal Investigation Code.

²¹ JO. Discussions , CD, p. 846, 20 March 1912.

Rochette's scandalous accounting practices

Rochette set up ten companies between 1904 and 1908 (see table 1). The first, Crédit Minier, was a bank with 60 branches. It was responsible for selling the shares of companies created or taken over by the financier. In this manner, it invested 120 million in securities with a population comprised mainly of small and medium-sized savers.

Table 1: Rochette's companies

Companies	Date set up	Capital (in millions of francs)
Société générale du crédit minier et industriel	11 November 1904	3
Charbonnages de Laviana	26 January 1905	2
Mines de Liat	8 June 1905	2
Société des mines du Val d'Aran	13 July 1905	2
Société française des Manchons Hella	29 March 1906	4.5
Syndicat Minier	26 April 1906	2.5
Banque franco-espagnole	10 July 1906	20
Union franco-belge	28 July 1906	2.5
Mines de la Nerva	March 1907	20
The Universal Gas - Methane and Buisson-Hella Co. Ltd	17 January 1908	15

Source: *Le Droit : Journal des tribunaux*, 28-30 July 1910.

To quote a magistrate and as related by Jacquemont (1913, p. 215), Rochette used a series of “communicating vessels” that “were held in place only by forging ahead” which involved perpetual new issuances to pay the dividends for prior deals and to maintain credit (Jeanneney, 1980, p. 22). In particular, Rochette's system was underpinned by runaway advertising that mainly appeared in newspapers owned by men with influence, such as *L'Action* which belonged to the senator, Henry Béranger (Jeanneney, 1980, p. 21), or Rochette himself, as was the case for *La Finance Pratique*. This publication carried relentless weekly hype concerning the young financier's companies and published fictitious share prices dreamed up by the latter. But, the cornerstone was the accounting system in which the figures were “massaged” at best and a sham at worst. The decision handed down on 27 July 2010 by the 10th Criminal Division of the Seine Court, which was upheld by the judgment of the Rouen Court of Appeal on 26 July 1912, establishes that the accounting system was purely designed to impress savers²². Rochette, especially for his four largest companies, provided inflated and fraudulent balance sheets which often gave rise to the payment of fictitious dividends (see table 2).

²² *La Gazette des sociétés*, no. 6, pp. 126-138, 15 March 1913.

Table 2: “Rochette” balance sheets

Companies	Categories	Anomalies
Société des mines du Val d’Aran	The net profit on the balance sheet as at 31 December 1906 resulting from a sale of ores to Syndicat minier	Fictitious sale: on one hand, the entire ore production of Val d’Aran had been earmarked for a German company and, on the other, the decision to merge with Syndicat minier had already been taken.
Syndicat minier	The net profit on the balance sheet as at 31 December 1906 resulting from the company returning shares in Crédit minier to Banque franco-espagnole and from an amount booked to the assets as “Ore in the inventory at the pithead”	Fraudulent transaction: the corresponding profit could not have been made without the “false certificates” provided by Rochette that stated that the shares were listed; he was seller, go-between and buyer.
		Fraudulent increase of assets: on the inventory date, Syndicat minier did not yet own the two relevant zinc mines but was merely the lessee.
Société française des Manchons Hella	The net profit on the balance sheet as at 31 May 1907 essentially deriving from a beneficial transaction carried out with Mr Wasmuth	An accommodative transaction: Wasmuth never paid the alleged amount. It originated from abandoning cash shares for which the company had not received the value and which represented a fraction of the unpaid share capital.
		Fictitious assets: the expenditure relating to industrial patents remained in the assets although the latter had been sold.
		Fictitious assets: overheads and day-to-day expenditure was booked to the business formation account.
		No depreciation was booked although the asset’s value must have fallen.
		No provisions: no reserves were constituted contrary to the recommendations of the Act of 24 July 1867.
Société des Charbonnages de Laviana	The net profit on the balance sheet as at 31 December 1905 deriving from a transaction with Crédit minier and from the business formation account on the asset side	A purely accommodative transaction carried out for the benefit of Charbonnages de Laviana, and for the sole purpose of providing it with a profit.
		Fictitious assets: the business formation account was inflated with overheads, all operating, labour and transport expenses. In addition, no depreciation was booked.

Source: *Le Droit : Journal des tribunaux*, 28-30 July 1910.

The outrageous conduct of the Parisian financier was therefore based on fraudulent accounting systems that exploited the gaping loopholes in legislation in respect of the accounting practices of limited companies. Roldes (1930, p. 5) states that public opinion “quite naturally” tied in the effects to the reasons behind the financial scandal, i.e. “the laws whose failings made it possible and which concealed it”. What essentially emerged from the uproar surrounding the Rochette affair was the need to bolster balance sheet regulation; it brought to light the free market approach to accounting.

Rochette: accounting rules put to the test by the scandal

The courts, a venue for formalising accounting practices

The judicial system plays a key role in all financial scandals. It sanctions the transgression (made public) of a norm of society. That said, by handing down decisions concerning the actions of financiers, the system not only punishes but establishes, and then supplements case law, especially in accounting matters. The main anomalies that judges strive to pinpoint are fraudulent entries in inventories and balance sheets (which come under the offence of fraud which is sanctioned by Article 405 of the Penal Code) and the payment of fictitious dividends (a specific offence under Article 15 of the Act of 24 July 1867). But, lawmakers fail to provide a clear definition of fictitious dividend (Praquin, 2003, p. 170) and provide no insight into the methods governing preparation of inventories and balance sheets. Courts are therefore forced to empirically establish rules in this respect and thereby help formalise and improve clarification of accounting practices.

In the recitals to its judgment of 27 July 1910 (hitherto not addressed by the literature), the 10th Division of the Seine Criminal Court devoted considerable space to the matter of companies’ inventories and balance sheets. With an eye to establishing the fraudulent nature of Rochette’s accounts (triggering application of Article 45 of the Act of 1867), the Court provided “a well-studied, doctrine-based definition of the assets and liabilities of companies, and distributable profit” (Mack, 1910, p. 424). The latter must be “certain profit” dictated by the “surplus of assets over liabilities when the inventory is drawn up”. Assets extended to all property (including the receivables held by the company and the revenue from this property), provided it was estimated at its “fair value”. Liabilities were defined as all the obligations which, with the capital, were binding on the company²³. Besides these definitions set forth in the recitals of the aforementioned judgment, three key rules that were also set out therein should be mentioned. The first addressed the valuation of inventories: the value of raw or manufactured products which were in stock or in a warehouse had to be estimated (“as a general rule” according to the judgment) at cost price. They could only exceptionally be valued at the market price when the products’ disposal was ensured by firm sales or contracts. The second related to the recognition of formation expenses. The Court brought up “practice” to allow “formation expenses and works” to be included in the assets. It listed the various constituent elements of this category and specified those which had to be excluded. The Court also stressed the depreciation

²³ *Le Droit : Journal des tribunaux*, p. 682, 28-30 July 1910.

requirement for these expenses. Lastly, the rules also concerned the depreciation of the various asset items. In addition to statutory depreciation, the judgment stated that these asset items should be depreciated to allow for wear and tear²⁴.

In light of the lack of accounting legislation at the start of the 20th century, the judgment of the Seine Criminal Court, which was upheld by the Rouen Court of Appeal, is of vital importance due to the rules it set out regarding the preparation of balance sheets. Both the judgments handed down in the Rochette affair underscore the courts' role in formalising the accounting methods that were allowed in practice (Spire, 1931). By bolstering case law, the affair therefore led to immediate progress on accounting standardisation. In this respect, the courts' decisions represented a type of inductive standard-setting which enshrined the best practices noted in companies.

The Folleville report submitted on behalf of the committee chaired by Jaurès

The report on the parliamentary investigation that ran concurrently with the legal proceedings took due note of the “massaged” balance sheets that were published by the various Rochette group companies and tabled accounting measures to heighten protection of public savings. The measures were unanimously adopted (527 votes to zero) on 20 March 1912, in the presence of Aristide Briand, the Keeper of the Seals. To quote Daniel de Folleville (Democratic Left), the committee's rapporteur, they represented “the main scope of the committee's work”²⁵.

Amongst the suggested measures, Folleville focused on the “requirement of preparing corporate balance sheets and inventories on the basis of standard and unwavering principles”. He nevertheless considered that it should be the government, and not Parliament, that should provide the impetus for such accounting reform²⁶. The committee asked the former to “look into the conditions under which, in order for them to be upheld, we could require industrial or other companies to state and specify, in their articles of association, how they will prepare their balance sheets, with all supporting documents for the assertions presented”²⁷. The Folleville report therefore encouraged the government to require companies to provide for standardised balance sheets in their articles of association. The committee's proposal was fairly moderate in light of the liberalism pervading at the time. It simply required companies to prepare successive balance sheets using an invariable method chosen by them, without imposing either a standard balance sheet or specific rules regarding the composition and valuation of its items. Folleville claimed that the committee's conservative choice for balance sheet regulation was justified by the context: “Whilst we all have the legitimate goal of preventing savings being damaged and plundered by “freebooters” in the finance industry, we also all have the measured concern of not hampering fair business deals”. The rapporteur also homed in on the “substantial difficulty in conducting” the reform for, according to him, two reasons: “first, the nature of the

²⁴ *Ibid.*, pp. 682-683.

²⁵ *JO. Discussions*, CD, p. 705, 12 March 1912.

²⁶ *JO. Discussions*, CD, p. 841, 20 March 1912.

²⁷ *Annales de la Chambre (AC)*, Documents, 1911, no. 814, p. 346.

required reform; then the finance industry's resistance to the measures needing to be taken"²⁸.

Although the Folleville report did not immediately lead to a wide-reaching reform of balance sheet regulation, it still had repercussions. Indeed, the resolution adopted by Parliament was a first and was of special historical value: to quote Lemarchand (1993, p. 589), accounting had always been "totally overlooked" by Parliament. When the report was discussed in Parliament, the matter of accounting regulation was raised for the first time. The report was subsequently the source of a number of pieces of MP bills and government bills which, although they were not immediately passed, attested to a changing mindset regarding balance sheet regulation at that time. We will return to this point later in the paper.

In the prosecutor's office, a reform was more forthcoming to "equip it with preventive powers" as it had been "unarmed" until then (Linol, 1916, p. 1). The rapporteur of the Jaurès committee, Folleville, and the Keeper of the Seals, Briand, took an interest in Linol's project (1908) that was the subject of an article during the Rochette affair in the daily newspaper, *Le Temps*. The author outlined the setting up of a special preventive unit for financial crime in the prosecutor's office that would be tasked with monitoring suspicious issuances (Linol, 1908, p. 3). The financial unit of the Seine prosecutor's office was formed on 12 March 1912 at the initiative of Briand. It was intended to remedy the public prosecutor's lack of responsiveness that the Rochette affair had also brought to light.

Obstacles to balance sheet regulation

Due to both the specific nature of the Rochette case and the social and economic climate in which the former occurred, the balance sheet regulation reform that was passed during discussion of the Folleville report took time to take shape. As we have seen, public opinion was split by this scandal. Although tragic, it was far from obtaining a consensus, for which society as a whole necessarily wished to draw conclusions. It consisted of twists and turns that muddied the waters and made its outcome hard to predict. The "affair" into which the Rochette case was transformed helped make any immediate structural reform improbable. Moreover, the political (the "Fabre document") and dramatic (the assassination of Calmette) turns taken by the Rochette affair during 1912 made the controversy predominant and rapidly obscured the constructive measures proposed by the committee of inquiry (events that were soon to be compounded by the start of the Great War).

It was only in late 1917 that Étienne Clémentel, Minister for Trade and Industry, tabled a bill²⁹ aimed at regulating the balance sheets of limited companies in line with the recommendations of the Folleville report. As it was not supported by the Ministry for Finance, the bill failed to make it to the Chamber of Deputies. Subsequently, a number of pieces of MP bills and government bills met with the same fate. The influence of the Rochette case was seen clearly in their rationale, especially the bill submitted by Henry Fleury-Ravarin (Left-Wing Republicans) to the Chamber in 1921. It was presented as a retort

²⁸ *JO. Discussions*, CD, p. 841, 20 March 1912.

²⁹ AN. AF12/8165, Trade Legislation Committee, meeting of 1 May 1918.

to the lack of government action³⁰ following the conclusions of the Jaurès committee. Again in 1927, Jean-Louis Chastanet (Socialist Party), who tabled two pieces of draft legislation in 1926³¹ and in 1928³² focusing, inter alia, on balance sheet regulation, questioned the President of the Council, Raymond Poincaré, on the Rochette affair and on the government's strategy as regards the balance sheets of limited companies³³.

The various legislative proposals represented a move to foster balance sheet regulation which gathered pace as from 1912 when the Folleville report was adopted. However, the successive failures testify to the fact that these regulations were far from being unanimously accepted in the inter-war period. In this respect, the reaction of the business world, especially the Chambers of Commerce, was telling. After being approached by the relevant ministries (Trade and Finance) and Parliament, they always submitted a negative opinion on the pieces of MP bills and government bills (Ouriemmi, 2014, pp. 170-171). It was claimed that they would simply "disrupt the business world without providing the general public with serious warranties" and would "again compromise the freedom of trade and industry"³⁴.

Two points summarise the arguments raised by opponents to balance sheet regulation. On one hand, the reform would infringe the notion of business secrecy and, on the other, it would be unworkable in practice owing to the diverse nature of companies' balance sheets and their valuation methods. The second point was also supported by the era's leading legal advisers, such as Charpentier (Jard and Bedenne, 1928, p. 35), and even by accounting professionals. For instance, the *Fédération des compagnies d'experts-comptables de France et des colonies* spoke out against balance sheet regulation in 1927 with many of its members favouring and supporting different draft legislation, namely regulating the responsibilities of auditors (Jard and Bedenne, 1928, p. 46).

At the time therefore, the issue of balance sheet regulation provoked debate and discussions between legal and accounting specialists, politicians and representatives of the business world. But, although accounting thought constantly gained momentum, legislation remained stalled for a long period. In fact it was only with the 1935 Laval decree-laws, that introduced the principle of the consistency of methods for keeping balance sheets and income statements over successive periods, that the conclusions of the Folleville report were finally implemented. These decree-laws slavishly followed the provisions of the bill presented to the Chamber by the Flandrin government in 1935. These provisions stated, inter alia, that "the balance sheet and income statement presented to the shareholders' meeting must be prepared every year in the same form as for previous years, and the valuation methods for the various asset items must be unchanged [...]"

³⁰ AC. Documents, no. 2600, p. 1926, 1921.

³¹ AC. Documents, no. 2668, p. 278, 1926.

³² AC. Documents, no. 953, p. 288, 1928.

³³ JO. Discussions, CD, p. 1274, 8 April 1927.

³⁴ AP. 2ETP/3/3/33 16: Letter of 20 October 1921 (p. 1) from the Chairman of the Paris Chamber of Commerce to the Minister for Trade and Industry.

The part played by the financial scandal in the development of accounting standards

What were the ramifications of the Rochette affair for accounting? The answer to this question can be informed by the historical and sociological works devoted to the scandal. In the first, Garrigou maintains (1993, p. 184) that the scandal followed the pattern of natural history: breaking, heightened tension followed by closure through stifling or apathy. In this respect, the overriding interpretation is that a scandal does not change anything. Bouvier (1964, p. 8) believes that the Panama Canal scandal was merely a “minor mishap” and that scandals are only of interest in that “they provide insight into an era, an economy and a society”. “However, they do not shed light on historical development. Economic and political regimes and systems are never killed off by scandal” (Bouvier, 1964, p. 204).

Sociological works place scandals in a transgression/scandal/reform cycle (Garrigou, 1993, p. 184). Drawing on Durkheim’s theory of crime, this approach gives the scandal the social function of reasserting or establishing standards. Dampierre’s study (1954) is fundamental in this respect: it posits that scandals should be seen as a “test” for the values that have been transgressed and their intangibility (Dampierre, 1954, p. 335). “This is how scandal institutionalises something, either through a collective reaffirmation of the transgressed values - and therefore their reinforcement - or conversely, a collective demonstration of their obsolescence” (Blic and Lemieux, 2005, p. 12). The latter took up this interpretation of a scandal by replacing the concept of a test with that of a trial, thereby positioning it in a pragmatic sociology programme. They then highlighted the uncertainty surrounding the outcome of the scandal and the state of worry affecting those involved, as well as the possibility of the established order being changed³⁵ by the scandal.

Focusing specifically on the Rochette case, due to the resulting bolstered case law, the Folleville report, Parliament’s ground-breaking resolution on balance sheet regulation and the setting up of the financial unit of the prosecutor’s office in 1912, it would be unwise to state, as Bouvier did in relation to the Panama Canal scandal (1964, p. 8), that the Rochette affair was a merely a “minor mishap”.

In this respect, although it needs to be tempered, the sociological interpretation of a scandal, is more understandable. By violating a number of society’s values, the Rochette affair challenged these values as well as the standards that shielded them. It acted as a yardstick for society’s desire for a healthy finance industry that, whilst benefitting companies, protected public savings at the same time. This desire manifested itself by a drive to bolster rules, especially accounting rules, to contain the plundering of savers.

However, as mentioned above, this desire was only materialised in 1935 as regards companies’ balance sheets. The issue is therefore as follows: does this time lag compromise the relevance of the transgression/scandal/reform cycle in the Rochette case?

³⁵ See Nachi (2006, pp. 74-77) on the trial as a basic concept of pragmatic sociology.

In this regard, the Rochette case should encourage us to temper the definition of the world “reform”. The examination of the impact of a financial scandal should not be restricted to simply listing the possible resulting regulatory reforms as they may sometimes take considerable time to be initiated (Blic, 2004, p. 16).

Researchers should look into the changes to ways of acting and thinking (Blic and Lemieux, 2005, p. 12) brought about by a scandal and which may enable the materialisation of these reforms, even in the long term. One key aspect of financial scandals is the momentum they create (Blic, 2005, p. 62). The issue of regulating the balance sheets of limited companies appeared in accounting and legal literature at the dawn of the 20th century (Lemarchand, 1995). The Rochette affair put the issue before Parliament where it was discussed for the first time, thus kick-starting the reform process. The affair provoked more of a desire for reform than reform that materialised immediately. This desire manifested itself through a series of pieces of MP bills and government bills that marshalled the topic of the scandal towards balance sheet regulation (Ouriemmi, 2014, p. 150). Nevertheless, although it was a wide-reaching scandal, it did still not suffice to lift the taboo on any involvement in the accounting systems of companies. In other words, the effects of the scandal cannot be analysed outside the socio-economic environment in which it took place. The dominant free-marketeering and the reluctance of the business world did not vanish after the financial scandal but the latter played a key role in undermining them.

Conclusion

Three main points can be identified by looking into the relationship between the scandal and accounting in the Rochette case. First, when “massaged”, accounting became the subject matter of the scandal. A fraudulent accounting system underpinned the “scandalous” actions of shady financiers. Second, accounting contributed to the revelation of the scandal and then to its transformation into an “affair”. Subsidiary to the judicial system, accounting unveiled the fraudulent practices underlying the plundering of public savings. When it was again able to be used by the accused, accounting enabled the accusation to be diverted back to the accusers. Lastly, as a transgression, the financial scandal put both society’s values and their underlying standards to the test. As a result, whilst it provided an opportunity of assessing society’s desire for a healthy finance industry, it pinpointed the shortcomings of accounting legislation and raised the issue of the need for reform.

In respect of the final point, the Rochette case highlights not only the immediate impact of the financial scandal on accounting regulations but also its more long-term repercussions in this respect. In order to define the scandal as a vehicle for standard setting, this paper goes beyond simply mentioning the immediate regulatory reform to focus on changes to ways of acting and thinking that were brought about by the scandal. To this end, it underscores, on one hand, the progress in the immediate aftermath of the Rochette affair, such as the ground-breaking resolution adopted by Parliament and the bolstering of case law on preparing balance sheets. On the other, it stresses the drawn out process during which a number of pieces of MP bills and government bills on this subject were successively submitted.

The Rochette affair rallied accountants, lawyers and MPs with an eye to regulating the balance sheets of limited companies. Far from obtaining a general consensus at the start of the 20th century, this flurry of activity only led to tangible results in 1935. In particular, the Chambers of Commerce blocked reform efforts by wielding their influence as advisory bodies to Parliament and the government. The Rochette case amply illustrates that the inertia (or quasi-inertia) of legislation does not always paint a true picture of the thinking at the time. Although they were not immediately realised, the legislative reforms that were spurred by the report from the committee of inquiry into the Rochette affair bear witness to the growing momentum of accounting thought in the early 20th century.

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