International Accounting Standard Setting: Lobbying and the Development of Financial Instruments Accounting

by

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Intellectual Property Statement

The candidate confirms that the work submitted is her own and that appropriate credit has been given were reference has been made to the work of others.

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Abstract

With the establishment of the International Accounting Standards Board (IASB) one of the first projects that were added to its agenda was the financial instruments project. The controversy surrounding the standards, and their heavy Anglo-American nature, have led to widespread concerns regarding the IASB granting undue influence to certain lobbying parties in developing these standards. The thesis examines whether these concerns are warranted.

The IASB standard setting is characterised by varying degrees of constituent support and opposition for the organisation's proposed changes to accounting standards. A robust methodology, grounded in ideology theory of regulation, is therefore developed to identify the impact of special interest lobbying on the IASB's decisions during the development of standards for financial instruments from 2001-2012. Textual analysis is applied to a large sample of comment letters in order to derive a continuous measure of negativity for the analysis of overt lobbying, as well as identifying cases of explicit opinion in the responses.

The findings show that the IASB takes account of lobbying in its standard development. Lobbyists are found to be more likely to be successful in blocking proposed changes by expressing negativity in their discussion of a proposal, as opposed to explicitly disagreeing. Further, the results of the analysis show that, in general, all major constituent groups are influential in the development, but that only the business community is influential when it comes to disclosure requirements. Moreover, opposing American constituents are more likely to block proposed changes than are lobbyists from elsewhere.

In sum, the thesis investigates and finds that the IASB's standard setting process allows special interest lobbying to shape the standards for financial instruments accounting and that the business community and American constituents are particularly influential in the process, thus reinforcing the Anglo-American nature of the standards.

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List of Abbreviations

AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
ABA	American Bankers Association
APB	Accounting Principles Board
ASB	Accounting Standards Board
ASC	Accounting Standards Committee
DP	Discussion Paper
E.U.	European Union
EC	European Commission
ED	Exposure Draft
EFRAG	European Financial Reporting Advisory Group
FASB	Financial Accounting Standards Board
FCAG	Financial Crisis Advisory Group
Fin-Neg	Financial Negative Word List
FVA	Fair Value Accounting
FVO	Fair Value Option
G4	Group of Four
GAAP	Generally Accepted Accounting Principles
GI	General Inquirer
Harvard IV	Harvard IV-4 Psychosocial Dictionary
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
JWG	Joint Working Group
LAPFF	Local Authority Pension Fund Forum
NYSE	New York Stock Exchange
OCR	Optical Character Recognition
PAT	Positive Accounting Theory
SEC	Securities Exchange Commission

U.A.E.	United Arab Emirates
U.K.	United Kingdom
U.S.	United States

1. Introduction

1.1 Introduction

The foundation and formation of the International Accounting Standards Committee (IASC) in 1973 by professional accountancy bodies was motivated by a growing demand for international accounting harmonisation in the late 1960s (Godfrey and Langfield-Smith 2005). Since this time, the appetite for uniform standards has gained momentum and international bodies, such as the International Securities and Exchange Organization (IOSCO), have promoted efforts to develop a set of international standards. After substantial restructuring of the IASC, and name change to the International Accounting Standards Board (IASB) in 2001, many countries, including all E.U. countries, have replaced their domestic accounting standards with the IASB's International Financial Reporting Standards (IFRS). However, achieving consensus in the development of a set of international standards has proven to be a complicated and difficult task. Most notably, controversies surrounding financial instruments accounting have resulted in partial adoption of standards, projects being delayed or removed from the IASB's agenda, and major economies threatening to make unilateral changes to the standards. Without acceptance of the standards by its constituents, the legitimacy of the standards, and the survival of the IASB, would be threatened. This raises questions concerning its operating procedures.

The development of appropriate standards to deal with financial instruments accounting has been a challenge to the IASB throughout its existence. Prior to the adoption of IFRS by the E.U. in 2005, the standards for financial instruments, IAS 39

and to a lesser extent IAS 32, were sources of constant debate.[1] Firms subject to the adoption cited the complexity of IAS 39 as their biggest concern about implementing the new accounting system (Larson and Street 2004; Jermakowicz and Gornik-Tomaszewski 2006). Further, the fair value option (FVO), which allowed fair value measurement of any financial instrument, was opposed by financial markets regulators on the grounds that it would introduce artificial volatility (IFRS Foundation 2005). The IASB resolved the issue by implementing limitations to the option, but the extent of fair value measurements in the standard and whether this is suitable in all reporting environments remains controversial (e.g., Ball 2006; Nölke and Perry 2007).

Other concerns among European constituents regarding requirements in IAS 39 were not resolved prior to the E.U. adoption. In particular, the financial industry disputed requirements preventing macro-hedging, something which banks were using to smooth out fluctuations in earnings. As a consequence, the European Commission (EC) decided to adopt the standards with a carve-out for these requirements. The notes to audited financial statements for European companies listed in an E.U. securities market therefore state *"in accordance with International Financial Reporting Standards as adopted by the E.U."* (E.U.R-Lex. 2002). This sets an alarming precedence for future IFRS adoption (Armstrong and Jagolinzer 2005), as adopting only parts of standards, or own versions of standards, defeats the purpose of international accounting.

[1] "The standards developed and issued by the IASB since 2001 are referred to as International Financial Reporting Standards (IFRS). The organisation also inherited a set of standards from the IASC which are referred to as International Accounting Standards (IAS). Some of the set of IAS have since been changed by the IASB but until they have been replaced they are still referred to as IAS. When referring to standards in a context prior to the existence of the IASB and when referring to specific standards this distinction is made in the text. The full set of standards, as currently in use, is henceforth referred to as IFRS."

Academic research is divided in its judgment on fair value measurements in financial instruments accounting. Some argue that it exacerbates contagion (e.g., American Bankers Association 2008; Brunnermeier et al. 2009; Khan 2010), whilst others argue that this criticism is not justified in the way the standards are applied (Laux and Leuz 2010; Badertscher et al. 2012). Aside from a downward spiral of asset valuations, there are concerns regarding other aspects of financial instruments accounting, such as how to deal with credit losses. It has been argued that the failure to allow sufficient provisions for doubtful debt led to overstated assets that were masking the insolvency of banks and obscured warning signs of a pending financial crisis (e.g., LAPFF 2011). The importance of accounting standards in a macroeconomic context was highlighted in Arnold (2009, p. 803) "*...solvency and survival of our major financial institutions now turns on how accountants value bank assets and the extent to which auditors require firms to consolidate off-balance sheet entities*".

As indicated above, the financial crisis highlighted issues within financial instruments accounting. Regardless of how justified the criticism of IFRS is, the political pressure facing the standard setter has intensified as a result of the financial crisis and the IASB had to respond accordingly (Bengtson 2011). This was clearly seen in 2008, when the IASB conceded to demands from E.U. leaders and finance ministers, waiving its due process, and urgently amending IAS 39 and IFRS 7 to allow banks to retrospectively reclassify financial instruments from the fair value category to the amortised cost category. All of these issues raise questions as to how the standards are developed and come to incorporate these highly controversial characteristics.

1.2 Contribution of the thesis

The accounting literature has long viewed standard setting as a political exercise as opposed to a purely technical process. For example, Zeff (1978) discussed the role of the economic consequences argument in the fall of the then U.S. standards setter, the Accounting Principles Board (APB) and the rise of a new body that was intended to be better able to cope with pressures from third parties, namely the Financial Accounting Standards Board (FASB). Since this time, academic research has supported the view that outside parties, motivated by self-interest, try to influence the standard setters to obtain favourable regulation (e.g., Watts and Zimmerman 1978; Jorissen et al. 2012). One avenue for influencing the IASB is through submitting comment letters in response to the organisations proposals. Reviewing comment letters is part of the formal due process of the IASB's standard setting. However, despite numerous calls for research to develop greater understanding of this process (e.g., Barth 2008; Kothari et al. 2010), there is still a lack of objective and rigorous methods in the lobbying literature for analysing comment letters, and their influence on the resulting standards.

Even members of the IASB recognise that there are many questions surrounding international accounting standard setting for academic research to address. The following quote is from Professor Mary Barth, member of the IASB from 2001-2009:

> "*Most observers understand that the IASB and FASB come under political pressure from time to time...Open questions relating to these issues include the following. What is the role of politics in standard-setting? What are the political forces? Do political forces from different countries offset or reinforce each other? Does the existence of political pressure on the standard-setting process result in higher or lower quality standards? That is, does political*

> *pressure provide a healthy tension or does it compromise the quality of the outcome?*" (Barth 2008, p. 1175)

The thesis therefore seeks to address these questions by focusing on financial instruments accounting, one of the most contentious topics in international accounting.

Two standards on financial instruments were inherited from the IASC, the predecessor to the IASB. One, IAS 39, deals with recognition and measurement, and the other, IAS 32, with presentation. IAS 39 is considered to be the most controversial legacy of the IASC (Camfferman and Zeff 2007, p. 362) and a project to improve the standard was added to the IASB's agenda immediately after its inception. Sir David Tweedie described the state of the standard in an interview in March 2001, soon after assuming the position of chairman of the new organisation: "*For example, financial instruments (IAS 39) is the most terrible standard. Any standard that requires 200 questions and answers before it has actually come into effect represents a major problem.*" (Street 2002, p. 86).

The IASB was established in March 2001 and implemented a due process for standard setting. It involves a consultation period with constituents where the IASB publishes an Exposure Draft (ED) setting out changes that it intends to make to the standards. Constituents are then allowed to submit comments on the ED, which are reviewed and summarised by the IASB's technical staff, and presented to the board before changes are finalised and implemented into the final standard. Establishing a due process like this had been one of the requirements from parties influencing the development of the IASC into the IASB, and is crucial to the public perception of the organisation, as well as to the legitimacy and survival of its accounting standards (Camfferman and Zeff 2007). As part of its commitment to transparent standard setting, the IASB publishes

the comment letters on its website. The length of time that the financial instruments project has been running for, and the controversial nature of the topic, make it an ideal setting to analyse the opportunities for influence within the due process. Moreover, to date, there is no complete study of the development of international accounting standards for financial instruments.

There are some concerns that the financial industry has been granted undue influence over international financial instruments accounting. For example, Perry and Nölke (2005) found through network analysis of the IASB and the European Financial Reporting Advisory Group (EFRAG) that actors from the financial sector have more opportunities for influence than other industries. Moreover, the financial industry has been argued to effectively have captured financial market regulators (Hardy 2006). The thesis, therefore, examines whether these concerns are warranted, and whether the organisation and accounting standard enforcement institutions around the world need to reconsider aspects of their due process.

Prior research has employed manual content analysis in order to extract opinions within letters and examine sources of influence (e.g., Kenny and Larson 1993; McLeay et al. 2000; Kwok and Sharp 2005; Hansen 2011; Giner and Acre 2012). However, this type of methodology makes it difficult to detect significant relationships between lobbying and influence as it relies on small samples due to the costly and time-consuming nature of content analysis. In addition, it is subjective in nature and results are at risk of bias due to the researcher's own view on the opinions in the letters. By employing a novel, yet objective and rigorous methodology, grounded in ideology theory of regulation, this thesis is able to analyse a large sample, and establish causation of the relationship between lobbying and the final version of

the standards, thus obtaining objective results regarding the sources of influence at this stage of the standard setting process.

In sum, the thesis contributes to our understanding of the impact of comment letter lobbying and the extent to which the IASB takes account of external influence within its due process. Moreover, a methodology is developed which is employed to identify sources of influence in the development of financial instruments accounting.

1.3 Structure of the Thesis

The thesis is organised as follows:

Chapter 2 outlines historical developments of the IASB and the rise of its standards to their current status. In addition, the chapter discusses the development of standards for financial instruments and the debate that has centred on the implementation of the controversial provisions, including the fair value option and abolition of macro-hedging. There have been several shocks to the development of these standards caused by the E.U. adoption and the financial crisis. The historical developments indicate that there are concerns that certain parties are granted undue influence. This motivates the empirical investigation.

Chapter 3 reviews the prior literature examining political lobbying of accounting standard setters. Competing theories of regulation are discussed, as well as two streams of lobbying literature: one which centres on the motivations for the participation in the standards setting process and the characteristics of participants, and one which examines the impact of comment letters on the resulting regulation. Extant research shows that lobbying activities are undertaken in the belief that the benefits will outweigh costs, yet there is little consensus as regards the extent of

influence that is granted to lobbying parties. Moreover, due to the shortcomings of manual content analysis, the scope for textual analysis is discussed in the context of its recent applications in accounting and finance research.

Chapter 4 describes the sample and its text characteristics as organised by interest groups and geographical origin of the comment letter author or author organisation. The sample selection and negativity analysis demonstrate the conflicts between different lobbyists as well as the opportunity for deriving the primary measurements for the empirical investigation of ideological alignment and lobbying success used in the subsequent chapters.

Chapter 5 empirically analyses the room for influence in the standard setting process at the point where the IASB has issued an exposure draft and is requesting constituents' input before making the final changes to a standard. Using computerised textual analysis, the level of negativity and explicit opinion in each response are measured and logit regression analysis is used to test if these measures have an impact on the likelihood of the IASB rejecting its proposed changes.

Chapter 6 empirically examines the differences in ideological alignment between various constituent groups and the IASB by comparing the levels of opposition in comment letters to the IASB's proposals. Opposition is measured as a composite factor based on negative tone and explicit opinion. Further, it analyses if the impact of opposition on the likelihood of the IASB rejecting its proposed change is dependent on the constituent group as well as the type of accounting issue that the change concerns.

Chapter 7 investigates the issues concerning international differences in financial reporting and uses the methodology developed in Chapters 4-6 to examine the impact

of national characteristics of the lobbyists. The analysis is extended by constructing a subsample of the most opposing responses used to examine the impact of country-specific characteristics on the likelihood of lobbying success.

Chapter 8 summarises the empirical findings and concludes with the original contribution of the thesis, as well as considerations for future research.

2. Historical Development of the IASB and International Financial Instruments Accounting

2.1 The Formation of the IASC

The International Accounting Standards Committee (IASC) was established in 1973. Its creation was a response to a growing demand for international harmonisation of accounting standards (Godfrey and Langfield-Smith 2005). The founding members were a group of professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, The Netherlands, The United Kingdom and the United States of America.[2] These professional bodies agreed to formulate and promote compliance with basic international accounting standards (IAS).[3]

In Europe, previous attempts to harmonise European accounting included the fourth and seventh directives, issued in 1978 and 1983, respectively. Joos and Lang (1994) found that these efforts had limited impact and showed that the directives failed to bring about convergence of financial statement ratios between the U.K. and Germany. The demand for international harmonisation remained, and in the 1990s in the U.S. the New York Stock Exchange (NYSE) turned to the International Organization of Securities Commissions (IOSCO) and the U.S. Securities and Exchange Commission (SEC) to encourage their endorsement of IASs to reduce the barrier for foreign companies to list on the exchange (McGregor 1999). However, these organisations wanted to see a more transparent organisation and standard setting (Jones et al. 2004).

[2] For a full list of professional accounting bodies, see appendix 1.
[3] For key points of the original constitution, see appendix 2.

2.2 The Development into the IASB

Before 1987, the standards produced by the IASC were basic principles, prohibiting what they deemed to be unacceptable accounting practices, while allowing several acceptable options. At the time, this flexibility was necessary in order to be compatible with the majority of practices in the founder members' home countries (Camfferman and Zeff 2007, p. 10). Yet, in order for the standards to attain the status they hold today, there were three key events that reduced the flexibility and improved the perception of the organisation: the stock market crash in 1987, the International Organization of Securities and Commissions (IOSCO) agreement in 1995, and the IASC's constitutional reform in 2001 (Godfrey and Langfield-Smith 2005). These events generated opportunities for external parties to influence both the structure of the organisation as well as its standards. Influential parties included the IOSCO, the Group of 4 (G4), the U.S. Financial Accounting Standards Board (FASB), and the SEC.

2.2.1 IOSCO

In response to the anticipated critique of financial reporting in the wake of the stock market crash in 1987, IOSCO and the IASC agreed that the IASC should undertake a comparability project of international accounting standards (Godfrey and Langfield-Smith 2005). As a result of the project, the IASC issued set of ten standards in 1993 which had removed some of the available alternatives that had been available under the old standards. However, IOSCO did not consider the ten standards to be complete enough to be endorsed to their member countries. A particular shortcoming was the lack of standards to deal with financial instruments (Camfferman and Zeff 2007, p. 10).

In 1995, IOSCO and the IASC arrived at a new agreement regarding a core set of 30 standards, which were to include a standard for financial instruments (Camfferman and Zeff 2007, p. 12). Recognising the increase in the flow of cross-border capital, IOSCO assessed and approved the 30 resulting standards and recommended them to its members in 2000 (OICV-IOSCO 2000). This recommendation was, however, declined by the U.S., U.K., and Japan who were critical of the IASC's operating structure (Collett et al. 2001). Moreover, the IASC had already started a process of restructuring the organisation, something which presented an opportunity for additional parties to influence the structure of the new organisation.

2.2.2 The G4

The IASC was operating in close proximity to the Group of 4 (G4); a group of accounting standard setters from countries with strong national standards with a 'user focus'.[4] The G4 had formed in 1993 as a reaction of scepticism to the increasing influence of the IASC (Beresford 2000). The G4 standard setters had more similar conceptual frameworks and wanted to move ahead with convergence of their standards at a faster pace than could be achieved by the IASC (Nobes 2003). The relationship between the IASC and the G4 developed into a state of competition for becoming the de facto international accounting standard setter (McGregor 1999). In order to assert its status, the IASC created the Strategy Working Party (SWP) in 1997 with the explicit responsibility to turn the IASC into a quality standard setter (Street 2006).

[4] The G4 included the Australian Accounting Standards Board (AASB), Canadian Accounting Standards Board (AcSB), U.K. Accounting Standards Board (ASB), U.S. Financial Accounting Standards Board (FASB), Australian Accounting Research Foundation (AARF) and from 1996 New Zealand Financial Reporting Standards Board (FRSB).

The first recommendations of the SWP proposed that the organisation should retain geographical dispersion as the main criteria for membership on the board. It was also suggested that there would be a standards development committee, operating under supervision of the board, in charge of the technical development of the standards, but that the board would possess the power to veto any standard (SWP 1998, p. 12-15). In their capacity as standard setters from countries with relatively developed standards, the G4 representatives would be likely to serve on the proposed standards development committee. However, G4 members were sceptical about serving on the committee should the standards be subject to veto by the board (Street 2006).

An article by G4 member Warren McGregor, and staff observer/technical advisor to the IASC, raised doubt as to whether the SWP's (1998) proposal of a restructured IASC would succeed in meeting the demands of the relevant groups. Should it fail, McGregor (1999) proposed that a modified G4 could assume the role as the international accounting standard setting body.

2.2.3 The SEC and the FASB

The U.S. Securities and Exchange Commission (SEC) would be likely set the criteria for IOSCO's endorsement of IASs and the SEC was, in turn, advised by the FASB (McGregor, 1999). The FASB was sceptical of the structure of the IASC as it was primarily made up of the accounting profession, as opposed to standard setters, and lacked transparency of its processes (Camfferman and Zeff 2007, p. 15). In 1999, the FASB issued a report, *International Accounting Standard Setting: A Vision for the Future*, which set out the characteristics it would like to see in a restructured IASC. The crucial characteristics were a transparent due process and high quality staff, as well as independent fund raising and oversight (Street 2006).

The G4, FASB, and SEC all recommended the assignment of board members to be based on technical expertise, as opposed to geographical representation (Street 2006). Moreover, both the FASB report and McGregor's (1999) article brought up the possibility that a modified G4 or FASB could come to take over as the international standard setter if the IASC were to fail in achieving an acceptable structure. The future of the organisation was, therefore, dependent on its willingness to comply with the demands of the aforementioned parties.

2.2.4 The Creation of the IASB

In 1999, the SWP produced a final report with recommendations for the IASC's restructuring. The threat of others taking their place was recognised in the report (SWP 1999, p. 6):

> *"In the Working Party's view, IASC should now make structural changes so that it can continue to meet the need for a set of high quality global accounting standards. If IASC fails to make those changes, other national, regional or international bodies are likely to emerge to fill the gap in response to market pressures and become de facto global or regional standard setters."*

The proposed structure included the appointment of board delegates based on technical expertise as per the wishes of the G4, FASB, and SEC. Moreover, the suggestion of veto by an oversight committee was removed (SWP 1999). In 2001, the IASC was incorporated and renamed the International Accounting Standards Board and started operating as an independent body with trustees and a board (Brown and Tarca 2001). Since its restructure, incorporation, and name change, the IASB has gained international recognition as a quality standard setter (Camfferman and Zeff 2007). Currently, domestic listed companies in 92 jurisdictions are required to prepare

their financial statements in accordance with IFRS, with a further 10 jurisdiction requiring some listed companies to use them, and an additional 26 jurisdiction permitting their use (Deloitte IAS Plus 2014). The map in Figure 2.1 illustrates the use of IFRS for domestic listed companies around the world with grey fields indicating whether they are required for all, required for some, or permitted as an alternative to domestic standards.[5]

Figure 2.1 Use of IFRS around the World

This figure illustrates the use of IFRS around the world.

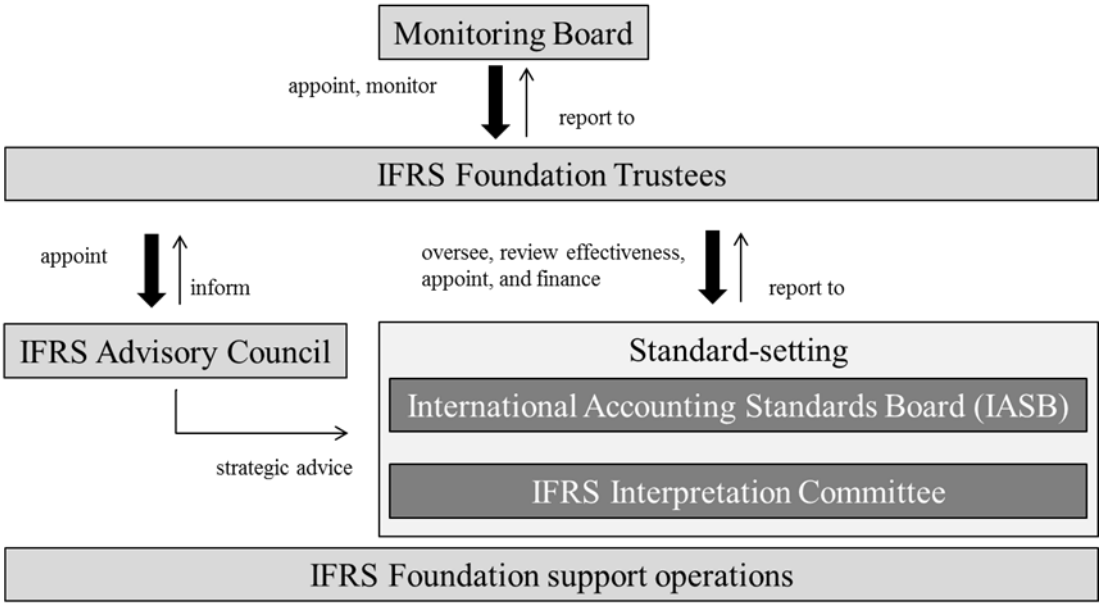
[5] The data for use around the world was obtained from the Deloitte IAS Plus website: http://www.iasplus.com/en/resources/ifrs-topics/use-of-ifrs/#Note14 and accessed on 16 June 2014.

2.3 Current Structure

Undoubtedly, the G4, including the FASB, influenced the restructure of the IASC. Four G4 members were given seats on the IASB after the restructure (Street 2006) and U.S. influence was formalised through a memorandum of understanding, signed by the IASC and FASB in 2002. The project, known as the Norwalk Agreement, promised to bring about convergence between the two bodies' standards.

The current structure of the IASB is illustrated in Figure 2.2. The monitoring board is made up of public capital market authorities to whom the trustees are publicly accountable. The IFRS Foundation Trustees are geographically and professionally diverse and responsible for the governance and oversight of the IASB, whereas the IASB is responsible for the technical matters of standard setting and for approving interpretations prepared by the IFRS Interpretation Committee. The IFRS Advisory Council is appointed by the trustees, and serves as the formal advisory council to the IASB and the trustees. It is made up of representatives of constituents affected by accounting standards.

Figure 2.2 Structure of the IFRS Foundation and IASB



This figure was reproduced from IFRS Foundation (2012) "Who we are and what we do" and illustrates the structure of the IASB.

The current structure of the IASB has been developed to balance the demands of important economies and organisations with endorsement and enforcement powers over IFRS. The make-up of the organisation is no longer exclusive to the accounting profession but includes various interest groups, such as representatives from the business community, national standard setters, other regulators, academics, and the accounting profession, both on the board and throughout the operating structure. This structure is arguably the key to the currently high status of the standards, which is demonstrated by widespread international adoption. An understanding of its historical development, therefore, provides the foundation for studying the influences upon the organisation within its current structure. For example, with its investor focus, international accounting is known to be rooted in Anglo-American accounting (Nobes 2003; Ball 2006). Moreover, the development of the IASB clearly demonstrates how

Anglo-American accounting is likely to continue to dominate international accounting (Nobes 2003).

2.4 Due Process

The power dynamics within international standard setting remain complex as they include numerous constituents, from various institutional backgrounds, often with conflicting interests. A key feature of the process from which the IASB derives legitimacy, is its due process. The IASB's due process involves several steps and consultations with constituents in the development of IFRS. Below is a brief summary of the steps as included in the preface to IFRS (IFRS Foundation 2011, A8):

a) The IASB identifies issues that need attention and consults with the IFRS Advisory Council regarding adding items to the agenda.
b) The board decides whether to conduct the project alone, or jointly with another standard setter.
c) A working group may be established.
d) A discussion paper is issued which includes an overview of the issue, the preliminary views of the IASB and an invitation to comment. (This step can be omitted).
e) An exposure draft is published which must have been approved by at least nine members of the IASB.
f) The comment letters received are reviewed along with other consultations.
g) An IFRS is developed which must be approved by at least nine members.

The IASB may issue further exposure drafts if an issue is not resolved before issuing or amending a standard. In any lobbying setting such as this, there may be unobservable, informal channels of influence for external parties in the early stages of

standard development. However, when an exposure draft has been issued, there is a formal opportunity for external parties to comment on the proposals contained within the draft, and potentially affect the IASB's decision whether or not to implement it.[6]

2.5 Financial Instruments Accounting

The project on financial instruments has been recognised as the most challenging project in the history of the IASC, and the resulting standards as its most controversial legacy (Camfferman and Zeff 2007, p. 361). It started as a joint project between the IASC and the Canadian Institute of Chartered Accountants, in 1988 (IASC 1998). The disclosure and presentation part was added to a new standard in 1995, *IAS 32: Financial Instruments: Disclosure and Presentation*, whilst the first version of *IAS 39: Financial Instruments: Recognition and Measurement* was issued in 1998 (IASC 1998). However, the project was far from completed and has remained complicated and controversial, as revisions to improve, and ultimately replace, the standards have continued since the organisation's restructure into the IASB.

2.5.1 Early Developments

Before IAS 39 was created, another standard, *IAS 25: Accounting for Investments*, addressed investments in financial instruments. Three versions of an exposure draft preceded the issuance of IAS 39: E40, E48, and E62. *E40 Financial Instruments* was issued in September 1991. Although the IASC had already begun developing proposals on using fair value as the measurement basis for all financial instruments, the exposure draft proposed a mixed measurement approach based on managerial intent (Camfferman and Zeff 2007, p. 364). This was later re-drafted and re-exposed

[6] The comment letters are reviewed by the IASB's technical staff and presented in a summarised form to the board members.

as E48, *Financial Instruments,* in 1994, and as *E62 Financial Instruments: Recognition and Measurement*, in June 1998, immediately preceding the standard.

Even after issuing IAS 39 in 1998, the IASC realised that resolving the remaining issues, would be a long and complicated project as a result of the controversy and disagreement amongst interested parties.[7]

> *"Those meetings and analysis of comment letters on the Discussion Paper confirm that IASC faces controversies and complexities in seeking a way forward. While some acceptance exists of the view put forward in the Discussion Paper – that measurement of all financial assets and liabilities at fair value is necessary to obtain consistency and relevance to users – application of that concept to some industries and to some kinds of financial assets and liabilities continues to present difficulty. Widespread unease is also evident about the prospect of including unrealised gains, particularly on long-term debt, in income as proposed in the Discussion Paper. Those difficulties will not be easily or quickly resolved. Further, while several national standard setters have undertaken projects to develop national standards on various aspects of recognition and measurement of financial instruments, no country has in place or proposed standards that are similar to the proposals in the Discussion Paper."* (IASC 1998, p. 1023)

2.5.2 The Interim Standard

The standard that was published in 1998 was seen as an interim standard to be developed further and finalised by the Joint Working Party (JWP), comprising

[7] The discussion paper referred to in the quote below is: *Accounting for Financial Assets and Financial Liabilities,* issued in 1997.

national standard setters and the IASC (IASC 1998). The JWP issued a report in 2000, *Draft Standard and Basis for Conclusions: Financial Instruments and Similar Items,* which proposed a shift to full fair value measurement of financial assets and financial liabilities. However, banks and banking associations were opposed to the complete use of fair value and the resulting amendments to IAS 39 maintained a mixed measurement approach (Hodges and Woods 2004). This illustrates the role of politics in developing accounting standards and in 2001, Sir David Tweedie expressed dissatisfaction with the interim standard, IAS 39, claiming that it was a result of having to complete its core set of standards (Street 2002).

2.5.3 The Fair Value Option and the E.U. Carve-Out

Another exposure draft on proposed improvements to IAS 39 was published by the IASB in 2002.[8] This ED proposed the introduction of the much debated fair value option (FVO). The FVO would allow entities to irrevocably designate any financial asset or liability to be measured at fair value through profit or loss. The IASB interpreted most of the comment letters as being in favour of the introduction of the FVO but recognised that it evoked concerns among prudential bank regulators (IFRS Foundation 2005). Particular concerns amongst regulators had been the potential misuse of fair value to inappropriately affect profit or loss, the increase in volatility if used on only one part of a matched position, and the gains in profit or loss for a decline in an institution's own creditworthiness (IFRS Foundation 2005).

The E.U., which was due to adopt IFRS in 2005, was reluctant to endorse this feature of IAS 39 and the IASB responded by suggesting some limitations to the use of the FVO (IFRS Foundation 2005). Whilst these limitations were sufficient for the E.U.

[8]For a full list of documents issued for comment by the IASB, see Table 4.1 in Chapter 4.

endorsement of the FVO, issues regarding hedge accounting had yet to be resolved by the time that E.U. came to adopt IFRS in 2005. The issue concerned the application of a discount rate in the valuation of core deposits and letting them qualify for fair value hedge accounting. IAS 39 had disallowed these practices which were frequently used by European banks. The banks came to influence European policy makers including the French President, Jacques Chirac, who, in 2003, wrote a letter to Romano Prodi, the President of the EC, expressing concern regarding the adoption of IFRS, in particular of IAS 39 (Armstrong and Jagolinzer 2005). In the end, the EC voted to adopt IFRS with a carve-out for these requirements and letting member countries decide whether to implement this feature or not. In turn, member countries chose to allow companies to choose whether or not to apply the feature (Armstrong and Jagolinzer 2005).

This is clear evidence of lobbying having an effect both on the written standard, as was the case for the limitations to the fair value option, and where it failed to achieve its full objective, it instead affected the enforcement of the standard. As a result, the notes to audited financial statements for European companies listed in an E.U. securities market state *"in accordance with International Financial Reporting Standards as adopted by the E.U."* (E.U.R-Lex. 2002). U.S. and Asian constituents were concerned about the European influence over the standards (Sanderson 2010). It was anticipated at the time that this would set a precedence that may have long-term implications for future IFRS adoption (e.g., Armstrong and Jagolizer 2005). Recent developments in the next section indicate that this may be the case.

2.5.4 Recent Developments

As mentioned previously, the Chairman of the IASB, David Tweedie was unhappy with the state of IAS 39 as inherited from the IASC. However, he was hopeful about the prospects of international standards setting. In an interview shortly after the inception of the IASB he stated:

> "*An interesting aspect of the new structure is that in each of our own countries intense pressure can force the national standard setters to issue bad compromise standards. As individual national standard setters, we were not able to rise above the competitive disadvantage argument. However, if the IASB and national standard setters move in tandem under the new structure (the partnership) the competitive disadvantage argument disappears*." (Street 2002, p. 85).

As long as international standards are not enforced globally, this problem still exists. In October 2008, the E.U. demanded a prompt change to IAS 39. The European Commission called for the standard to allow reclassifications of certain assets measured at fair value to the amortised cost category. This would make it more similar to U.S. GAAP and ensure that European financial institutions were not at a disadvantage (Bengtson 2011). In response, the IASC Foundation waived its due process in order to quickly implement the reclassification option (House of Commons Treasury Committee 2008). David Tweedie defended this decision and claimed that it was necessary in order to prevent "out of control" European accounting, yet recognised that it was a setback for the organisation (House of Commons Treasury Committee 2008, Ev. 30).

In November 2009, the EC, once again, decided to defer its endorsement of IFRS 9. In the same month, the FASB and IASB committed to a project to reform financial instruments. This followed recommendations by the Financial Crisis Advisory Group (FCAG), a group that had been formed in 2009 to advise the IASB and FASB in their response to the financial crisis. In particular, the project should aim to resolve when to use fair value and when to use amortised cost, how to deal with the 'own-credit' problem, and loan loss provisioning.[9] The IASB is currently undertaking a three-part project to replace IAS 39 with a new standard, IFRS 9 *Financial Instruments*. The standard was meant to be completed in three phases and ready for endorsement in 2015 (IFRS Foundation 2012c). However, there have been delays to the project and the aim is now to require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2018 (IFRS Foundation 2014b).

Despite being convinced that prior IFRS requirements were sufficient and provided warning signs of a crisis that people chose to ignore, the current IASB Chairman, Hans Hoogervorst, is confident that international financial instruments accounting has been improved. However, he recognised that the joint project had failed as U.S. GAAP and IFRS still differ substantially on Classification and Measurement, Offsetting, and Impairment, i.e. the key features of financial instruments accounting (IFRS Foundation 2014a). This sentiment is echoed by the FASB on its financial instruments project page of its website: "Over time, the FASB and the IASB took different approaches to various aspects of the accounting for financial instruments" (FASB 2014).

[9] The own-credit problem refers to the counterintuitive recording of a gain in profit and loss as the market value of an entity's liabilities decrease as a result of its own credit rating deteriorating.

2.6 Conclusion

The historical developments demonstrate how the demand for international accounting has resulted in the emergence of a standard setter whose structure has been heavily influenced by U.S. policy makers. There has been widespread adoption of IFRS around the world, yet the U.S. has not adopted the standards. This is likely a result of the political tensions that are affecting the development of the standards. Instead, the IASB and FASB have been working on finding converged solutions. However, for the financial instruments project, recent developments have not been able to achieve this.

The board was unhappy with the existing standards on financial instruments accounting at the inception of the IASB. Since then, continuous efforts have been made to improve and simplify IAS 39, but progress has been slow. In an interview in the Journal of Accountancy Sir David Tweedie stated: *"I often say about IAS 39 that, if you understand it, you haven't read it properly—it's incomprehensible."* (Pickard 2007).

Questions that remain unanswered are: How could the development of IAS 39, despite the dialogue with third parties, lead to a standard that was considered so unacceptable to its constituents that the IASB waived its due process and gave in to the demands of the E.U.? Do parties, external to the organisation, have an influence over the decisions of the IASB and are these reflected in the due process? What constituents exert the most influence? Answering these questions will gauge an understanding of how the due process is facilitating influence over the standards and how this compares to the pressures that the organisation face outside of its due process.

3. Literature Review

3.1 Introduction

Political influence over standard setting has been defined as *"purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve some other self-interested purpose inconsistent with the FASB's mission"* (Gipper et al. 2013, p. 1) and *"…self-interested considerations or pleadings by preparers and others that may be detrimental to the interests of investors and other users…"* (Zeff 2002, p. 43). These definitions suggest that the political lobbying is rooted in self-interest and is somehow detrimental to the quality of the standards.

In order to understand empirical work on political lobbying the literature review first provides an overview of major theories of regulation and their application to accounting standard setting in section 3.2. This is followed by a review of the empirical work on accounting lobbying in section 3.3. This review also outlines some of the constraints imposed by the methodologies commonly applied in this line of research. As text analysis is proposed as a way of overcoming these constraints, section 3.4 outlines the use of computerised text analysis in recent accounting and finance literature and its potential application to accounting lobbying research. Section 3.5 concludes.

3.2 Theories of Regulation and the Political Process of Standard Setting

General approaches to explaining the existence of regulation may have limited applicability to accounting as it differs substantially from other types of regulation (Gipper et al. 2013). However, the key features of major theories are mentioned below with reference to the development of the IASB and its standards.

3.2.1 Public Interest Theory

Public interest theory suggests that regulation is an outcome of the regulatory body acting as an agent for the public (Baldwin and Cave 1999). The regulator has expertise, which it uses to develop regulations in the public interest. Under this theory it is assumed that regulation emerges as a response to market failure. Without regulation, markets would fail due to natural monopolies, externalities, information asymmetries, or excess competition.

In the context of accounting standard setting, a public goods argument can be used to explain the potential underproduction of accounting information that would occur, i.e. the non-excludable nature of the information would potentially lead to underproduction (Kothari et al. 2010). There has also been mention of the potential for over production of accounting information without regulation. For example, Fama and Laffer (1971) argued that costly production of information will be motivated by the potential for speculative trading of company shares. This trading leads only to redistribution of wealth and not the generation of any social product, making the process less than socially optimal. Leftwich (1980), and more recently Leuz and Wysocki (2008), were critical of the theoretical underpinnings of these arguments as a justification for the standardisation and regulation of accounting. They were critical of

the extent of market failure that would actually result in the absence of regulation, and even if the extent of information would not be entirely socially optimal, they were sceptical to the extent which regulation would correct this.

Whether accounting regulation is justified or not, standardised practices have emerged and are regulated by a combination of private standard setters, financial markets regulators, and governments. Kothari et al. (2010) acknowledge that public interest theory may describe the emergence of regulation. However, they question how the regulation is formed and, in particular, the soundness of the assumption, in public interest theory, that the regulator is incorruptible and infallible, and would not be susceptible to lobbying.

In addition, it is difficult to reach consensus on what constitutes 'the public interest' in accounting standard setting. In the original constitution of the IASC, it was stated that the members should be *"guided by the need to act in the public interest and the general interest of the accountancy profession as a whole"* (Camfferman and Zeff 2007, p. 501). This assumes that there is no conflict between the public interest and the interest of the accountancy profession. As outlined in Chapter 2, the IASC struggled to gain acceptance of its standards when the organisation was made up of the profession. The standard setter was instead reorganised into a body inclusive of other interest groups. This suggests that the public perception of accounting regulation is that the public interest does not necessarily equate to the interest of the accountancy profession.

3.2.2 Capture Theory

Capture Theory views regulation as the outcome of forces of supply and demand. Regulation leads to wealth transfers which motivate power struggles amongst interest

groups who try to maximise the wealth of their members (Posner 1974).[10] This theory has some merit in explaining the rise of accounting regulation, and the formalisation of a due process is evidence of standard development being subject to conflicts between different interested parties. As mentioned above, accounting regulation can lead to wealth transfers as disclosures affect speculative trading of a company's shares (Fama and Laffer 1971) and auditors' wealth is dependent on the disclosure requirements of their clients (Puro 1984). Moreover, the existence of accounting standards could be explained by managers', accountants', and auditors' need to protect themselves against litigation. That is, if faced with a legal liability, they will prefer to cite authoritative legislation rather than defending their own judgement. As such, these groups will want accounting standards, and may capture the processes by which they are developed, in order to further their own agenda (Kothari et al. 2010).

This theory has been used to explain the importance of the accounting profession in the U.S. and Australia. In 1976, the FASB was criticised in the Metcalf Report by the U.S. Congress for lacking independence from the accounting profession (Haring 1979). Similarly, Bowrey et al. (2007) argued that the accounting profession in Australia captured the Public Accountants Registration Board in order to repeal accounting legislation.

3.2.3 Ideology Theory of Regulation

Similarly to Posner (1974), Kalt and Zupan (1984) recognised that public interest theory is more of a normative wish than an effective explanation of regulation. However, they criticised capture theory for failing to recognise the potential

[10] This theory goes by many names including private interest theory and economic theory of regulation. The theory that is discussed was the result of George Stigler's (1971) proposed theory of economic regulation which refined the work of prior capture theorists and was further explained and compared to public interest theory as well as endorsed by Posner (1974) as the most promising theory of regulation.

importance of ideology. This was also recognised by Kau and Rubin (1979) who found that, in contrast to Stigler's (1971) hypothesis that all voting could be explained by economic interests, ideology was significant in the voting behaviour of U.S. congressmen and, thus, economic theory cannot fully explain legislation. They argued that a theory of regulation with a broader conception of political behaviour incorporating both the ideology of regulators and economic forces was needed.

Ideology theory of regulation integrates concepts of the above mentioned theories, but relaxes some of the more unrealistic assumptions. Like public interest theory, it stresses that regulation is a response to market failures. However, it also predicts that lobbying, motivated by economic interests, will influence the regulator. In this way regulation is a joint outcome of political ideologies and special interest lobbying (Kothari et al. 2010). Although untested within accounting research, ideology theory of regulation has been argued to be promising in the context of accounting standard setting (e.g., Kothari et al. 2010; Gipper et al. 2013). In a free market, underproduction of regulation would result from externalities, giving rise to regulation to correct this. The regulators have ideologies, for example favouring the balance-sheet primacy or fair value measurement, but will take account of lobbying if it can provide them with relevant information (Kothari et al. 2010). The ideology of the standard setter can be viewed as their *"ingrained mindset that favors rules with certain characteristics"* (Gipper et al. 2013, p. 10).

3.2.4 Institutional Theory

According to institutional theory, behaviour is assumed to be affected by the rules and the organisational and social setting in which institutions operate (Baldwin and Cave 1999). In particular, it stresses that an organisation's struggle to achieve social

legitimacy and maintaining credibility with external constituents is the main force for generating action (Fogarty 1992). Fogarty (1992) analysed the institutional context of the FASB and proposed that institutional theory provides a good explanation of the constraints that an accounting standard setter faces. It was argued that the intangible output in the form of accounting standards cannot be effectively explained by forces of supply and demand which covers traditional forms of business enterprise.

Moreover, institutional theory provides insight into the regulator's chosen operating processes and, in particular, into the institutional change that resulted in the restructure of the IASC into the IASB in 2001. As Chapter 2 discusses, the standard setter was reorganised from a body made up of the accounting profession into one which included various stakeholder groups in its internal processes. Camfferman and Zeff (2007, p. 88) attribute this to the desire of certain members to achieve worldwide adoption of its standards, something that the profession could not achieve on its own. In addition, the organisation's survival was threatened by its potential replacement by the FASB or the G4 (Street 2006). The restructure was therefore imperative to its survival as a global standard setting body.

One key part of institutional theory is the explanation of organisations' tendency to develop similar structures. For example, coercive and mimetic isomorphism have been identified as factors of institutional change within the accounting standard setting environment in the U.S. (Fogarty 1992). Together with normative isomorphism, these factors cause organisations to become more homogenous (DiMaggio and Powell 1983). Coercive isomorphism is a result of political influence and the issue of legitimacy, whereas mimetic isomorphism is a response to uncertainty (DiMaggio and Powell 1983). Sources of coercive isomorphism stem from cultural expectations, and

can manifest themselves through formal or informal pressures. In order to cope with poorly understood technologies and ambiguous goals, organisations are encouraged to model themselves on other organisations (DiMaggio and Powell 1983).

These forces effectively explain the restructure of the IASC into the IASB and its subsequent operating structure. As the IASB cannot enforce its standards, it is subject to the coercive isomorphic influence of large economies that can grant the organisation legitimacy by endorsing the standards. In its restructure, the IASB became more similar to standard setting bodies in the U.S., Canada, and Australia (Ravlic 2000). Mimicking the structure of other standard setters could also serve to cope with the uncertainty of the environment and the threat of replacement. According to Fogarty (1992), acceptance of the need to operate according to social expectations demonstrates a rational, long-term objective of organisational survival. The IASB's operations have been established by isomorphic influences in order to respond to social expectations. Through generating a widespread perception of organisational legitimacy, it has improved its prospects for organisational survival.

Theories of regulation help explain the development and operating structure of the IASB for which institutional theory may be particularly effective. Public Interest Theory and Capture Theory have limited applicability in the accounting standard setting context. Instead, Ideology Theory provides a conceptualisation for the interplay between the ideologies of the standard setter, i.e. their preferred technical approach, and the role of special interest lobbying and its effect on the regulatory output.

3.3 Lobbying Accounting Standard Setters

The literature on lobbying of accounting standard setters can be divided into studies that analyse the characteristics of lobbyists and their motivations to lobby and studies that examine the standard setters' response to the lobbying efforts of interested parties, i.e. lobbying success. The focus of the thesis is on the influence granted to interested parties within the IASB's due process and therefore adds to the second stream of literature. However, to better understand the context in which accounting lobbying takes place, a brief overview of the literature on characteristics and motivations is provided below.

3.3.1 Characteristics and Motivations

Much of the research on the lobbying of accounting standard setters derive their theoretical foundation from Positive Accounting Theory (PAT), as developed by Watts and Zimmerman (1978), and Sutton's (1984) theory of lobbying. These models assume that interested parties have foresight into the economic consequences of a change to an accounting standard, as well the probability of success of lobbying efforts, and are then expected to act rationally on this information.

PAT deals with corporate participants', or preparers', incentives to lobby the accounting standard setter and assumes that this is grounded in firms' desire to increase expected future cash flows. According to PAT, factors that affect firm cash flows and are influenced by accounting standards are: taxes, regulation, management compensation plans, bookkeeping costs, and political costs. Modelling the effects, Watts and Zimmerman (1978) predicted that large firms which experience reduced earnings due to changed accounting standards will favour the change. All other firms will oppose the change. The theory was tested by examining comment letters to a

FASB discussion memorandum that proposed reporting the effects of general price level changes in financial statements. It was expected that 26 out of the 53 lobbying firms would likely experience reduced earnings if the proposal went ahead. Out of the responses from these 26 firms eight were in favour of the change and these firms were larger than the opposing firms, thus supporting the hypothesis.

Empirical research largely supports that self-interest guides lobbying and that a negative impact on firm's cash flows or accounting numbers is a predictor of preparer's tendency to submit comment letters. For example, Francis (1987) showed that size, leverage, and, although more inconsistently, expenses were predictors for submitting comment letters opposing the FASB's (1982) preliminary views document on pension accounting. Later, Schalow (1995) showed that firm size (sales) and impact of the proposed standard on financial statements (number of retirees) predicted comment letter submissions on the exposure draft on SFAS 106, '*Employer's Accounting for Postretirement Benefits Other Than Pensions'*. However, leverage position was not found to have an effect. Dechow et al. (1996) showed that greater use of stock options in top-executive compensation increased the likelihood of submitting a comment letter opposing mandatory expensing of stock option, as was proposed by the FASB in the 1993 exposure draft of FAS 123 *'Accounting for Stock-Based Compensation'*. These results were later confirmed in Hill et al. (2002). Further, Ang et al. (2000) looked at the incentives of Australian companies to lobby the Australian Accounting Standards Board (AASB) on the proposals in ED 53, *'Accounting for Employee Entitlements'*, for the recognition of superannuation commitments. Companies that lobbied were compared to a sample of companies that did not lobby and were found to be larger and have higher income volatility than the non-lobbying

companies. In addition, companies with defined benefit plans were more likely to lobby against the proposals.

Sutton (1984) employed Anthony Down's (1957) economic model of voting in a democracy to the accounting standard setting environment to predict who lobbies, when they lobby, and the methods by which they lobby. The model, referred to as the rational choice model, predicts that a party will lobby if the benefits of influencing the standard setter, adjusted by the probability of lobbying success, outweigh the costs. A key point of the model is that preparers of financial information are more likely to lobby than users as preparers tend to be less diversified in terms of income. Similarly, less diversified preparers are more likely to lobby than more diversified preparers. The accounting lobbying literature overwhelmingly confirms that preparers participate more than users (e.g., Francis 1987; Tutticci et al. 1994; Schalow 1995; Guenther and Hussein 1995; Dechow et al. 1996; Weetman et al. 1996; MacArthur 1996, 1999; Larson 1997; Ang et al. 2000; Larson and Brown 2001; Larson 2007; Stenka and Taylor 2010; Jorissen et al. 2012; Giner and Arce, 2012).

Classification of comment letters according to interest groups as identified by the IASB, namely the accounting profession, users, preparers, stock exchanges, regulators, academics, and others (IFRS Foundation 2011: A18), indicate that this is also the case for the IASB's financial instruments project.[11] However, Georgiou's (2010) questionnaire survey of U.K. investment management firms revealed that many users participate through representative report user organisations. This means that their level of participation may be underestimated in the empirical literature.

[11] The distribution of the sample is further explored in Chapter 4.

Sutton (1984) also proposed that large preparers lobby more than small preparers, as large firms enjoy more of the benefits, which give them greater potential to outweigh the costs of lobbying. This is also consistently confirmed in the literature. Several studies, in various settings, report that firms that submitted comment letters were larger than a sample of benchmark firms that did not lobby (e.g., Francis 1987; Larson 1997; Kelly 1982, 1985; Ang et al. 2000; Georgiou 2005; Jorissen et al. 2012). However, it should be mentioned that within the sample of comment letters relating to the financial instruments project, a large proportion of letters are sent by industry associations on behalf of various 'hidden' participants. Similarly to Georgiou's (2010) finding that users tend to lobby through representative organisation, the potential for smaller firms participating as 'hidden' lobbyists can therefore not be refuted, nor can the extent of their participation be empirically established through the estimation of comment letter submissions alone.

3.3.2 Lobbying Success

The second stream of literature looks at the development of standards in light of the pressure that standard setters face from outside parties. This stream of literature mainly focuses on comment letter submissions and the extent to which there is alignment between positions in the comment letters and subsequent proposals or finalised accounting standards.[12] The evidence on the impact of comment letter submissions on accounting standards is mixed.

Some studies have found that comment letters have a limited effect and that the standards are issued without reaching consensus on major accounting policies. For example, Brown (1981) analysed comment letters of 27 regular participants in the

[12] Notable exceptions are case studies by Rahman et al. (1994) and Van Lent (1997) who reviewed minutes from meetings in standard setting processes in New Zealand and the Netherlands.

FASB's process. The closeness of the FASB's positions to those expressed in the letters was analysed. There was minimal similarity between the FASB's positions and those expressed by constituents in comment letters throughout the process. Similarly, Mian and Smith (1990) found that the FASB went ahead with its proposal to require consolidation of financial subsidiaries despite strong opposition in comment letters sent by both users and preparers of financial reports.

In the U.K., the majority of academic research on the accounting standard setting process has concluded that the U.K. Accounting Standards Committee (ASC) and Accounting Standards Board (ASB) have made policy changes in response to opposition expressed by corporate respondents in the due process of various projects (e.g., Hope and Briggs 1982; Hope and Gray 1982; Jupe 2000).[13] However, Weetman (2001), who analysed the 99 comment letters relating to the development of ASB's FRS 3 '*Reporting Financial Performance'*, argued that the process was more of a symbolic ritual than an opportunity for influence. The ASB had been explicitly asking for input in its project to develop the standards, yet the analysis showed that the views expressed in the 99 comment letters were rarely taken into account in the final standard. Only four out of the eleven issues that the standard setter had been seeking input on were addressed when issuing the final standard. Weetman (2001) points out that the standard setter has an agenda itself which may constrain the consensus approach to standard setting. Taking this into consideration is important as evidence of influence may otherwise wrongly be interpreted as reaching consensus. The ideology theory of regulation takes account of this as it models regulatory outcomes as the joint effect of the regulator's ideology and special interest lobbying.

[13] The Accounting Standards Committee (ASC) operated in the U.K. from 1969 until 1990, when it was succeeded by the Accounting Standards Board (ASB).

There are, however, many studies that contest the results that standard setters are not affected by comment letter submissions (e.g., Hope and Gray 1982; Coombes and Stokes 1985; Brown and Feroz 1992; Kenny and Larsen 1993; Saemann 1999; Jupe 2000; Hodges and Woods 2004; Kwok and Sharp 2005; Hansen 2011; Giner and Arce 2012). Some find that final standards reflect the majority positions expressed in comment letters.

For example, in an Australian setting, Coombes and Stokes (1985) analysed 337 comment letter submissions on seven exposure drafts issued by the Australian Accounting Research Foundation (AARF). It was identified whether letters agreed, expressed no opinion, or disagreed with the AARF's final decision on 20 accounting policy issues that the AARF had explicitly stated as needing resolving before finalising the standards. For only two policy issues were there more occurrences where respondents disagreed than agreed with the final outcome and in all cases did the combined number of respondents that agreed or expressed no opinion exceed those that disagreed. They interpreted this as the standard setter's propensity to take account of the majority view of the comment letters, especially in the absence of evidence that the standards were consistently more aligned with one particular constituent group than any other. However, the propensity for the standard setter to change its own position was not addressed which makes inferences about influence ambiguous.

Kenny and Larson (1993) found similar results in a small scale study of the IASC's due process but focused on issues where the IASC changed its position. They examined 50 comment letters from interested parties, in 1989 and 1990, prior to the IASC issuing IAS 31 '*Financial Reporting of Interests in Joint Ventures'*. Manual content analysis was used to establish whether or not the lobbyist supported the

proposal and it was found that on issues for which there had been a change from the exposure draft to the standard, constituents had been opposing the original proposal more often than not. This goes some way to suggest that the IASC would change its position in light of constituents' opinions. However, constituent support and opposition was fairly evenly spread and the small sample size precludes the presentation of any robust results in the way of statistical significance.

Other studies limit the sample to comment letters by corporate respondents, i.e. preparers, to analyse the power that this group has over standard setters. An example is Brown and Feroz (1992), who analysed 74 comment letters from corporations to a first exposure draft (ED) on general price level adjustment (GPLA) and compared positions to the change in the FASB's position between the first and second ED on the same topic. The FASB had changed its position on four issues and it was found that this reflected the majority positions expressed in the comment letters. This study made an important methodological contribution in concentrating on issues where the FASB changed its position. However, it does not say anything about whether there was opposition expressed to any policies that the FASB chose to ignore.

There has been some evidence of the influence of banks in the IASC/IASB's development of IAS 39. In particular, Hodges and Woods (2004) argued that political arguments prevented the IASC/IASB from implementing concepts from the conceptual framework. When IAS 39 was first issued in 1998, it contained a mixed measurement approach to valuing financial assets and liabilities. In 2000, the Joint Working Group (JWG) of standard setters produced a proposal that was issued by the IASC to initiate a move towards full fair value. Hodges and Woods (2004) looked at 67 comment letter submissions from banks only on this report and identified the three

issues which were most frequently mentioned in the comment letters: the use of fair values, the income recognition principle, and the abolition of hedge accounting. Their analysis showed that all banks, except two specialist institutions, either expressed substantial reservations or fully disagreed with the proposals on these issues. The following IASB exposure draft in 2002, and ultimate amendments to the standard in 2003, contained limited revisions to the original standard and did not incorporate the proposals for these three issues that had been so heavily opposed. It is clear from the study that there was opposition by banks but it is unclear whether other constituents opposed these issues as well and, therefore, whose opposition the IASC/IASB ultimately responded to.

Giner and Arce (2012) studied the 539 comment letters sent to the IASB on the share-based payments project prior to issuing IFRS 2.[14] They identified three issues that appeared important to constituents and for which only one changed from the exposure draft to the final standard, namely the reference date. The finalised standard aligned with lobbyist preferences on this issue, 114 letters had been in favour of the outcome and 103 had been opposing that outcome. However, for the other two issues, lobbyists disagreed with the outcome even more; 129 disagreed and 20 agreed with the outcome on *recognition* and 115 disagreed and 35 agreed with the outcome of *valuation*, yet the IASB did not change their position. It is therefore somewhat ambiguous what can be concluded by the IASB's standard setting process in light of these results.

As was described in the section 3.3.1, constituents can be grouped according to their interest in the standard setting. Some studies have used this type of classification to analyse whether some constituent groups are more successful in influencing standard

[14] Of the 539 letters 116 were identical and treated as one unique response

setters than others. In the U.K., Hope and Gray (1982) analysed the formal participation in the ASC's Research and Development project by studying 115 comment letters to two exposure drafts and recording constituents' agreement or opposition to two key issues. The authors report that the ASC changed its position on one of the issues, the one which had been opposed by the business community, in particular the aerospace industry and the final standard allowed significant discretion in measurement and disclosure aspects of research and development. Jupe (2000) confirmed U.K. standard setters' propensity to allow corporate influence over the standards. Content analysis of 105 responses to the ASB's review of FRS 1 on cash flow statements and comparison to the final standard revealed that subsequent changes to the standard were most in line with comment letter responses by large companies.

Kwok and Sharp (2005) studied the development of IASC's segment reporting and intangible assets projects from 1994-1997. Comment letters were coded according to whether they favoured the approach in the subsequently issued IASC document and were classified according to constituent group. Whilst no group was found to completely dominate the process, the changes made to the standards most frequently tended to align with the preferences of preparers. The reflection of the preferences of other groups may therefore be due to their initial agreement with many of the IASC's proposals. However, it seems that corporate respondents had the ability to persuade the IASC to change their position and incorporate some of their preferences.

Most of the literature on national standard setting researches an Anglo setting. McLeay et al. (2000) is a notable exception and looked at the transformation of the Fourth European Company Law Directive into German accounting law. Using manual content analysis of five published comments, separated into three groups: industry,

academic, and the profession, McLeay et al. (2000) identified whose proposals were most often reflected in the finalised regulation. Consistent with much of the prior literature, they found that the industry group representative was most likely to be successful in having their proposals incorporated into the law (e.g., Hope and Briggs 1982; Hope and Gray 1982; Jupe 2000). Crucially, lobbying success was dependent on the support of at least one additional constituent group, a possibility that has largely been ignored in other research.

The interplay between the positions of lobbyists is in other settings is largely unknown but, as mentioned above, it has been argued that standard setters' own agenda and preferences primarily shape the standards, which can cause confusion to the interpretation of the results of these types of studies (e.g., Weetman 2001). Ideology theory of regulation stresses that this is an important component of the final regulation. When studying interest group influence, the initial alignment of various interest groups and the standard setter would therefore best be separated from the impact of opposition on changes in the standard setters' position. This separation was made by Saemann (1999) who analysed responses by four organisations to 20 standards that the FASB developed in 1974-1995. Brown's (1980) result that the FASB was initially most closely aligned to the user organisation was confirmed. However, in contrast to Brown (1980), who concluded that no group had a dominant effect on the resulting standards, Saemann (1999) found that the FASB then compromised on its positions and that the finalised standards incorporated the wishes of the preparers as well.

The reason much of the literature finds that preparers are influential could be a result of them being the largest group and therefore often representing the majority view. For example, Yen et al. (2007) found that the FASB addressed the most common

objections. In particular, the preparer group provided the highest level of opposition to the FASB's proposal to require reporting comprehensive income per share, and the requirement was not incorporated into the standard.

Evidence is mixed but cannot clearly be related to the setting or the accounting policy of choice. There are several reasons for this. One of the problems in this line of research, and particular for early studies such as Brown (1981) and Kenny and Larson (1993), is the small sample sizes which means that reported findings are not supported by statistically significant results (Gipper et al. 2013). Another problem, and potential reason for the mixed results in the literature, is that these studies rely on manual content analysis. This suffers from subjectivity and a lack of rigor and is particularly problematic in the analysis of comment letters as the author may support part of a proposal but oppose others (Francis 1987). Moreover, the lobbyist may agree that the standard setter needs to address and change current practice but disagree with the proposed approach. This makes it difficult to assess the overall position of the lobbyist and requires judgement on the part of the researcher.

Finally, methodologies vary in how they interpret influence. As highlighted above, some interpret alignment between preferences expressed in letters and subsequently issued standards as influence (e.g., Coombes and Stokes 1985; McLeay et al. 2000; Hansen 2011) whilst some isolate the changes from the proposal to the finalised standard (e.g., Brown and Feroz 1992; Jupe 2000). From an ideology theory perspective, if the initial proposal is implemented into the finalised standard, this represents the ideological component of the regulatory outcome. The effect of special interest lobbying is then observable where the standard setter deviates from its

intended course of action and refrains from implementing its proposal or substantially revises it.

Since the inception of the IASB, there has been active participation in the due process through comment letter submissions on the IASB's proposals. That means that samples are now available to allow a more complete analysis of its standard setting processes. However, the methodologies employed in prior research do not lend themselves to large samples due to the time consuming nature of manual content analysis. In addition, there is the problem of subjectivity in the analysis. Recent literature in accounting and finance has been taking advantage of developments in computer technologies and employed computerised text analysis. This has been suggested as a potential method to analyse accounting standard setting (e.g., Gipper et al. 2013) as it can cope with large samples and removes the subjectivity associated with manual content analysis.

3.4 Text Analysis

Computerised content analysis, which is objective and replicable, has been increasing since 2000 (Fisher et al. 2010). Recent literature in accounting and finance has started to employ these methods in order to quantify the vast amount of information, contained within financial texts, which may have an impact on decision making. The methods and the linguistic features under consideration vary but include measures of readability (e.g., Li 2008; Loughran and McDonald 2014), machine learning (e.g., Antweiler and Frank 2004; Li 2010), and the use of word lists (e.g., Tetlock 2007; Tetlock et al. 2008; Loughran and McDonald 2011). Due to the nature of comment letter samples, which contain at most a few thousand observations and vary greatly in

terms of format and length of observations, the use of word lists is the most appropriate method for obtaining measures of textual tone.

An example is Li (2007) who measured risk sentiment in financial reports by counting the frequencies of the words '*risk'* and '*uncertainty'*, with relevant inflections such as risky and risks. Here, an increase in risk sentiment in the current annual report, in comparison to the previous report, was shown to predict earnings that were more negative in the next year. A number of studies have applied more extensive word lists by using predefined categorised dictionaries or word lists developed by the researcher, based on part of their overall sample, to arrive at a quantitative measure of textual tone. For example, Loughran and McDonald (2013) focused on uncertainty around IPOs. They measured the simple proportions of words belonging to the Loughran and McDonald (2011) word lists and found that high levels of uncertain texts (as approximated by an aggregate measure based on the uncertain, weak modal, and negative word lists) were associated with higher first-day returns, absolute offer price revisions, and subsequent volatility.

Other articles have analysed the textual tone in media reports and earnings press releases to obtain measures that can predict market reactions. Tetlock (2007) used the '*General Inquirer'* software that classifies words based on the Harvard IV Psychosocial Dictionary into 77 categories. By using principal component analysis, a variable for media pessimism was constructed that captured the maximum variance in the word categories. It was found that higher pessimism in a Wall Street Journal column predicted downward pressure on market prices, followed by a reversion to fundamentals. Extreme values of pessimism were also found to predict trading volume. The study was extended in Tetlock et al. (2008) by looking at firm specific

relationships between pessimism and returns. It was found that the percentage of negative words can forecast low firm-earnings, that stock prices briefly underreact to the information contained in negative words, and that earnings and return predictability is largest for stories that focus on fundamentals. Similarly, Davis et al. (2012) measured the tone in earnings press releases using the software *DICTION*. Net optimism was measured by subtracting the number of pessimistic words from the number of optimistic words and found to be positively associated with future return on assets, as well as to generate a market response.

In the above-mentioned studies, the word classification schemes have not been developed to suit the specific contexts, yet are found to effectively explain investor decisions. Despite this, some researchers have recognised that pre-existing word lists are not entirely suitable to a specific research setting and develop their own lists. For instance, Loughran and McDonald (2011) examined the words that occurred in 5% of a sample of 10-K filings and developed a list of words that they believed to have negative meaning in a financial report context. Higher proportions of negative words, according to this list, were found to be associated with significantly lower excess returns, whereas proportions of negative words, based on the Harvard IV list, were not. However, when the measures were adjusted according to a recommended term weighting scheme, negativity measures, based on both word lists, performed equally well and were statistically significant.

Others studies have used a combination of own lists and pre-existing lists. Larcker and Zakolyukina (2012) analysed the language in transcribed quarterly earnings conference calls. After reading ten transcripts, for which financial results had later been restated, word lists were created for the self-constructed word categories *general*

knowledge, shareholder value, value creation, hesitations, extreme negative emotions, and *extreme positive emotions*. They found a weighted ratio of these words, as well as words from predefined categories from the Linguistic Inquiry and Word Count software and extended by words from the lexical database WordNet, for 8281 observations. [15] These were then related to financial restatements, which were separated into trivial and serious restatement observations, and then used to identify deceptive statements. Models based on the linguistic cues were found to perform at least as well as models based on accounting variables in predicting earnings misstatement. Further, they constructed a hypothetical portfolio from firms with the highest deception scores and found that they produce large negative returns.

These studies demonstrate the power of this type of methodology for using texts to predict market reactions. It has not yet been employed in an accounting standard setting context but has potential to provide a more robust empirical analysis of comment letter submissions and their impact on accounting standards (Gipper et al. 2013).

3.5 Conclusion

Institutional theory is helpful in explaining the current structure of the IASB and its historical development. However, the ideology theory of regulation emerges as the most promising model for examining the current accounting standard development. Due to operationalising regulation as a dual outcome of the regulator's ideology and influences by special interest lobbying, it has been advocated as a promising framework in academic literature reviews of political influences in accounting standard setting (e.g., Kothari et al. 2010; Gipper et al. 2013).

[15] This software is available from www.liwc.net/

Empirical research supports that, in general, lobbying is motivated by self-interest and the most frequent participants are large firms which will experience an adverse impact on their reported financial results (e.g., Watts and Zimmerman 1978; Sutton 1984; Schalow 1995; Dechow et al. 1996; Hill et al. 2002; Ang et al. 2000). However, it is possible the participation by other interested parties is understated in the literature, as they may participate through representative organisations.

Empirical evidence of the impact of comment letter submissions on finalised standards is mixed. However, research on the IASC's and IASB's standard setting suggests that there is some room for influence (e.g., Kenny and Larson 1993; Hodges and Woods 2004; Kwok and Sharp 2005; Hansen 2011; Giner and Arce 2012). However, methodological issues, such as small sample sizes and the subjective and unreplicable nature of manual comment letter analysis are identified in this stream of literature. Computerised text analysis has the potential to overcome some of these methodological shortcomings but has not yet been applied in this context. It has, however, been a useful methodology in accounting and finance research to measure the predictive power of various texts over the valuation of firms (e.g., Antweiler and Frank 2004; Tetlock 2007; Tetlock 2008; Li 2008; Li 2010; Loughran and McDonald 2011; Loughran and McDonald 2013).

In order to develop a greater understanding of the IASB's standard setting process, and, in particular, the development of the controversial standards for financial instruments, it is therefore important to study the development in an objective, and rigorous, manner. It is proposed that this can be enabled by the use of and ideology theory framework and computerised text analysis. Chapter 4 therefore explores the

sample of comment letters sent to the IASB on its financial instruments project and develops the primary measurements for the empirical investigation.

4. Sample Selection and Descriptive Statistics

This chapter presents how the sample of comment letters has been obtained and filtered, and outlines the characteristics of the remaining sample. Section 4.1 presents the distribution of lobbying, illustrating both the geographical dispersion of comment letter origin, as well as the interest group dispersion. Section 4.2 presents the textual characteristics of the total sample of comment letters and the parsing procedures by which they are derived. Section 4.3 outlines the procedure for obtaining the negativity measure and explicit opinions in the letters, as well as provides the descriptive statistics of these measures at the document level.

4.1 Sample Selection

The analysis focuses on the formal participation in the IASB's standard setting process. As such, the sample comprises comment letters responding to discussion papers and exposure drafts issued by the IASB for public comment. Comment letter analysis is appropriate as it has been theorised (Sutton 1984), and supported by Georgiou's (2002) survey of U.K. companies, that the use of other lobbying methods is significantly associated with making comment letter submissions. Further, Georgiou (2002) found that corporations that do not make comment letter submissions are unlikely to lobby through other methods. Therefore, comment letter content analysis facilitates the identification of the positions of the majority of lobbyists and enables empirical investigation of how the IASB develops standards in the presence of lobbying.

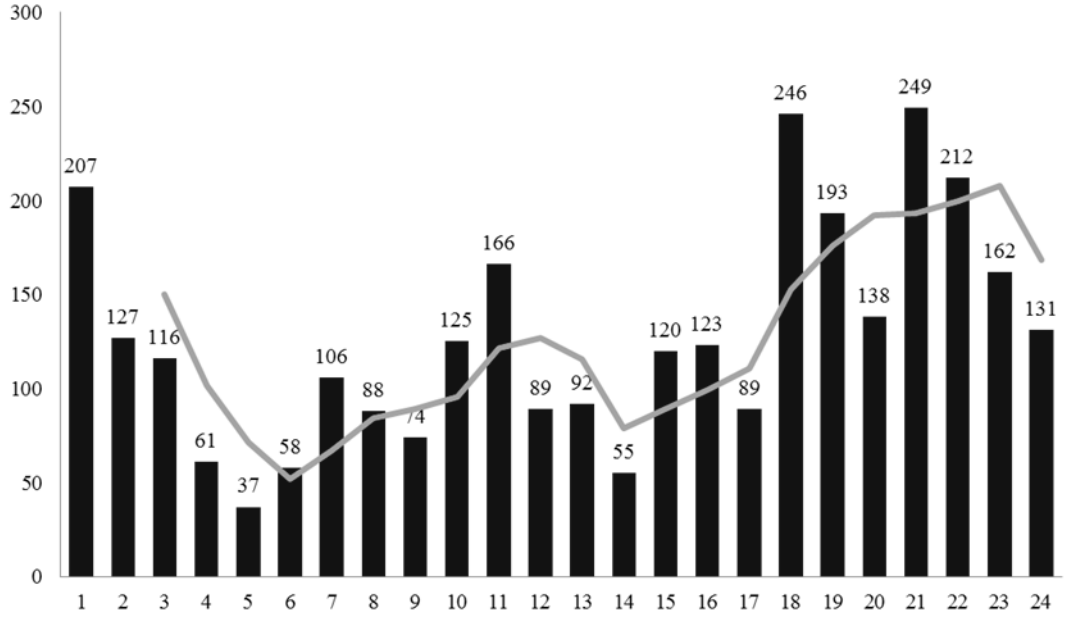
In the founding year of the IASB, then Chairman Sir David Tweedie expressed dissatisfaction with the standards dealing with financial instruments that had been inherited from the predecessor IASC (Street 2002). Since then, the IASB has issued 24 documents for public comment in an aim to improve IAS 32 and IAS 39 as well as create two new standards, IFRS 7 and IFRS 9, which, when completed, are intended to replace IAS 32 and IAS 39. The increased transparency and new standard setting procedures, as well as the recommitment to develop better standards for dealing with financial instruments, make the founding year of the IASB, 2001, an ideal starting point for the analysis. The first document was issued in 2002 and as a consequence, the time period spans from 2002 until the time of data collection, November 2012. In this time, 92 jurisdictions have adopted IFRS as the required standards for all domestic listed companies and a further 36 jurisdictions permit or require the use of IFRS for some companies (Deloitte IAS Plus 2014). The selected time period therefore represents a time of heightened importance of IFRS which is likely to induce visible lobbying efforts and enable empirical analysis of constituent influence.

The comment letters have been obtained from the IASB's website, *www.ifrs.org*, where the organisation publishes comment letters as part of its commitment to a transparent standard setting process. Four standards deal explicitly with accounting for financial instruments: IAS 32 '*Financial Instruments; Presentation'*, IAS 39 '*Financial Instruments: Recognition and Measurement'* and their superseding replacements IFRS 7 '*Financial Instruments: Disclosures'* and IFRS 9 '*Financial Instruments'*. In order to identify exposure drafts and comment letters relating to the development of these standards, four sources were used. The four standards themselves were scanned for mentions of exposure drafts and subsequent developments, the timeline of the development of each standard as produced on the

Deloitte IAS Plus website (see Appendix 3), the archive pages on the IASB's website (see Appendix 4) and the page '*Projects since 2006*' on the IASB's website (see Appendix 5).

At the time of the data collection, a total of 3064 comment letters had been generated in response to the 24 documents. Out of those, 1815 related to projects which are considered to have been completed. Table 4.1 outlines the 24 documents and the number of corresponding comment letters, as well as the completion status of the project to which they relate. The greatest volume of comment letters was received for the exposure draft *Hedge Accounting* in 2010. This is an issue which had been controversial since the inception of the IASB. However, the high volume of comment letters may be due to a combination of the salience of the issue and the overall increased levels of participation in the lobbying process as more countries came to adopt IFRS. The period prior to European and Australian adoption in 2005 generated an average of 102 comment letters per issued document, whereas the period after 2005 generated an average of 138 comment letters and since 2009, an average of 166. This is further illustrated in Figure 4.1 which presents the number of comment letter responses to each letter and a three-document average trend line.

Figure 4.1 Number of Comment Letter Responses per Issued Document



This figure displays the distribution of comment letters per issued document and a three-document trend line

Table 4.1 Documents on Financial Instruments

Year	Month	Name of document	Comment Letters	Status
2002	June	Amendments to IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement	207	Completed
2003	August	Exposure Draft *Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk* (Macro Hedging)	127	Completed
2004	April	ED Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option	116	Completed
2004	November	Exposure draft of proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts, November 2004	61	Completed
2004	July	IAS 39 Financial Instruments - Transition and Initial Recognition of Financial Assets and Financial Liabilities	37	Completed
2004	October	IAS 39 Financial Instruments- Cash Flow Hedge A/c of Forecast Intra Group Transactions, October 2004	58	Completed
2004	October	Exposure Draft 7: Disclosures	106	Completed
2006	June	Exposure Draft of proposed amendments relating to Puttable Instruments and Obligations Arising on Liquidation	88	Completed
2007	September	Exposure draft of proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement, Exposures Qualifying for Hedge Accounting	74	Completed
2008	February	Financial Instruments with Characteristics of Equity	125	Not Completed
2008	March	Discussion Paper: Reducing Complexity in Reporting Financial Instruments	166	Not Completed
2008	October	Improving Disclosures about Financial Instruments (Amendments to IFRS 7 *Financial Instruments: Disclosures)*	89	Completed
2008	December	Exposure Draft of proposed amendments to IFRS 7 (investment in debt instruments)	92	Not Completed
2008	December	Proposed amendment to IAS 39 for Embedded Derivatives Assessment	55	Completed
2009	March	Proposed amendments to IAS 39 and IFRS 7 (Derecognition)	120	Completed
2009	June	Discussion Paper: Credit Risk in Liability Measurement	123	Not Completed
2009	June	Request for Information ('Expected Loss Model') Impairment of Financial Assets: Expected Cash Flow Approach	89	Not Completed
2009	July	Financial Instruments: Classification and Measurement	246	Completed
2009	November	Proposed amendment to IAS 39 for impairment of financial assets measured at amortised cost	193	Not Completed
2010	May	Exposure Draft - Fair Value Option for Financial Liabilities	138	Completed
2010	December	Hedge Accounting	249	Not Completed
2011	January	Supplementary document to the exposure draft Financial Instruments: Amortised Cost and Impairment	212	Not Completed
2011	January	Offsetting financial assets and financial liabilities	162	Completed
2011	August	Mandatory effective date of IFRS 9	131	Completed
		Total	3064	
		Completed Projects	1815	

This table reports the documents, relating to financial instrument, issued by the IASB for public comment.

Table 4.2 reports the impact of missing letters on the initial sample size. Three letters were missing due to requested confidentiality. A further 45 letters were missing or unavailable to download for unknown reasons, requiring the observations to be removed. The remaining sample, available for analysis, amounts to 3016 comment letters by 841 individual authors from 54 countries. This makes it the largest sample for content analysis in this stream of literature to date with the largest known samples in previous literature being 629 comment letters in Hansen (2011) and 539 in Giner and Arce (2012).[16]

Table 4.2 Comment Letter Sample Creation

Source/Filter	Sample Size	Observations Removed
Total number of comment letters reported by the standard setter	3064	
Letters excluding those missing due to requested confidentiality	3061	3
Letters excluding those missing due to unknown reasons	3016	45
Final number of comment letters	3016	
Number of unique authors	841	
Number of countries	54	
Average number of letters per issued document	127.67	

This table reports the impact of missing letters on the initial comment letter sample size

4.1.2 Interest Group Classification

The authors are divided into interest groups according to the IASB's own classification, i.e. "*accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals*" (IFRS Foundation 2011, A18). Where it

[16] Jorissen et al. (2011) analyse the characteristics of the authors of 3234 comment letters sent to the IASB and EFRAG relating to various issues, but the content analysis is limited to a subsample of 125 letters to identify similarities between letters sent by the same author to both organisations.

is unclear from the comment letter which interest group the author belongs to, this has been identified by searching for the author or author organisation online.

Following Larson (1997) and Jorissen et al. (2012), letters from individuals with specific ties to organisations are grouped with their respective organisation unless the letter explicitly states that the views expressed should not be linked to the organisation. For this reason, or due to insufficient information regarding the author within the comment letter or online, there were twenty cases where individuals could not be classified according to an interest group. These authors are grouped as unaffiliated individuals. An additional three letters could not be classified due to anonymity of the author or not observably belonging to any of the interest groups. In total, these letters represent less than 1% of the final sample.

Further subdivisions of the interest groups were made in order to enable a deeper understanding of the lobbyist characteristics. Accountants were split into four groups: (1) *individuals*; where the author is an accountant but the letter explicitly states that the views expressed are that of the individual and not of any organisation to which he/she can be affiliated, (2) *accounting and auditing firms*, (3) *big four*, and (4) *professional accounting associations*. Users were divided into financial analysts, as identified by the IASB, as well as *investment firms* and *other users*. The business community was divided into *financial industry* (including insurance) and *other preparers.* In addition, it was noted whether each letter is representing a single organisation, or multiple, through trade associations. Regulatory and legal authorities were subdivided into *national standard setters*, *supervisors of financial markets* (including central banks) and *other regulatory and legal authorities* (including

government bodies and government advisory bodies). Following Jorissen et al. (2012), other interested parties were identified as actuaries and consultants.

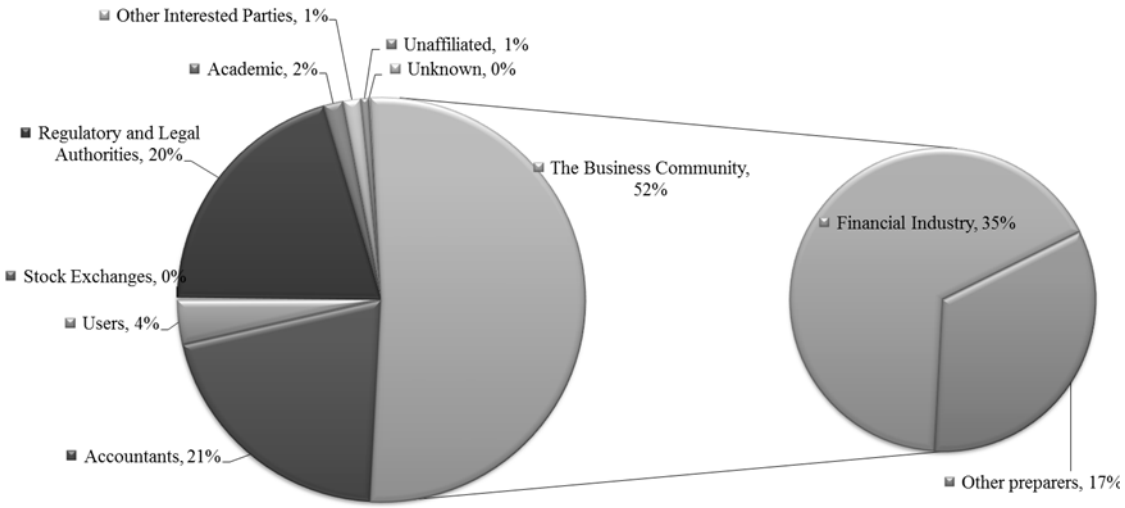
Table 4.3 presents the distribution of interest groups and subdivisions based on these classifications across the whole sample and period which is further illustrated in Figure 4.2.

Table 4.3 Interest Group Classification

Interest Group	#	%
Accountants	**620**	**20.56%**
(Individuals)	18	0.60%
(Accounting Firms)	77	2.55%
(Big Four)	95	3.15%
(Professional Accounting Associations)	430	14.26%
Users	**107**	**3.55%**
(Financial Analysts)	23	0.76%
(Investment firms)	120	3.98%
(Other users)	11	0.36%
The Business Community	**1559**	**51.69%**
(Financial Industry)	1041	34.52%
(Other preparers)	518	17.18%
Stock Exchanges	**7**	**0.23%**
Regulatory and Legal Authorities	**611**	**20.26%**
(National Standard Setters)	360	11.94%
(Financial Markets Regulators)	184	6.10%
(Other Regulatory and Legal Authorities)	67	2.22%
Academic	**47**	**1.56%**
Other Interested Parties	**42**	**1.39%**
(Actuaries)	29	0.96%
(Consultants)	13	0.43%
Unaffiliated	**20**	**0.66%**
Unknown	**3**	**0.10%**
Total	**3016**	**100.00%**

This table presents the interest group dispersion of the comment letters

Figure 4.2 Interest Group Classification



The figure displays the distribution of interest groups in the sample. The make-up of the business community is further displayed as the percentage of comment letters in the total sample from the financial industry and other preparers.

The greatest participating interest group, by volume of comment letters, was the business community which submitted over half of the comment letters. The preparer group being more active than the user group, as per Sutton's (1984) conjecture, is well represented by comment letter samples in the literature (e.g., McLeay et al. 2000; Stenka and Taylor 2010; Giner and Arce 2012; Jorissen et al. 2011). It is therefore unsurprising that, in the present sample, users sent only 4% of the letters compared to preparers' 52%. The sectioning of the business community shows that the financial industry sent 35% of the total letters, making this the largest group of any other interest group and subdivision. Their high level of participation is natural considering the topic of the IASB issued documents.

Following the business community, the greatest volume of comment letters was sent by the accounting profession (21%), mostly from professional accounting associations

(14%). The third largest group was regulatory and legal authorities, out of whom national accounting standard setters represented 12%, financial markets regulators 6% and other regulatory and legal authorities 2% of the total sample. The academic community, stock exchanges, and other interested parties were the smallest participants by volume, with letters from each group making up less than 2% of the sample.

Unsurprisingly, the distribution of comment letters across interest groups is largely consistent with Jorissen et al. (2012) which analyses the characteristics of lobbyists in a multi-issue setting for the participation in the IASB's standard setting process in 2002-2006 which intersects the sample period for the present study.

4.1.3 Geographical Classification

In order to deal with hypotheses relating to geographical distribution of influence, comment letters are classified according to the home country of the author or author organisation. For incorporated organisations, where the sender's country is not explicitly stated in the letter or disclosed on *ifrs.org*, the location of incorporation is used. This is likely to most closely represent the institutional framework in which the author prepares financial reports. For other organisations, the headquarters have been used to identify the home country. In cases where the letter represents organisations from more than one country, the home country is set to *international.* As a second stage of geographical classification, to be more specific regarding the geographical classification of authors which cannot be linked to a single country, letters are classified according to *part of the world.* Where letters represent organisations from more than one continent, the part of the world is set to *international*. Table 4.4 shows

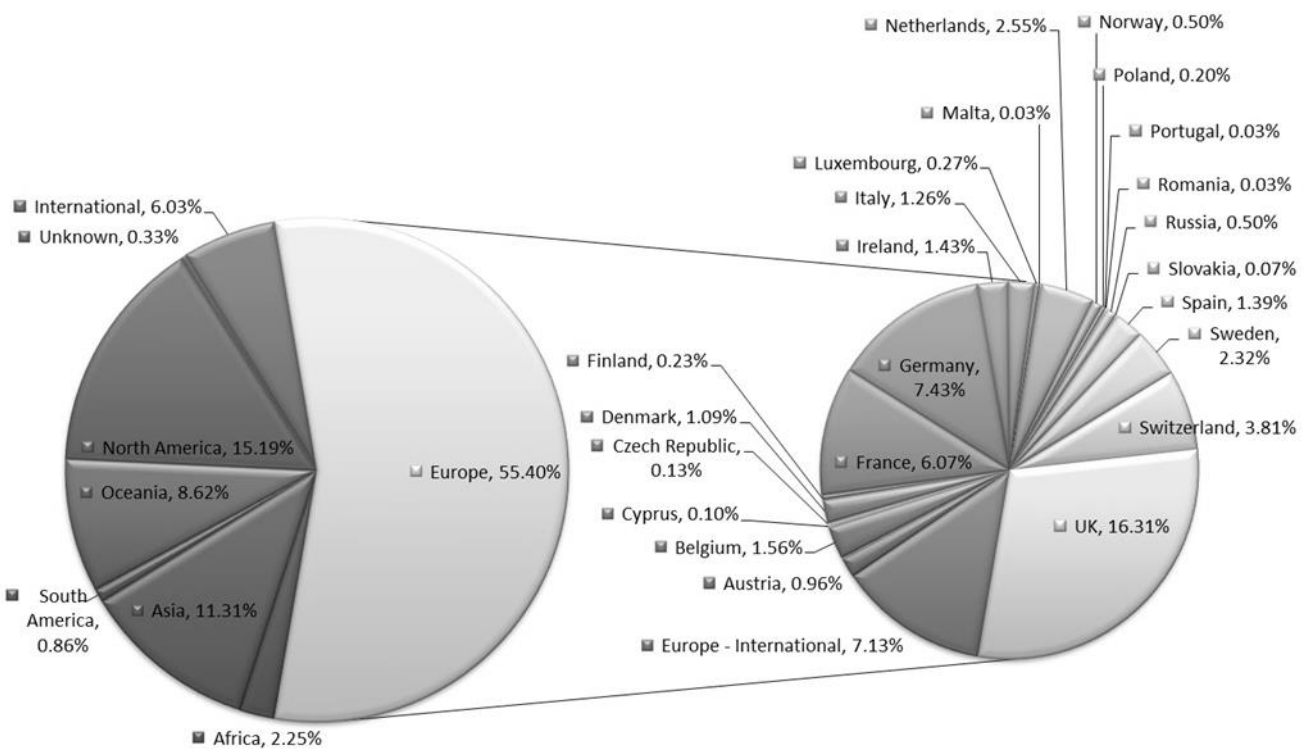
the geographical dispersion of comment letters which is further illustrated in Figure 4.3.

Table 4.4 Geographical Classification of Comment Letters

	Comment Letters			Comment Letters	
	#	%		#	%
Africa	**68**	**2.25%**	**Europe**	**1671**	**55.40%**
Africa - International	3	0.10%	Europe - International	215	7.13%
Botswana	1	0.03%	Austria	29	0.96%
Kenya	2	0.07%	Belgium	47	1.56%
Mauritius	1	0.03%	Cyprus	3	0.10%
Rwanda	1	0.03%	Czech Republic	4	0.13%
South Africa	52	1.72%	Denmark	33	1.09%
Tanzania	1	0.03%	Finland	7	0.23%
Zambia	7	0.23%	France	183	6.07%
Asia	**341**	**11.31%**	Germany	224	7.43%
China	25	0.83%	Ireland	43	1.43%
Hong Kong	30	0.99%	Italy	38	1.26%
India	44	1.46%	Luxembourg	8	0.27%
Iran	1	0.03%	Malta	1	0.03%
Israel	10	0.33%	Netherlands	77	2.55%
Japan	111	3.68%	Norway	15	0.50%
Malaysia	25	0.83%	Poland	6	0.20%
Pakistan	19	0.63%	Portugal	1	0.03%
Philippines	1	0.03%	Romania	1	0.03%
Singapore	36	1.19%	Russia	15	0.50%
South Korea	28	0.93%	Slovakia	2	0.07%
Taiwan	1	0.03%	Spain	42	1.39%
Thailand	5	0.17%	Sweden	70	2.32%
Turkey	2	0.07%	Switzerland	115	3.81%
United Arab Emirates	3	0.10%	U.K.	492	16.31%
South America	**26**	**0.86%**	**North America**	**458**	**15.19%**
South America - International	2	0.07%	North America - International	1	0.03%
Argentina	3	0.10%	Canada	107	3.55%
Brazil	14	0.46%	Mexico	18	0.60%
Chile	6	0.20%	U.S.	332	11.01%
Colombia	1	0.03%	Unknown	10	0.33%
Oceania	**260**	**8.62%**	International	182	6.03%
Australia	206	6.83%			
New Zealand	54	1.79%	**Total**	**3016**	**100.00%**

This table reports the geographical dispersion of the comment letters across the whole sample

Figure 4.3 Geographical Dispersion of Comment Letters



This figure shows the geographical dispersion of comment letter origin as part of the world with a further country level breakdown of Europe, the most heavily represented part of the world.

The geographical representation is dispersed over 54 countries. More than half of the letters were sent from Europe and out of these, U.K. authors were the greatest participants by volume. The U.S. was the second most represented country (16%) making the two best represented countries common-law jurisdictions with Anglo-Saxon accounting traditions. Australian authors (7%) were other active participants, from a similar institutional environment to the Anglo-American tradition, as were authors from the code-law countries Germany (7%) and France (6%). South American countries sent the fewest letters (less than 1%) followed by African constituents (2%). Asian countries were better represented at 11% of which Japan was the greatest participant (4%). The geographical dispersion appears similar to that of Hansen (2011) which finds the U.K., U.S. and Australia to be the most represented countries.

The geographical dispersion of comment letters is greater than that of donors which in 2008 were from 40 countries, as reported by Larson and Kenny (2011). At this point, there were still no donors from many countries that had adopted IFRS. The greater geographical dispersion of comment letters suggests that there are interested parties in countries from which there are no donors and that these parties are not complacent, or indifferent, to the actions of the IASB.

Table 4.5 combines interest group and geographical classification. It clearly illustrates the great participation of European countries, in particular of the European business community.

Table 4.5 Interest Group and Geographical Classification of Comment Letters

	Comment Letters		Academic	Accountants	Users	Other Interested Parties	Regulatory and Legal Authorities	Stock Exchanges	The Business Community	Unknown/ Unaffiliated
Part of the World	**#**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Africa	68	2.25%	1.47%	58.82%	0.00%	0.00%	0.00%	1.47%	38.24%	0.00%
Asia	341	11.31%	2.05%	28.15%	2.35%	0.88%	32.26%	1.17%	31.09%	2.05%
Europe	1671	55.40%	0.60%	23.10%	2.57%	0.66%	16.16%	0.00%	56.55%	0.36%
North America	458	15.19%	3.71%	12.88%	3.49%	2.40%	14.41%	0.22%	62.01%	0.87%
Oceania	260	8.62%	2.31%	11.15%	2.69%	1.92%	29.62%	0.38%	51.92%	0.00%
South America	26	0.86%	23.08%	23.08%	0.00%	0.00%	23.08%	0.00%	30.77%	0.00%
Unknown	10	0.33%	0.00%	10.00%	10.00%	10.00%	0.00%	0.00%	10.00%	60.00%
International	182	6.03%	0.00%	1.65%	17.58%	6.04%	45.05%	0.00%	29.67%	0.00%
Total	**3016**	**100.00%**	**1.56%**	**20.56%**	**3.51%**	**1.39%**	**20.29%**	**0.23%**	**51.69%**	**0.76%**

This table reports the interest group and geographical dispersion in terms of part of the world of the comment letters across the whole sample. The percentages are the percentage of letters in the given part of the world from one interest group.

From Africa, most letters came from the profession. From Asia, most letters were sent by regulatory and legal authorities. In Europe, North America, and Oceania, the business community were the greatest participants by volume at 57%, 62%, and 52% respectively. Out of the few letters from South America, most came from the business community (31%). However, the remainder of the letters were evenly dispersed between academics, accountants, and regulators. For the part of the sample where authors are classified as being international, the best represented group is multinational regulatory bodies of financial markets, such as the International Organization of Securities Commissions and the International Association of Insurance Supervisors.

4.2 Descriptive Statistics

4.2.1 Data Processing

Text data is considered to be unstructured data as it appears in no specified format, has variable length, variable spelling, contains punctuation, and other non-alphanumeric characters, and does not adhere to a predefined set of values (Francis and Flynn 2010). In order to convert the text into structured data for further analysis, the files were converted into simple text format and the text data was parsed to extract the words.

4.2.2 Converting Files to Simple Text

The comment letters appeared in .pdf or .docx format on the IASB's and FASB's websites. These were downloaded and named according to an id for which corresponding data for the sender was recorded. The files were then converted into simple text format using PDF Converter Enterprise, a software that automatically identifies files which contain graphics and transforms them using Optical Character

Recognition (OCR). This was essential as many files contained letters that had been scanned. The size and readability of the converted files were tested programmatically. Unreadable files or files of a size of 1.5kb or less were compared to the original to identify whether the text conversion had been successful. In cases where the graphics had not been recognised, the conversion process was repeated, manually forcing OCR.[17] Secured files, i.e. not supported by PDF Converter Enterprise, were unlocked using freely available software from http://www.pdfunlock.com. Appendices that appeared as separate files on *ifrs.org* were programmatically appended to their corresponding letters to ensure that the statistics presented below are for letters including appendices.

4.2.3 Parsing the Data

The programming language '*Perl'*, was used to undertake the textual analysis. This language is particularly suitable for text processing (Francis and Flynn 2010). Perl is available through open source software and has been successfully used in text processing in financial research (e.g., Weiss Hanley and Hoberg 2012) and accounting research (e.g., Li 2008; Twedt and Rees 2012).

To produce the simple text statistics for the total sample, all letters were read into *perl* and using *regular expression*, punctuation was removed and tokens, i.e. character combinations, of two or more alphabetic characters were retained. One character tokens were removed to reduce noise from stray characters without meaning that may have resulted from the OCR conversions. The words from Loughran and McDonald's (2011) master dictionary were used to match the tokens to words. This dictionary is

[17] In some instances, PDF Converter Enterprise fails to recognise graphics automatically. This process was therefore necessary to capture all these instances and extract all the available text. Manually forcing OCR thus involved opening the relevant file in PDF Converter Enterprise and explicitly telling the program that it was dealing with graphics instead of relying on the automatic identification of images containing text.

based on the *4.0 of 12dicts*, released in January 2003, which is oriented towards common words, excludes abbreviations, acronyms, inflections, and names, but includes both American and British English. In addition to the over 80000 words in the original 12dicts, Loughran and McDonald enhanced the master dictionary by adding words not found in the dictionary but that were found in a large sample of 10ks. To develop a master dictionary for this study, a similar procedure was followed. Initially, words were matched to the master dictionary used by Loughran and McDonald. Unmatched words that appeared ten or more times were evaluated for addition to the master dictionary. Most of the frequent but unmatched words were acronyms and names of people, organisations, months, and countries which therefore did not qualify for inclusion. However, 73 additions were made, creating a new master dictionary of 84403 words.[18] Out of the total 7472657 words identified in the letters, 7203647 matched words in the master dictionary, representing 15026 unique words.

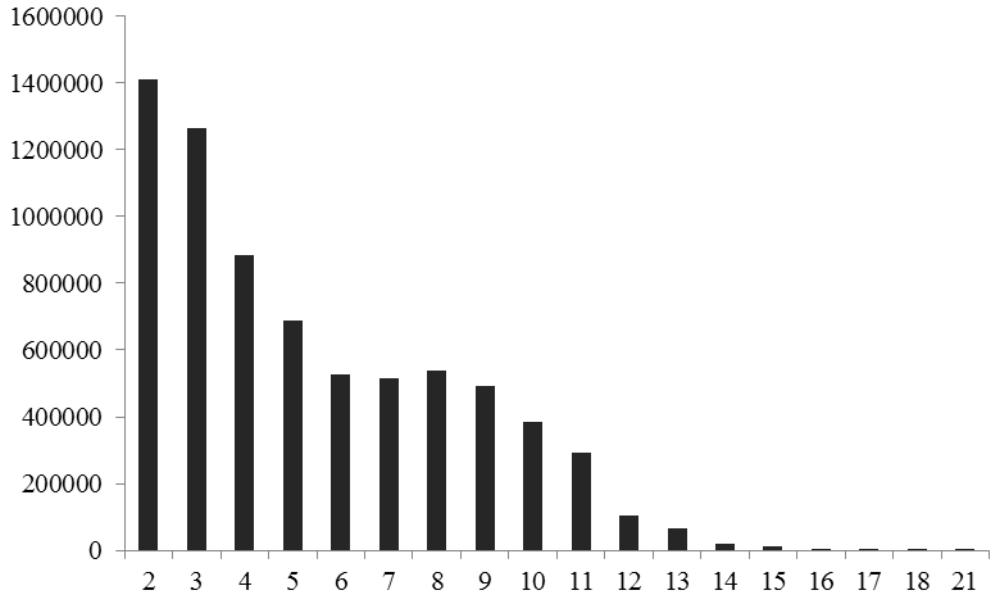
4.2.4 Simple Text Statistics

In matching the words to the new master dictionary, simple statistics, regarding the frequency of each word and the distribution of word length in the sample, could be tabulated. Table 4.6 presents the distribution of the length of words, with the smallest words being made up of two characters, as any one-character words were removed when reading in the text. The longest word is "*overcollateralization"*, with 21 characters, which occurs 3 times. Two-character words are the most frequent, with 1407778 occurrences, after which the frequency tends to decrease as the length increases. This is illustrated in Figure 5 and unsurprising given the word frequency reported in Table 4.7, demonstrating that ten of the most frequent words all have a length of four characters or less; six of which have only two characters. Examples of

[18] For the added words, see Appendix 6

longer words, i.e. of seventeen characters or more, are '*reclassification', 'misrepresentation', 'contemporaneously', 'telecommunications', 'interdependencies', 'counterproductive',* and '*disproportionately'*.

Figure 4.4 Distribution of Length of Words



This figure reports the frequency of words of various lengths, ranging from the shortest words of two characters to the longest words of 21 characters.

Table 4.6 Distribution of Length of Words

Length	Comment Letter Data
2	1411346
3	1264598
4	884039
5	690630
6	527077
7	514404
8	540271
9	490652
10	383041
11	292420
12	105632
13	63880
14	21048
15	10480
16	2657
17	1353
18	116
21	3

This table reports the distribution of the length of word for the comment letter data sample.

Table 4.7 Word Frequencies for Comment Letter Data

Rank	Word	Count	Percentage
1	the	550591	7.64
2	of	262453	3.64
3	to	223635	3.10
4	in	181941	2.53
5	and	168918	2.34
6	that	136297	1.89
7	be	107486	1.49
8	for	97903	1.36
9	is	96361	1.34
10	we	81950	1.14
11	not	81660	1.13
12	financial	79700	1.11
13	as	66373	0.92
14	on	62730	0.87
15	or	57513	0.80
16	with	57188	0.79
17	would	54957	0.76
18	are	54566	0.76
19	value	48716	0.68
20	should	47503	0.66
21	this	47422	0.66
22	an	46342	0.64
23	fair	42592	0.59
24	accounting	41650	0.58
25	if	40001	0.56
26	it	39214	0.54
27	instruments	39189	0.54
28	do	38381	0.53
29	you	37131	0.52
30	why	35387	0.49

This table reports the thirty most frequent words for the comment letter data sample

The comment letters contain 15026 unique words from the master dictionary. Table 4.7 reports the thirty most frequent words. Natural language contains very few frequent words, a small group of words of medium frequency, and a large group of infrequent words (Zipf 1932). Therefore, it is not surprising that the most common word is the article *'the'* which occurs 550591 times. Other words that are commonly used are other 'function' words such as *'that'*, '*of'*, *'to',* and *'in'*. In contrast, amongst

the 30 most frequent words are also '*financial', 'value', 'fair', 'accounting'* and *'instruments'*. The over-indexing of these words is a clear indication of the topic of the comment letters and the relevance of the sample to the study of the development of accounting treatments for *financial instruments* including the increasing use of *fair value accounting*.

4.3 Negativity Analysis

In order to manage the content analysis of such a large sample of comment letters, whilst maintaining objectivity, extracted words were compared to modal word lists to assess the level of negativity in each letter. The political nature of the accounting standard setting process, potentially, makes interested parties cautious of explicitly opposing the standard setter in case it may hinder their influence. For the same reason, the level of positivity in the letters may be misleading as a measure of consent. In addition, discontent may be wrapped in positivity by negating the positive words. Tetlock (2007) and Loughran and McDonald (2011) note that measuring positivity is of limited use for this reason. On the other hand, negativity in the discussion of a proposal is unnecessary unless there is opposition. This is, therefore, a key variable to explore lobbyists' potential for successfully blocking proposals from becoming accounting standards. Measuring negativity circumvents the noise from using positive word lists and allows the analysis to capture even that part of the sample which avoids explicit opposition, yet makes its discontent with the proposal known to the standard setter.

4.3.1 Negative Words

Two word lists were considered when undertaking the analysis of negativity. The negative word list from the popular and non-proprietary *Harvard IV-4 Psychosocial*

Dictionary (*Harvard IV)* and the financial negative word list (*Fin-Neg),* developed and used in Loughran and McDonald (2011).[19] *Harvard IV* has been developed in other disciplines than finance and therefore contains words which are considered negative in a more general sense. As a result, *Harvard IV* is not always appropriate for specific contexts. In contrast, the *Fin-Neg* was developed based on a sample of 10-Ks.

The comment letters, whilst dealing with financial accounting and, in particular, financial instruments, are not necessarily comparable to the financial context for which the *Fin-Neg* was developed, namely to assess the informativeness of textual tone in the valuation of firms. For example, the word *'cost'* is not included in *Fin-Neg* as it is used in financial reports in a neutral manner. *'Cost of implementation'* is a frequently used reason for opposing changes to accounting standards and should as such be classified as negative in this context. Conversely, the word '*liability'* is included in the *Harvard IV,* but not in *Fin-Neg,* a word which in the context of the comment letters is unlikely to be used to refer to anything other than the accounting term and carries no negative sentiment in this context. Further examples are words such as '*loss'* and '*impairment',* classified as negative in both *Harvard IV* and *Fin-Neg,* yet in this context, merely refer to the topic of the exposure drafts. Similarly, the word *'question'*, classified as negative in both lists, is the 41st most common word in the comment letters and occur 23686 times, most frequently to reference the questions that were posed in the exposure drafts. Classifying these words as negative as per the word lists would unjustly overstate the negative tone in the analysis. Neither word list seems ideal in its original form, yet to develop one's own word list suffers from

[19] Both word lists have been made available online on *Bill McDonald's Word List Page* and inflections have been added to the *Harvard IV* list to avoid the imprecision of stemming (McDonald 2013): http://www3.nd.edu/~mcdonald/Word_Lists.html

connotations of subjectivity (see Krippendorff 2004) and would likely be unusable in other contexts.

In order to reduce the noise in the measurement, a new negativity measure, was created by programmatically modifying the word lists. The process was repeated using each word list successively, thus obtaining two different negativity proportions in order to identify the most suitable list to be the basis for the negativity measure. The text of the exposure drafts was imported, parsed, and matched to the negative word list. In addition, the letters were read into *Perl* and similarly parsed. When matching words from the comment letters to the negative word lists, matches of words which represent more than 0.05% of the words in the corresponding exposure draft were blocked from being classified as negative. As such, misclassification was avoided for words which are relating to the topic of the exposure draft and therefore do not carry any negative sentiment in this context. A further advantage of the programmatic modification of the word lists is that it can be adjusted to apply to other contexts.

4.3.2 Simple Negations

Loughran and McDonald (2011) take account of negations within three words preceding positive words from their *Fin-Pos* dictionary. However, as they do not expect phrases such as *'not terrible earnings'* in financial reports, they do not take account of negations preceding negative words. Conversely, in the context of comment letters, phrases such as *'We have no objections to the proposal'* appear frequently and the measure of negativity would hence be distorted should negations not be accounted for when preceding negative words. Therefore, negations (*'no', 'not', 'none', 'neither', 'never', 'nobody'*) occurring within three words preceding a positive word in the same sentence, were accounted for by adding the negated positive word to

the negative word count.[20] Negations preceding negative words were accounted for by excluding the negative word from the negative word count. This serves to further reduce noise in the negativity measure.

Table 4.8 Negative Words

Type of Words	Fin-Neg	Harvard IV
Negated Positive Words	2053	21659
Negated Negative Words	2879	5803
Blocked Negative Words occurring frequently in the exposure drafts	87881	228885
Total Negative Words	85582	173222

This table reports the effect of the programmatic modification to the two word lists in developing the *Negativity* measure

Table 4.8 reports the effect of the programmatic modification of the two word lists on the number of negative words identified as negative in the total sample. The programmatic modification of *Harvard IV* appears greater as these lists contain a greater number of words than the financial word lists do.

4.3.3 Term Weighting

Term weighting schemes are applied in tone assessment as it is recognised that terms carry different levels of sentiment depending on their frequency (Loughran and McDonald 2011). The term weighting scheme is often referred to as *tf.idf* with *tf* being the term frequency and normalisation and *idf* the inverse document frequency, adjusting for the frequency across the sample. The term weighting scheme in equation 4.1 was recommended by Loughran and McDonald (2011) for its suitability to

[20] The positive words come from the Harvard IV-4 Psychosocial dictionary available at http://www.webuse.umd.edu:9090/tags/ when using negative words from the same source and from the *Fin-Pos* list when using negative words from *Fin-Neg*.

samples comprising documents of different length, a characteristic of the comment letter sample.

$$w_{i,j}\begin{cases}\frac{(1+\log(tf_{i,j}))}{(1+\log(a_j))}\log\frac{N}{df_i} & \text{if } tf_{i,j} \geq 1\\ 0 & otherwise\end{cases} \quad (4.1)$$

The weighted value, *w*, for each word, *i*, in each letter, *j*, is determined by the frequency, *tf*, of the term within the letter divided by the total number of words in the letter, *a*, further adjusted by the total number of letters in the sample, *N*, divided by the document frequency, i.e. the number of letters in which the word occurred, *df*.

Table 4.9 reports the summary statistics for the simple proportions of negativity, as well as the proportions after the terms have been weighted, using both *Fin-Neg*, and *Harvard IV* word lists.

Table 4.9 Summary Statistics for Negativity

Fin-Neg	**Mean**	**Median**	**Std. Dev.**	**Min**	**Max**
Simple Proportion	1.14%	1.10%	0.56%	0.00%	5.66%
Weighted Proportions (total)	4.51%	4.54%	2.18%	0.00%	18.06%
Harvard IV	**Mean**	**Median**	**Std. Dev.**	**Min**	**Max**
Simple Proportion	2.39%	2.31%	0.92%	0.00%	8.30%
Weighted Proportions (total)	7.35%	7.41%	2.66%	0.00%	19.62%

This table reports the proportion of negativity according to the *Negativity* measure using the *Fin-Neg* and *Harvard IV* word lists

The higher mean values for the proportions of weighted terms, as opposed to the simple proportions, are due to the low document frequency of the negative words, suggesting that they carry greater impact in the letters in which they do occur.

Conversely, the weighting of more frequent, neutral words, makes the total weight of the text in the comment letters reduced, thus contributing to the increase in the weighted proportions of negativity.

The inflected *Harvard IV Negative Dictionary* contains 4184 words, whereas the *Fin-Neg* contains 2350. It is therefore not surprising that the mean and median proportions are higher for *Harvard IV* as more words will be classified as negative.

4.3.4 Explicit Opposition

The accuracy of the analysis will be influenced by the suitability of the applied word list to the context of the sample. This was demonstrated by Loughran and McDonald (2011) which validated the advantage of their financial dictionaries over the *Harvard IV*, in a financial context. Despite the political nature of the letters, it is probable that authors who unambiguously state their opposition in phrases such as '*We disagree'* or '*We do not agree'* will also adopt the most negative tone throughout the letter. Therefore, to alleviate the concern that either of these dictionaries misclassifies words, even after the programmatic modification, correlations between the various negativity proportions and occurrences of explicit disagreement were compared. Therefore, all comment letters were searched for '*disagree'* and '*not agree'* and the number of occurrences was recorded. Correlations between negativity proportions and this form of explicit opposition were estimated, both for the number of occurrences of these phrases as well as for letting explicit disagreement be a binary variable, taking the value 1 for any number of occurrences equal to or greater than 1 and 0 otherwise. Table 4.10 reports the correlation coefficients.

Table 4.10 Suitability of Negativity Measures

Word List	Number of Occurrences	Binary
Fin-Neg		
Simple Proportion	0.106*	0.062*
Weighted Proportion	0.2098*	0.1787*
Harvard IV		
Simple Proportion	0.017	-0.031
Weighted Proportion	0.2115*	0.1901*

This table reports the correlation coefficients between explicit opposition and various negativity proportions. Opposition is, in the second column, the number of occurrences of the word disagree and, in the third column, a binary variable taking the value 1 for one or more occurrences of the word disagree and 0 otherwise. * Indicates that correlation coefficients are significant at the 1% level.

In both columns, explicit negativity is most highly correlated with weighted measures of negativity. The highest correlation coefficients are found for the weighted proportions of negativity, using the *Harvard IV* dictionary. That means that higher proportions of negativity are accompanied by greater explicit opposition which is to be expected for a suitable word list. This therefore seems to be the most appropriate measure for negativity and will henceforth be the only measure referred to as negativity.

4.3.5 Descriptive Statistics at the Document Level

Table 4.11 reports the weighted negativity proportions for the various interest groups and documents issued by the IASB.

Table 4.11 Negativity by Interest Group and Issued Document

Panel A: Interest Group	Obs	Mean	SD	Min	Max
Accountants	620	6.87%	2.92%	0.00%	19.62%
Users	107	7.65%	2.25%	2.29%	14.78%
The Business Community	1559	7.67%	2.49%	0.11%	15.51%
Stock Exchanges	7	6.33%	1.87%	2.97%	8.40%
Regulatory and Legal Authorities	611	6.96%	2.73%	0.00%	17.74%
Academic	47	7.64%	3.23%	1.99%	17.82%
Other Interested Parties	42	7.79%	2.05%	3.02%	11.36%
Unaffiliated	20	7.15%	2.93%	1.75%	13.47%
Unknown	3	6.20%	2.56%	3.62%	8.74%
Panel B: Issued Document	**Obs**	**Mean**	**SD**	**Min**	**Max**
1: Recognition and Measurement	201	8.78%	2.11%	2.39%	17.82%
2: Macro Hedging	123	7.65%	3.16%	0.00%	14.90%
3: The Fair Value Option	115	9.13%	2.61%	2.45%	17.74%
4: Transition and Initial Recognition	37	4.76%	3.37%	0.00%	14.12%
5: Cash Flow Hedge Accounting of Forecast Intra Group Transactions	58	5.53%	2.83%	0.00%	10.91%
6: Disclosures	106	6.80%	2.55%	1.36%	14.16%
7: Insurance Contracts	61	6.40%	3.16%	1.06%	14.06%
8: Puttable Instruments and Obligations Arising on Liquidation	88	7.93%	2.88%	0.16%	16.38%
9: Exposures Qualifying for Hedge Accounting	74	6.59%	2.90%	0.11%	13.36%
10: Financial Instruments with Characteristics of Equity	125	7.74%	2.06%	2.73%	13.13%
11: Reducing Complexity	162	8.12%	2.22%	2.31%	16.68%
12: Improving Disclosures	89	6.01%	2.77%	0.73%	16.86%
13: Investment in Debt Instruments	91	7.72%	2.75%	1.55%	15.07%
14: Embedded Derivatives Assessment	55	4.12%	3.14%	0.00%	13.28%
15: Derecognition	117	7.73%	2.53%	0.48%	14.60%
16: Credit Risk in Liability Measurement	123	7.52%	2.49%	1.61%	15.51%
17: Impairment of Financial Assets: Expected Cash Flow Approach	87	7.12%	2.03%	2.94%	14.78%
18: Classification and Measurement	243	7.41%	2.11%	1.83%	12.19%
20: Impairment of Financial Assets Measured at Amortised Cost	192	7.84%	2.13%	0.18%	13.19%
21: Fair Value Option for Financial Liabilities	138	7.93%	2.70%	2.31%	17.22%
22: Hedge Accounting	236	7.99%	1.98%	0.00%	13.13%
23: Supplementary Document on Amortised Cost and Impairment	212	7.77%	1.64%	0.40%	12.79%
24: Offsetting	162	5.84%	2.11%	0.00%	11.39%
25: Mandatory effective date of IFRS 9	121	4.52%	2.76%	0.00%	19.62%

This table reports descriptive statistics for values of negativity for the various interest groups (Panel A) and the issued documents (Panel B).

Panel A of Table 4.11 reports the average proportions of negativity for each interest group. Comment letters from the business community and other interested parties contained, on average, the greatest proportion of negativity. However, the differences between interest groups, on an aggregate level, are marginal. Low levels of negativity for a particular interest group could be a sign that the proposals are developed according to their preferences most of the time. This could be expected for certain groups, for example, users, the target beneficiary of IFRS, or regulators, including national standard setters, which are often involved in the early stages of developing proposals. However, it is plausible that even if the early stages are influenced by a particular interest group, the effort of lobbying only seems worthwhile in certain circumstances. As the IASB tends to adopt its original proposal most of the time (e.g., Hansen 2011), there is limited value to lobbying when the lobbyist agrees with the proposal, as lobbying will represent an unnecessary cost. This makes it easier to distinguish the preferences of an interest group as differences in negativity to a proposal will be a feature of their preferences instead of a result of how they tend to lobby or the influence they have gained at an earlier stage in the process.

Panel B of Table 4.11 reports summary statistics for negativity in comment letters corresponding to specific IASB issued documents. There is greater variability in the means amongst these than there were for interest groups which indicates that some proposals are more controversial than others. For example, the exposure draft relating to the controversial *Fair Value Option* was met by comment letters containing the highest mean level of negativity. It is unsurprising that *transition and initial recognition* as well as *mandatory effective date* were amongst the topics that generated lower levels of negativity as the timing and implementation of a change is likely to be less controversial than the proposed changes themselves. The following three chapters

go on to use the measure of negativity in order to empirically analyse its impact on the IASB's standard setting.

5. Does the IASB Take Account of External Influence? A Large Scale Textual Analysis of Negativity in Comment Letters.

5.1 Introduction

Since the seminal work of Zeff (1978) on lobbying in the development of accounting standards, this process has been seen as a largely political exercise rather than a purely technical process. Moreover, the accounting literature on the motivations and characteristics of lobbying parties suggests that the standard setting process is characterised by various interest groups with differing and conflicting preferences (e.g., Watts and Zimmerman 1978; Jorissen et al. 2012). However, despite the importance of this issue for accounting standard development, and numerous calls for research to develop greater understanding of the international accounting standard setting process (e.g., Barth 2008; Kothari et al. 2010), there is still a lack of objective and rigorous methods in the lobbying literature for analysing comment letters. This has, to date, hindered our understanding of the impact of lobbyists' comment letters on the development of International Financial Reporting Standards (IFRS).

This chapter aims to address this issue by developing a robust and objective framework for analysing lobbying and standard development. Computerised textual analysis is used and comment letters are examined for occurrences of explicit opinion, i.e. agreement or disagreement. In addition, the level of negativity surrounding their discussion of a proposed change is obtained by estimating a weighted ratio of negative

words to total words based on the Harvard IV-4 Psychosocial Dictionary (Harvard IV), but programmatically adjusted to suit the context of the study. The adjustments correct for misclassifications of words when a general word list, such as the Harvard IV, is applied to a specific context, a concern that was noted and examined in a financial context by Loughran and McDonald (2011). The measure of negativity that was developed in Chapter 4 is further programmatically adapted for analysing responses to specific questions within the exposure drafts (ED).

This process aims to capture the level of discontent expressed in comment letters submitted to the IASB during their various consultations. Through examining the effect of negativity and explicit opinions stated in comment letters and the resulting changes to accounting standards, the impact of lobbying on standard development can be more fully analysed.

The analysis focuses on formal participation in the due process of the IASB over an eleven year period, starting from the inception of the IASB in 2001. At this stage in the process, the IASB has developed an exposure draft containing the changes that the organisation proposes to implement to a standard, i.e. its intended course of action. External parties can respond and express their opinions on the exposure draft via comment letter submissions before the IASB decides whether to implement its proposed changes. As such, it can be observed whether constituents have the power to influence the IASB and block changes that have been proposed.

Logistic regression analysis is then used to estimate the impact of the measures of negativity and explicit opinion on the IASB's decision as whether or not to implement the proposed change. The purpose of this chapter is, therefore, to develop and employ an appropriate methodology to enable a large scale empirical investigation of external

influence on the IASB's projects to develop accounting standards. In doing so, this research answers calls from the academic community (e.g., Kothari et al. 2010) and standard setters (e.g., Barth 2008) to develop a greater understanding of the political process underlying the development of IFRS. Specifically, this chapter improves on previous research by overcoming the methodological challenges of providing a large scale empirical test, as opposed to a case study based approach, which is a key criticism of research on the political process of accounting standard setting (e.g., Skinner 2008; Gipper et al. 2013).

From the descriptive statistics, it is clear that proposed changes that were rejected were met with significantly higher levels of negativity and disagreement, than were those that were implemented. In addition, the logistic regression analysis, after controlling for various factors that may have an impact on the decision of the IASB, shows that higher negativity in the responses from lobbyists, but not explicit disagreement, significantly increases the probability of the IASB rejecting its proposed changes. This suggests that the IASB does take account of aggregate lobbying when proposed changes are met with higher levels of negativity by its constituents. Marginal effects of negativity and explicit opinion are carefully estimated at average and theoretically significant values to address concerns that non-linear models are often misinterpreted (e.g., Ai and Norton 2003; Brambor et al. 2005; Hoetker 2007). In addition, graphical representation, as recommended by Brambor et al. (2005), is provided to illustrate the marginal effects of negativity and explicit opinion.

The remainder of the chapter is structured as follows. Section 5.2 provides an outline of the institutional background of the development of the IASB and the standard

setting process. The literature review, in section 5.3, discusses the theoretical and empirical contributions of prior literature and develops the hypotheses that are tested. Sample construction and variables are presented in section 5.4. The model specification is outlined in section 5.5. Section 5.6 presents the empirical findings and discussion, and section 5.7 summarises and concludes.

5.2 Institutional Background

As mentioned in previous chapters, the IASB was established in 2001 as a result of the restructuring of the International Accounting Standards Committee (IASC), and inherited two international accounting standards (IAS) dealing with financial instruments: IAS 32 and IAS 39. The IASB has since been committed to improving the standards for financial instruments and issued 24 documents, to which constituents have been submitting comment letters, until the time of data collection, in November, 2012. This includes the creation of two new standards, IFRS 7 and IFRS 9, for which parts have already been implemented, but which, when completed, are intended to fully replace IAS 32 and IAS 39.

Currently, 16 members, with varied geographical and professional backgrounds, serve on the board which sets standards that are required or permitted in 128 countries worldwide (Deloitte IAS Plus 2014).[21] In setting the standards, the IASB follows a process that involves several steps and consultations with its constituents. Often a discussion paper is issued which includes an overview, and the preliminary views of the IASB, of an issue that the board believes needs attention and have added to its agenda, although this step can be omitted. An exposure draft which includes the IASB's proposed solution, and has been approved by at least nine board members is

[21] Prior to June 2012, there were 14 members on the IASB.

then issued. The exposure draft includes an invitation to comment section and comment letters are reviewed before developing and issuing a new standard or a change to an existing standard. This also needs to be approved by at least nine board members.

Although formal participation by third parties takes place at the later stages in the standard setting process, constituents may attempt to influence the agenda of the IASB and the development of an exposure draft. This raises the issue around how much of the political process is revealed through observable lobbying. A dialogue with constituents early in the process helps the standard setter to predict how managers will react to, or try to circumvent, future regulation (Lauren 1985). As such, the IASB can acquaint itself with constituent preferences, potential areas of dispute, and take account of these areas when developing a proposal. In addition, Lukes (2006) argued that the most effective exercise of power is unobservable and is exercised to shape preferences to prevent a conflict. However, as observed in the analysis, the IASB receives a large volume of comment letters after an exposure draft has been published. This suggests that this extreme form of power, via unobservable lobbying at earlier stages, has had limited effect and that comment letter authors still think it is worthwhile to make submissions to try to influence the standard setter. Analysis at this stage can, therefore, identify whether constituents have the power to persuade the IASB to reject the proposed changes.

5.3 Literature Review and Hypothesis Development

It has long been recognised that accounting standard setters are under pressure from groups with a vested interest in the development of a particular piece of regulation. The importance of managing this pressure and the potential influence exerted by third

parties was discussed in Zeff (1978) which attributed the demise of the U.S. Accounting Principles Board (APB) to the failure of the organisation to effectively manage third party influence. Instead, the U.S. Financial Accounting Standards Board (FASB) emerged in 1973, and a formalised open due process, where constituent groups could actively lobby for or against proposed changes, was established (Saemann 1999). Zeff (2008) outlined numerous accounting issues, dealt with by the FASB, on which third parties have had an impact, amongst which recent examples include *stock options* and *goodwill.* In addition, Zeff (2008) also provided an anecdotal account of the third party influence on the IASC's/IASB's decisions on *LIFO, share-based payments*, and *financial instruments*. The tendency to take account of external parties is considered to be essential to the standard setter's survival. It is, however, documented from a historical perspective rather than through empirical analysis.

A number of theoretical models have been proposed to explain the process of accounting standard setting and four key theories were discussed in Chapter 3: public interest theory, capture theory, ideology theory, and institutional theory. It was concluded that the ideology theory, as advocated by Kothari et al. (2010), provides the best opportunity to arrive at a framework for developing hypotheses and guide the empirical analysis of the standard setting.

5.3.1 Ideology Theory of Regulation

Kalt and Zupan (1984) argued that public interest theory is more of a normative wish, than an effective explanation of regulation. However, they criticised capture theory for failing to recognise the potential importance of ideology. They argued that a theory of regulation with a broader conception of political behaviour is required. The failure to

find empirical support for public interest and capture theories has led to the ideology theory of regulation, which incorporates concepts of both the theories of capture and public interest, but relaxes some of the more unrealistic assumptions. Therefore, like public interest theory, ideology theory stresses that regulation is a response to market failures, but predicts that lobbying will then influence the regulators, making regulation a joint outcome of political ideology and special interest lobbying (Kothari et al. 2010).

However, to what extent there is scope for external influence is unclear. For example, Weetman (2001) argued that the U.K. Accounting Standards Board's (ASB) formal consultation is a symbolic ritual rather than an actual opportunity for influence. Moreover, Mattli and Büthe (2005) argued that once a principle has been developed, it is near impossible for lobbyists to change it. In addition, Perry and Nölke (2006) noted that the development of the fair value paradigm, and its support within the standard setting community, reflects a contemporaneous shift in the international political economy stemming from greater growth in profits in the financial industry compared to other sectors. This may have therefore established an ideological preference, principle, or paradigm, which will not be altered by lobbying. Ideology theory of regulation considers this to be an important facet of standard development, but recognises that a second component remains, which affords influence to lobbying parties, providing they fit within the ideology (Kothari et al. 2010).

Although the efficiency of any regulation is not predicted by the theory, the formation of regulation is explained, and the theory provides a conceptualisation that is suited to an empirical analysis of the development of regulation. Kwok and Sharp (2005) defines influence as: "*a relation among actors in which one actor induces other actors*

to act in some way they would not otherwise act". This description encapsulates the role of lobbying within ideology theory of regulation. It allows for the regulator to have preconceptions about the right course of action, a status quo, based on an ideological conviction, and recognises that special interest lobbying is influential if it can alter this course of action, albeit within the existing paradigm.

The IASB develops proposals with changes it intends to make according to its ideological preferences. Once issued, lobbying parties attempt to block or change proposals that are in conflict with their self-interest. In an ideology theory framework, the ability to prevent the IASB from implementing its intended changes is therefore evidence of the impact of the second component; special interest lobbying, on the development of accounting standards.

5.3.2 Accounting Lobbying Literature

As mentioned above, anecdotal evidence suggests that national standard setters, and the IASB, are, at least to some extent, affected by third party influences (e.g., Zeff 2008). Public interest theory that suggests otherwise is considered to be a highly unrealistic representation of reality (Kalt and Zupan 1984). The due process of the IASB actively encourages a dialogue with external parties, yet our understanding of their influence is limited.

One way of observing influence in the literature has been to compare the outcome in subsequently issued proposals, or finalised standards, to prior comment letter submissions (e.g., Haring 1979; Brown 1981; Coombes and Stokes 1985; McLeay et al. 2000; Kwok and Sharp 2005; Hansen 2011). By comparing the extent of agreement between the finalised outcome and the preferences of lobbyists, this allows for an evaluation of which lobbyists are best served by the regulation.

McLeay et al. (2000) used manual content analysis of five published comments, separated into three groups: industry, academic, and the profession, to identify whose proposals were most often reflected in the finalised regulation during the transformation of the Fourth European Company Law Directive into German accounting law. They found that the industry group was more likely to be successful in having their proposals incorporated into the law but that their lobbying success was depending on the support of at least one additional constituent group.

Similarly, Kwok and Sharp (2005) analysed comment letters, which they classified according to constituent group, on the IASC's segment reporting and intangible assets projects from 1994-1997. Whilst no group was found to dominate the development of the standards, the changes made to IAS most frequently tended to align with the preferences of preparers. Neither McLeay et al. (2000) nor Kwok and Sharp (2005) however took account of a status quo reference point. As a result, they cannot separate what part of the regulation is actually due to the lobbying, and in which cases the regulation would have turned out that way anyway. Without separating the ideological component from the special interest lobbying component, causation cannot be established, and the process at least appears pluralistic. Nonetheless, in these cases, regulation seems to develop in order to be acceptable to industry, as long as this is consistent with the view of one of the other constituent groups.

In a multi-issue setting, Hansen (2011) studied comment letters submitted on five exposure drafts, issued by the IASB, by using manual content analysis and coding observations according to whether they agreed with the final outcome. The results showed that lobbying success was positively related to the quality of information where the lobbyist is credible and the lobbyist has an impact on the viability of the

IASB. However, if there has not been a change between the initial proposal and the finalised standard, significant agreement between comment letters and subsequent standards, implies only that the standard setter's position and the lobbyist's position are the same, and not necessarily due to lobbyist influence. Hansen (2011), therefore, also focused on a subsample of observations where the lobbyist disagreed with the proposal. This better tests the lobbyists' ability to change the IASB's position. Whilst the proxies for quality were of a lower order of significance compared to the full sample, and the explanatory power of impact on viability disappeared, the results highlight the importance of spending time in preparing a high quality comment letter in order to persuade the regulator not to implement a proposed change. Moreover, this subsample better isolates the special interest lobbying, as it is not as distorted by the ideological preferences of the regulator.

Brown and Feroz (1992) took advantage of visible changes in the FASB's position by analysing 74 comment letters from corporations to the first exposure draft on general price level adjustment (GPLA) and then identifying if the positions aligned with the change in the FASB's position between the first and second ED on the same topic. Similarly, Kenny and Larson (1993) examined 50 comment letters from interested parties, in 1989 and 1990, prior to the IASC issuing IAS 31 *Financial Reporting of Interests in Joint Ventures.* Both studies used manual content analysis to establish whether or not the lobbyist supported the proposal and found that subsequent changes to the standards were more frequently represented by the views expressed in the letters than not. One of the drawbacks of this approach, however, is that manual content analysis suffers from subjectivity and a lack of rigor. Nonetheless, the idea of focusing on changes in the standard setters position allows the isolation of issues where lobbying has had an observable effect.

The notion of some dual outcome of an initial view with some room for adjustment was explored by Saemann (1999). Content analysis of comment letters, sent by four institutional organisations that were believed to represent the views of three main constituent groups: preparers, users, and the profession, revealed that the FASB was found to agree with users initially. However, their finalised standards tended to incorporate the preparer view as well through compromising on the issues that preparers had strongly opposed. From the ideology theory perspective, it can therefore be argued that whilst the ideological position caters to the needs of users, as per the conceptual framework, there is room for influence by preparers. Consistent with this, Weetman (2001) found that for issues that the ASB had not actively been seeking input on, but that had frequently been brought up and opposed in the letters, did the ASB change its position. Again, this suggests that standard setters are driven by their ideological conviction, but there is some, albeit limited, influence from external parties.

Giner and Arce (2012) studied the 539 comment letters sent to the IASB on the share-based payments project prior to issuing IFRS 2. The IASB changed their position on one out of the three issues that the analysis covered, namely the reference date. The finalised standard aligned with lobbyist preferences on this issue, 114 letters had been in favour of the outcome and 103 had been opposing that outcome. However, for the other two issues, lobbyists disagreed with the outcome even more; 129 disagreed and 20 agreed with the outcome on *recognition,* and 115 disagreed and 35 agreed with the outcome of *valuation,* yet the IASB did not change their position.

As the literature above implies, academic research largely focuses on the characteristics of the lobbyists and their influence. However, some studies, such as

Jupe (2000), Kwok and Sharp (2005), Hansen (2011) have paid closer attention to the effect of textual, or letter characteristics, as part of their analysis. Jupe (2000) focused on the type of argument used and found that the changes to the final standard were more in line with comment letter responses by large companies that used self-referential arguments. Kwok and Sharp (2005), meanwhile, focused on keywords within the letters that referred to different facets of power. From in-depth interviews with board representatives, they found that the IASB were looking for persuasive arguments and that comment letters that included threats of sanctions were met with resentment and disregarded in the development. This stresses the importance for lobbyists to frame their wishes in a suitable way in order to have the opportunity to be influential.

Moreover, Hansen (2011) found that collectively (after factor analysis) the percentage of questions answered, the number of pages of the letter, the number of references to the IASB's constitution, framework, or other IAS/IFRS, and number of references to accounting standards or frameworks from national standard setters, had some explanatory power over the IASB's decision. This suggests that characteristics of the letter itself may have an impact on the IASB's decision, independently from its author. This is directly linked to the concept within ideology theory of regulation that arguments must be presented in a way that does not seem out of line with what the standard setter is trying to achieve.

Kothari et al. (2010) argued that there is a lack of a well-developed framework to predict the influence of the political processes on accounting standards and that the resulting dearth of empirical work makes it difficult to prescribe optimal regulatory structures for accounting. Using the ideology theory of regulation, they explained how

there is potential for both ideological preferences of regulators and special interest lobbying to affect the outcome of standards. At the overt lobbying stage of standard development, the ideology of the standard setters has shaped the proposals in the exposure drafts. Any subsequent changes to the IASB's course of action can therefore be analysed in order to assess if their remains an opportunity for special interest lobbying to affect the standards.

As concluded in Chapter 3, the accounting lobbying literature provides some mixed evidence. However, as highlighted in the literature above, there is reason to believe that the IASB will be responsive to lobbying. Lobbyists expect there to be some benefit from their lobbying, and the ideology theory of regulation as well as several prior studies suggest that aggregate lobbying has an effect on the finalised international standards (e.g., Kenny and Larson 1993; Hodges and Woods 2004; Kwok and Sharp 2005; Hansen 2011; Giner and Arce 2012). Therefore, it is expected that the higher the levels of agreement (disagreement) that a proposed change is met with, the lower (higher) will be the likelihood that the IASB decides to reject the proposed change.

Hypothesis 5.1: Explicit agreement will reduce the likelihood of the IASB deciding not to implement a proposed change.

Hypothesis 5.2: Explicit disagreement will increase the likelihood of the IASB deciding not to implement a proposed change.

It is recognised that manual content analysis can introduce subjectivity (Krippendorff 2004). In addition, it is costly where large sample analysis is required and cannot necessarily be replicated. Therefore, computerised textual analysis is used both to extract explicit opinions and negative tone in the discussion of a proposed change.

5.3.3 Comment Letter Negativity

Exposure drafts pose clear questions regarding the proposed changes to the standards. Most often, the questions are phrased *'Do you agree?'* or *'Is this appropriate?'* and, hence, give the lobbyist the opportunity to express their explicit agreement or disagreement. However, prior research has discovered that comment letters are often ambiguous in their nature (e.g., Holthausen and Leftwich 1983; Francis 1987; Hansen 2011) and when analysing the responses, it is found that in only 18% of observations will lobbyists explicitly state that they disagree with the proposal, and in 38% of observations, there is no explicitly stated opinion. It is unlikely that lobbyists would voluntarily incur the cost of submitting comment letters unless they expect to gain some benefit. As a result, it is expected that the text contained in responses that do not explicitly state an opinion has an effect on the IASB's decision, or at least is intended to influence the outcome. Textual analysis provides a tool which goes beyond manual classification of agreement or disagreement. It has the potential to enable large scale analysis of the influence that is granted to third parties, as separated from the ideological position of the regulator.

Extant literature has found that lobbyists that disagree with a proposal tend to spend more effort in trying to convince the regulator and back up their position with more arguments (e.g., Giner and Arce 2012). As the IASB does change its position on a number of issues, albeit within the limits of the ideology, the textual feature of the comment letters that has the potential to communicate disagreement, without necessarily alienating the standard setter, is likely to be a negative tone. If a proposed change is discussed in a negative way by many of its constituents, it could be a warning sign to the IASB that the proposed change may generate unhappy constituents and result in a problem of implementation, or indeed future unwanted

accountability for the IASB. If the IASB takes account of the aggregate lobbying efforts, then it follows that higher levels of negativity is associated with an increased likelihood of the IASB deciding to refrain from implementing a proposal.

Hypothesis 5.3: Higher negativity will increase the likelihood of the IASB deciding not to implement a proposed change.

5.4 Data

5.4.1 Sample Creation

The sample is derived from the comment letters that the IASB makes available on its website, *www.ifrs.org*, and was outlined in Chapter 4. At the time of the data collection, 3064 comment letters had been generated in response to 24 documents, issued by the IASB, relating to the development of these standards since 2001. Of these 3064, 1815 comment letters responded to the 16 exposure drafts that related to projects that are recognised as having been completed, i.e. for which there is an identifiable outcome. It is acknowledged, however, that there is often ambiguity when identifying the outcomes of proposed changes, as parts of a proposal may be adopted while other parts are not (Holthausen and Leftwich 1983). Equally, respondents may support part of a proposal and oppose others (Francis 1987). Therefore, as recommended by Hansen (2011), the responses to the invitation to comment section of the exposure drafts are analysed to reduce this ambiguity. This section of the exposure drafts contains questions regarding the specifics of proposed changes on which the IASB invites constituents to comment. The questions allow the proposal to be broken down into its parts, thus enabling the analysis of lobbying success in cases where specific parts of a proposal have been adopted and other parts have not. Chapter 4

presented the parsing procedures and descriptive statistics on the full comment letters. In order to extract the answers to the specific questions, a question reference at the beginning and end of each answer is inserted into the letters before reading them into Perl and repeating the parsing procedure described in Chapter 4. The lines in between a beginning and end question references then represent a letter question observations and are analysed for explicit opinion and negativity.

To remove ambiguity from the sample, a number of specific exposure drafts, and the comment letters on these drafts, are excluded. For *Derecognition: Proposed Amendments to IAS 39 and IFRS 7*, as issued in April, 2009, the whole proposal was withdrawn and the organisation decided to retain previous accounting treatments. This also occurred for *Offsetting Financial Assets and Financial Liabilities,* as issued in January, 2011. As such, the observations cannot be reliably compared to the outcome of separate issues within the exposure draft, leaving 1695 comment letters for analysis.

As the chapter focuses on lobbyists' ability to prevent proposals from becoming standards, only the 70 questions that refer to proposed amendments to which lobbyists have an opportunity to communicate their opposition or concerns are included in the analysis. These questions take the form "*Do you agree…*" or "*Is this appropriate…*" for example, and relates to the proposed amendment, not an alternative. The majority of the questions (86 out of 107) take this form, out of which 16 are removed as they are in the exposure drafts for the two projects which were abandoned. Not all letters contain responses to the questions posed by the IASB and those that do, do not all answer all the questions in the exposure draft. Table 5.1 outlines the distribution of the sample across comment periods. The sample contains 5083 question-observations, i.e. responses to 70 usable questions, in 14 exposure drafts.

Table 5.1 Sample Selection

Year	Month	Completed Projects	Questions	Usable Questions	Comment Letters	Observations
2002	June	Disclosure, Presentation, Recognition and Measurement	14	12	207	978
2003	August	Fair Value Hedge Accounting	2	2	127	120
2004	April	The Fair Value Option	6	3	116	176
2004	July	Transition and Initial Recognition	3	1	37	22
2004	July	Cash Flow Hedge Accounting	3	1	58	34
2004	July	Disclosures	10	8	106	539
2004	November	Financial Guarantee Contracts	5	4	61	155
2006	June	Puttable at Fair Value	4	4	88	214
2007	September	Exposures Qualifying for Hedge Accounting	4	3	74	160
2008	October	Improving Disclosures	8	7	89	406
2008	December	Embedded Derivatives	5	5	55	137
2009	April	Derecognition	11	0	120	0
2009	July	Classification and Measurement	15	11	246	1,404
2010	May	Fair Value Option for Financial Liabilities	10	7	138	590
2011	January	Offsetting Financial Assets and Financial Liabilities	5	0	162	0
2011	August	Mandatory effective date of IFRS 9	2	2	131	148
		Total:	**107**	**70**	**1815**	**5,083**

This table reports the exposure drafts, relating to financial instrument projects that have been completed, issued by the IASB for public comment, questions contained in the invitation to comment section, useable questions, the number of corresponding comment letters, and the resulting number of observations.

5.4.2 Dependent Variable - Outcome

The proposed amendments, referred to in each question, are compared to the subsequently issued amendments to the standards. If the proposal, to which the question relates, is not incorporated in the subsequent amendment, i.e. there has been a change from the proposal to the finalised standard; the variable *REJECT* is coded 1 and 0 otherwise. The outcome was independently classified by four researchers, including three senior chartered accountants. The classifications were compared, and in instances of disagreement; 14 out of 70 questions, the outcomes were discussed until consensus was reached. A change is identified for 28 questions (40%), not dissimilar to the 69 questions in Hansen's (2011) study which identified a change for 46% of the issues in a multi-issue setting.

5.4.3 Independent variables – Negativity and Explicit Opinion

Negativity: A Continuous Measure of Opposition

The negativity measure, developed in Chapter 4, is further adapted to suit the letter question observations, as opposed to the whole comment letters. As per the negativity measure in Chapter 4, the negative word list that is used is taken from the Harvard IV.[22] It contains words that are considered negative in a general sense and is, in this context, preferred to the negative financial word list (Fin-Neg), as developed by Loughran and McDonald (2011). The Fin-Neg has been developed to edit the classification of words that carry sentiment in general text but not in a financial context, and vice versa. Whilst the Fin-Neg has been applied in financial research, and

[22] The version used in the analysis comes from Bill McDonald's word list page where the Harvard IV has been extended to include relevant inflections. The list is available at: http://www3.nd.edu/~mcdonald/Data/Harvard%20IV_Negative%20Word%20List_Inf.txt

proven useful in assessing the informativeness of textual tone in the valuation of firms (e.g., Loughran and McDonald 2011; Engelberg et al. 2012; Mayew and Venkatachalam 2012), it would misclassify words in the comment letters. For example, the word *"cost",* a negative word according to *Harvard IV*, is not included in *Fin-Neg* as it is used in financial reports in a neutral manner. However, in the context of comment letters, the "*cost of implementation"* is a frequently used reason for opposing changes to accounting standards, and should therefore be classified as negative.

Harvard IV also misclassifies other words in a comment letter/lobbying context. For example, the word "*liability"* is included in the *Harvard IV*, but in the context of the comment letters, it is unlikely to refer to anything other than the accounting term, and therefore carries no negative sentiment, in this case. Further examples are words such as "*loss"* and "*impairment",* which are classified as negative by both *Harvard IV* and *Fin-Neg*, yet in this context, merely refer to the topic of the exposure drafts. Classifying these words as negative, as per the word lists, would therefore overstate the negative tone in the analysis. Neither word list seems ideal in its original form, yet to develop one's own word list suffers from connotations of subjectivity (Krippendorff 2004) and would likely be unusable in other contexts.

In order to reduce the noise in the measurement, the negativity measure is obtained by programmatically modifying the classifications to better suit the text, to which it is applied. Words that occur frequently in an exposure draft, and are classified as negative by *Harvard IV*, are, when used in a corresponding comment letter, likely to be a reference to its occurrence in the exposure draft. In order to edit the classification scheme accordingly, if a word is classified as negative in *Harvard IV,* but occurs with

a frequency of more than 0.05% of the words in the exposure draft, it is removed from the negativity count, so as not to unduly increase the negativity score.

Whilst there are still occasions of misclassification, the programmatic modification improves the classification scheme. For instance, the word *cost* was excluded from the negative word count in comment letters corresponding to five exposure drafts. In all known examples, it refers to amortised cost, i.e. the topic of proposed changes and carries no negative sentiment. An example is EFRAG's response to the 2004 *Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option:*

> *"EFRAG supports the pragmatic approach as regards the transitional requirements – i.e. no retrospective application when an entity changes the measurement from at fair value through profit and loss to* ***amortised cost****."* [Emphasis added]

Conversely, in the letter from the Australian "Group of 100", in response to the 2003 *Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.* The word 'cost' was included in the negative word count, as it carried a negative sentiment, as increased costs are a portrayed as an unfavourable economic consequence of the proposed change.

> *"Core deposits are a significant fixture of the Australian banking system. The inability to apply fair value hedging in respect of core deposits is likely to result in the use of cash flow hedging for core deposits. This will lead to the duplication of systems where these entities use portfolio hedging in respect of*

other activities, ***increases in transaction costs*** *and potentially to changes in product design and pricing and funding arrangements."* [Emphasis added]

Table 5.2 presents the most frequent words that were excluded from the negativity measure due to this modification.

Table 5.2 Blocked Words Occurring Frequently in Exposure Drafts

Blocked Word	Times Blocked	Number of EDs
Risk	3601	12
Liabilities	2305	13
Loss	1915	14
Liability	1820	13
Cost	1678	5
Board	1616	16
Hedge	1555	7
Losses	1082	9
Impairment	809	3
Question	663	13
Capital	548	2
Risks	466	5
Ineffectiveness	401	2
Particular	382	9
Need	250	5
Make	227	3
Costs	163	6
Foreign	149	4
Liquidation	122	1
Imposed	108	1
Volatility	104	1
44 other words which were blocked less than 100 times	987	
Total:	20951	

This table reports the most frequently blocked words, i.e. words that are classified as negative by Harvard IV, but appear frequently in an exposure draft, thus likely making it a non-negative reference in the corresponding comment letters. The number of times the word was blocked is reported, as well as the number of exposure drafts for which the word appeared with a frequency greater than 0.05 percent, qualifying it to be blocked from comment letters corresponding to those exposure drafts.

In addition, any negative words that occur in a question are blocked from the negativity count in the corresponding answers. An example is from the July 2009 exposure draft: '*Financial Instruments: Classification and Measurement'*, where one

question was *"Do you agree that reclassification should be prohibited?"* In this question, the word "*prohibited*" is a negative word but an answer may contain this word without conveying negative sentiment in the following way *"Yes, we agree that reclassification should be prohibited."* If the word "*prohibited*" were to be classified as negative, it would obtain a relatively high negativity score despite the comment expressing no negativity. The additional words to be removed from the negativity count due to occurring in a corresponding question are reported in Table 5.3.

Table 5.3 Blocked Words from Questions

Blocked Word	Times Blocked
Question	173
Pass	149
Impaired	65
Exceptions	52
Prohibited	46
Make	37
Limited	32
Eliminated	31
Eliminate	23
Limit	22
Excluded	20
Questions	18
Compelled	17
Exempt	10
Passed	9
Exception	8
Imposes	7
Needed	7
Complex	6
Concerns	4
Total:	736

This table reports the additional words that were removed from the negativity counts in observations due to occurring in the question.

Larcker and Zakolyukina (2012) pointed out that hand-collected wordlists, such as the one used by Loughran and McDonald (2011), may suffer from researcher subjectivity

and miss linguistic features that a more comprehensive psychosocial dictionary includes. However, they also recognised that the advantage of hand-collected dictionaries is that the researcher has to take care to identify relevant linguistic constructs and the related words. An advantage of programmatic modification is that it removes the potential for subjectivity bias, yet retains the advantages of a more precise identification of the words related to the linguistic constructs. In addition, it can be adjusted to apply to each exposure draft and each question, and, importantly, to other contexts.

Further, as described in Chapter 4, negations (*"no", "not", "none", "neither", "never", "nobody"*) occurring within three words preceding a positive word, in the same sentence, are accounted for by adding the negated positive word to the negative word count.[23] Negations preceding negative words are accounted for by excluding the negative word from the negative word count. In addition, the same term weighting scheme, described in Chapter 4 and recommended by Loughran and McDonald (2011), which accounts for terms carrying different levels of sentiment depending on their frequency was applied to the negativity ratio.

As Fagan and Gencay (2011) note, it is considered appropriate to remove so-called stop words from the analysis, as they are highly frequent words that are sometimes added as fillers, or for grammatical purposes, rather than for conveying information, and have the potential to distort the overall negativity score. Therefore, stop words were removed from the counts of negative and non-negative words.[24] Four observations contained only stop words and a negativity score for these observations

[23]The positive words come from the Harvard IV-4 Psychosocial dictionary available at http://www.webuse.umd.edu:9090/tags/.

[24] The list of generic stop words has been downloaded from http://www3.nd.edu/~mcdonald/Word_Lists.html

could not be obtained.[25] The resulting measure generates a continuous negativity score, *NEG*, between 0 and 1, with 1 being the most negative and 0 the least negative.

Explicit Opinion

To capture unambiguously stated opinions in the responses, if available, agreement and disagreement are defined and obtained as follows. As the questions included in the analysis take the form: *"Do you agree…?"* or *"Is this appropriate…?",* the first word in the answer being *"yes"* is identified as agreement and *"no"* as disagreement. Further, unless negated, occurrences of *"agree",* anywhere within the answer, are identified as agreement and, if negated, as disagreement. Occurrences of *"disagree"* or "*oppos"* (the stem is used to allow for different grammatical variations e.g., *oppose, opposition etc.*) are, unless negated, taken to indicate disagreement. In 141 cases the responses contain occurrences of both agreement and disagreement, according to the definition. To avoid bias from the effect of these ambiguous responses, these observations are removed from the sample. The effect of missing observations is reported in table 5.4. There remain three possible classes of explicitly stated opinion in the observations and a variable, *EXPLICIT*, contains the three groups: agreement (2173 question letter observations), disagreement (865 question letter observations), or no explicitly stated opinion (1900 question letter observations). In order to test the effect of explicitly stated opinion, no explicitly stated opinion serves as the reference group in the logit regression analysis.

[25] When excluding stop words in the analysis, the results of the analysis are qualitatively the same.

Table 5.4 The Effect of Missing Variables on the Sample Size

Initial sample	5083
less: unavailable negativity	4
less: unavailable explicit opinion	141
Total:	**4938**

This table presents the effect of missing variables on the total sample size

If lobbyists have the ability to prevent proposals from making it into accounting standards, it is expected that mean levels of negativity and disagreement will be higher for those proposals that were not adopted, i.e. blocked proposals, in comparison to proposals that were implemented.

Control Variables

The model (equation 5.3), includes four control variables that, potentially, have an independent effect on the IASB's decision. Macroeconomic factors are known to affect the political pressure on regulators (Bertomeu and Magee 2011). Therefore, an indicator variable, *POSTC*, takes the value 1 for the exposure draft being issued after the commencement of the financial crisis, as defined by the bankruptcy filing of Lehman Brothers on 15 September 2008, and 0 otherwise. This variable controls for the increased political pressure on the organisation that followed the problems with the standards that were highlighted in the financial crisis (Bengtson 2012). This criticism is very closely related to financial instruments and, as such, the decision to reject certain proposals may have resulted from political pressure that falls outside of the comment letter lobbying. In addition, it is possible that the salience of the topic under consideration, and the volume of comment letters received, makes the organisation more hesitant in going ahead with implementing proposed changes.

Therefore, the log of the volume of comment letters corresponding to the exposure draft, *VOLLG*, is included in the model.

In addition, the length of the responses may signal that the proposed change is particularly complicated or controversial which may therefore lead the IASB to reject the proposed change or defer its implementation. *LENGTH*, the number of lines in the answer to the question and *WORDS*, the number of words in the letter, are therefore included as control variables.

5.5 Model Specification

To identify whether there is the potential for lobbying to influence the standard setter's decision as whether or not to implement proposed changes, logistic regression analysis is used. The IASB's decision to reject its proposed change is modelled as a function of lobbyists' level of negativity and explicitly stated opinions.

$$p = E(REJECT|X\beta) = [1 + \exp(-X\beta)]^{-1} \quad (5.1)$$

$$logit(p) = ln\left(\frac{p}{1-p}\right) = X\beta \quad (5.2)$$

The dependent variable, *REJECT*, is a binary variable which takes 1 if the IASB rejects its original proposal. X is a vector of independent variables and their linear combination is Xβ. The second representation is a logit transformation of the first model which takes the logarithm of the odds of the event happening. The coefficients in β measure the impacts of the variables on the natural logarithm of the relative probability of blocking a proposal, compared with it being implemented. The variables in X are made up of the negativity score, *NEG*, the two indicator variables for explicit opinion, *AGREE* and *DISAGREE*, as well as the control variables. To allow for the

possibility that the effect of negativity is conditional on explicit opinions in the observations, the model (presented in equation 5.4) includes interaction terms for negativity and the variations of explicit opinion.

$$Pr(REJECT = 1) = \beta_0 + \beta_1 NEG_{it} - \beta_2 AGREE_{it} + \beta_3 DISAGREE_{it} \pm \beta_4 NEG_{it} * AGREE_{it} \pm \beta_5 NEG_{it} * DISAGREE_{it} \pm \beta_6 POST_{it} \pm \beta_7 VOLLG_{it} \pm \beta_8 LENGTH_{it} \pm \beta_9 WORDS_{it} + \varepsilon_i \quad (5.3)$$

Where i indicates the comment letter and t the specific question. The logit model is estimated and the results are reported in a conventional way in Table 5.6. However, it has been reported that estimation and interpretation of conditional hypotheses in non-linear models are problematic (e.g., Ai and Norton 2003; Brambor et al. 2006; Hoetker et al. 2007) as the sign and significance of the marginal effects of a variable is a function of the coefficient of the interacted variables and the values of all other variables and can therefore not be deduced by the coefficient alone. In logit and probit models, the effect of a change in any variable depends on the initial probability (Hoetker 2007). This means that an equal change in a discrete variable will have different impact at different levels of the other variables, and an equal change in a continuous variable will have a different impact depending on the base level of the change as well as all the other variables. The magnitude of the coefficient tells us little about the effect of a variable in logit models, and the sign and significance of the coefficient can be unrepresentative of the sign and significance of the impact of a variable as this can vary at different probabilities. Therefore, following Brambor et al. (2006), the marginal impact of the explanatory variables i.e. the constitutive parts of the interaction variables are tested at meaningful values of the covariates.

5.6 Empirical Results

Panel A of Table 5.5 presents the descriptive statistics for the explanatory variables and the control variables, for all the observations, as well as separated by *REJECT*, i.e. whether or not the proposed change was rejected. The significance of the difference in means between the two separate groups is tested by two-sample t-tests and significance at the 5% level is indicated in the last column. In addition, Panel B reports the Spearman and Pearson correlations for explanatory and control variables. The indicator variables for explicit opinion are defined as follows in the descriptive statistics: *AGREE* is 1 if there is an occurrence of explicit agreement, 0 otherwise, *DISAGREE* is 1 if there is an occurrence of explicit disagreement, 0 otherwise, *NO EXPLICIT* is 1 if there is no explicit opinion, 0 otherwise.

Table 5.5 Descriptive Statistics of Variables Used in Logistic Regression Analysis

Panel A: Distributional descriptive statistics

	All observations			REJECT= 0 (Implemented)			REJECT=1 (Rejected)			
	4938 question observations			2874 question observations			2064 question observations			
Variable	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Significant difference
NEG	0.059	0.050	0.068	0.045	0.054	0.063	0.066	0.057	0.074	yes
AGREE	0.440	0	0.496	0.484	0	0.500	0.378	0	0.485	yes
DISAGREE	0.175	0	0.380	0.159	0	0.365	0.198	0	0.399	yes
NO EXPLICIT	0.385	0	0.487	0.357	0	0.479	0.423	0	0.494	yes
VOLLG	4.987	4.927	0.471	4.961	4.927	0.464	5.023	4.927	0.478	yes
POSTC	0.531	1	0.499	0.434	0	0.496	0.667	1	0.471	yes
LENGTH	12.93	6	19.90	13.09	6	20.97	12.70	7	18.29	no
WORDS	2763	2036	2808	2866	2051	3027	2620	2005	2464	yes

Panel B: Spearman (below the diagonal) and Pearson (above the diagonal) correlation (n=4938)

	NEG	AGREE	DISAGREE	NO EXPLICIT	VOLLG	POSTC	LENGTH	WORDS
NEG		-0.2483*	0.2414*	0.0647*	0.0880*	-0.0807*	0.1179*	0.0874*
AGREE	-0.3113*		-0.4085*	-0.7011*	-0.0940*	0.0869*	-0.1458*	-0.0643*
DISAGREE	0.2894*	-0.4085*		-0.3644*	0.0656*	-0.0765*	0.2756*	0.1263*
NO EXPLICIT	0.0916*	-0.7011*	-0.3644*		0.0447*	-0.0289*	-0.0666*	-0.0331*
VOLLG	0.0847*	-0.0914*	0.0519*	0.0527*		0.2756*	0.012	0.3621*
POSTC	-0.0815*	0.0869*	-0.0765*	-0.0289*	0.3922*		-0.0938*	-0.1395*
LENGTH	0.4466*	-0.2643*	0.2615*	0.0654*	0.0540*	-0.0323*		0.2939*
WORDS	0.1776*	-0.1314*	0.1316*	0.0312*	0.4954*	-0.1070*	0.3000*	

This table reports the descriptive statistics for explanatory variables and control variables, where *NEG* is the modified weighted ratio of negative to non-negative words, *AGREE* is1 if there is an occurrence of explicit agreement, 0 otherwise, *DISAGREE* is 1 if there is an occurrence of explicit disagreement, 0 otherwise, *NO EXPLICIT* is 1 if there is no explicit opinion, 0 otherwise, *POSTC* is 1 if the observation relates to exposure drafts issued after the commencement of the financial crisis in 2008, 0 otherwise, *VOLLG* is the natural logarithm of the number of comment letters responding to the exposure draft, *LENGTH* is the number of lines in the observation, and *WORDS* is the number of words in the letter. In Panel A distributional descriptive statistics are displayed for all observations, the observations relating to implemented proposed changes, and observations relating to proposed changes that were rejected. Significant differences in means, at the 5% level, between the two groups of implemented and rejected changes are indicated in the last column (two-tailed t-test). In Panel B, correlations that are significant at the 5% level are shown by *.

Consistent with the prediction that the IASB's decision to implement a proposal will depend on the responses in comment letters, explicit agreement is more common for proposals that were implemented and no explicit opinion and explicit disagreement are more common in responses to proposals that were subsequently rejected. Equally, the mean level of negativity is higher for proposals that were rejected. The means for all of the explanatory variables are significantly different for the two groups. These initial findings suggest that the IASB takes account of the comment letter lobbying, and that the mean levels of agreement, disagreement, and negativity are important to the organisation in deciding whether to implement a proposed change.

The mean for *POSTC* is 0.531 as the observations are well dispersed between the period before and after the commencement of the financial crisis. The mean is significantly higher for observations relating to proposed changes that were rejected than to those that were implemented. The IASB abandoned more proposed changes after the start of the financial crisis. The increased criticism of IFRS, especially as regards to financial instruments, which resulted because of the financial crisis, may have made the IASB more hesitant to implement its proposed changes. Equally, the mean for *VOLLG* is significantly greater when proposed changes were rejected which suggests that the IASB is more hesitant to implement its proposals when political pressure, or interest, is greater. However, the correlation matrix in panel B reveals that *VOLLG* and *POSTC* are highly, and significantly, positively related, suggesting that they may both be capturing the post-crisis criticism, or increased interest in the standard setting process of the IASB.

Amongst the explanatory variables, negativity and explicit disagreement are positively correlated, whilst both are negatively correlated with explicit agreement. This

confirms that lobbyists that disagree tend to use more negative language than lobbyists that agree and confirms that the negativity scores capture discontent with the proposed change. Negativity is also positively correlated with no explicit opinion but at a much lower magnitude than it is with disagreement.

The large and significant positive correlations between length (number of lines in the observation) and negativity and disagreement are consistent with the findings in Giner and Arce (2012) that disagreement is backed up by more arguments than agreement is. This is likely due to the perception that it is more likely that the IASB will go ahead with its intended course of action, and that additional effort will be required to prevent it. This is also true for the number of words in the letter, but the relation is not of the same magnitude. This suggests that whilst lobbyists that are negative to some changes will spend more effort in preparing the full response, the specific issues for which they are negative receive the greatest attention.

The coefficients for the logistic regressions are presented in Table 5.6.

Table 5.6 Multivariate Model Estimates

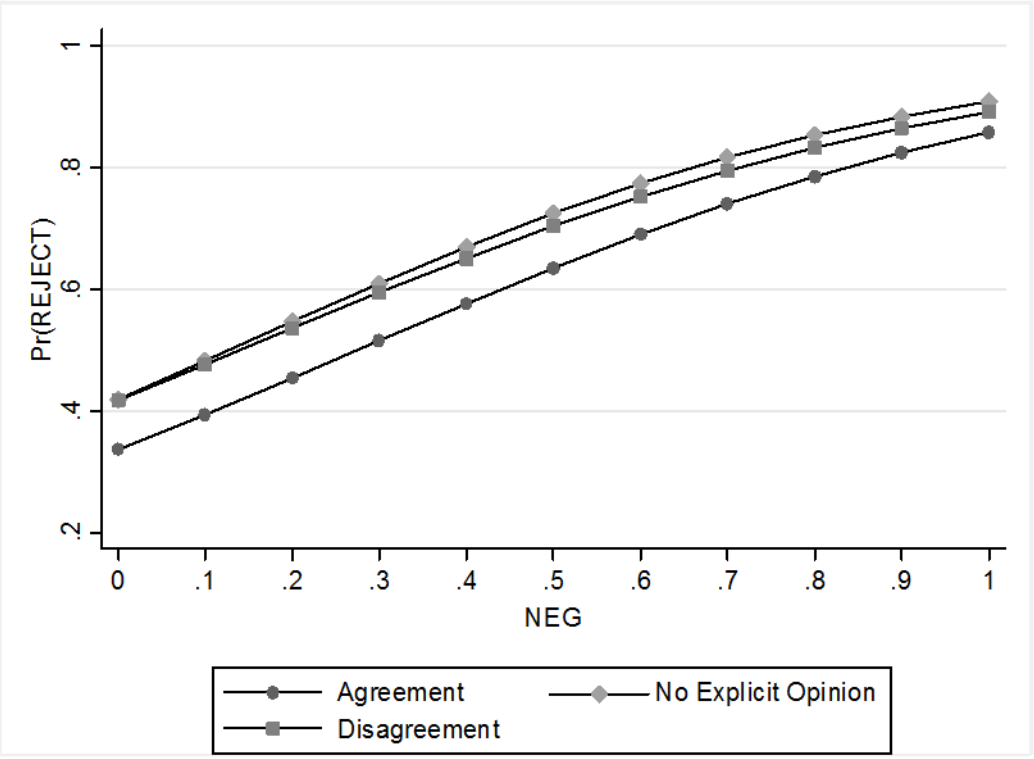
Variables	Model 1	Model 2	Model 3	Model 4
NEG	2.685***		2.278***	2.757***
	(0.459)		(0.761)	(0.783)
Agreement		-0.418***	-0.346***	-0.459***
		(0.062)	(0.083)	(0.087)
Disagreement		0.052	0.034	0.094
		(0.086)	(0.135)	(0.140)
*NEG*Agreement*			-0.400	-0.118
			(1.103)	(1.161)
*NEG*Disagreement*			-0.521	-0.195
			(1.215)	(1.289)
VOLLG				-0.085*
				(0.047)
POSTC				1.069***
				(0.048)
LENGTH				-0.001
				(0.001)
WORDS				-0.000*
				(0.000)
Constant	-0.492***	-0.160***	-0.309***	-0.429*
	(0.040)	(0.046)	(0.066)	(0.239)
LR chi2	34.19	60.48	83.06	598.64
Prob > chi2	0.000	0.000	0.000	0.000
McFadden's Pseudo R2	0.57%	0.83%	1.12%	5.77%
Correctly classified	58.44%	58.20%	58.79%	63.57%
Observations	4938	4938	4938	4938

This table presents the coefficients from the logit regressions where the dependent variable, REJECT takes 1 when the IASB rejects its proposed change, 0 otherwise. NEG is the modified weighted negativity score of the question letter observation based on Harvard IV. Agreement is the occurrence of explicit agreement in reference to the omitted group, i.e. no explicitly stated opinion. Disagreement is the occurrence of explicit disagreement in reference to the omitted group, i.e. no explicitly stated opinion. POSTC takes 1 if the observation relates to exposure drafts issued after the commencement of the financial crisis in 2008, 0 otherwise, VOLLG is the natural logarithm of the number of comment letters responding to the exposure draft, LENGTH; the number of lines in the observation, and WORDS is the number of words in the letter. Errors are clustered on comment letters and in parentheses. *, **, *** indicates significance at 10%, 5%, 1%, respectively.

As Table 5.6 shows, the coefficient for negativity, *NEG*, is positive and significant in all models, indicating that, as predicted, a proposal being met with higher aggregate levels of negativity is more likely to persuade the IASB not to implement the change. However, the effect of increased negativity on the likelihood of the IASB rejecting its change may vary at different probabilities, i.e. it is conditional on different levels of

negativity and all other variables. As both the sign and magnitude of the effect may vary, it is unclear whether the sign and significance of the coefficient accurately represents its effect. Therefore, predictions based on the average marginal effects of negativity are displayed in figure 5.1 to illustrate its average marginal effect at different, fixed levels of explicitly stated opinion and negativity, but letting all other variables vary.

Figure 5.1 Predicted Probabilities of REJECT



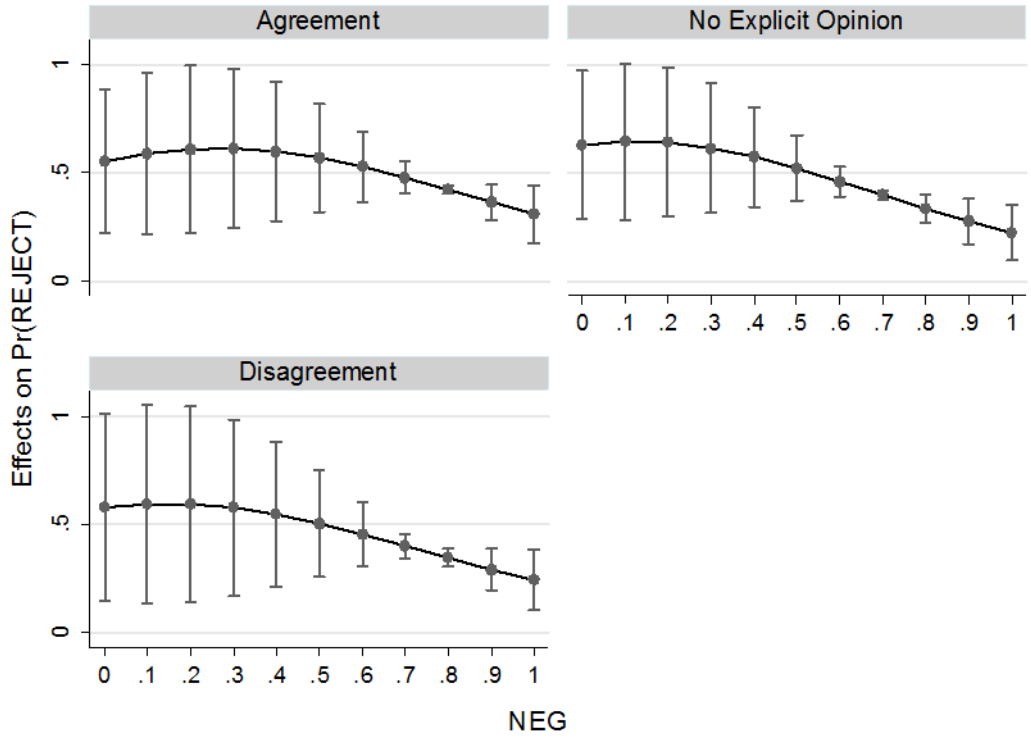
This figure shows the predicted probabilities of the IASB' rejecting the change (REJECT), at regular intervals of negativity (NEG), given the occurrence of one of three possible levels of explicitly stated opinion: agreement, disagreement, or no explicit opinion. All are significant at the 5% level.

Figure 5.1 shows that whether observations contain agreement, disagreement, or no explicit opinion, higher levels of negativity, on average, predict higher probabilities of the IASB rejecting its proposal. This is indicated by the upward sloping curves. Including interaction terms in the models allows the slope of the curves to vary. However, according to the insignificant coefficients and, more importantly, the visual

representation of the predicted probabilities in Figure 5.2, the impact of equal increases of negativity does not seem to be conditional on explicit opinion. Instead, explicit agreement shifts the curve downwards, indicating that it reduces the probability of the IASB rejecting the proposal. In addition, all curves seem to tail off slightly at higher levels of negativity, indicating that increases from very low negativity to high negativity has more of an effect than increases in negativity from already high levels to very high levels of negativity. This is more evident in Figure 5.2 which presents the average marginal effects of negativity at regular intervals of negativity given the occurrence of agreement, disagreement, or no explicit opinion.

Figure 5.2 directly corresponds to Figure 5.1 as the points representing average marginal effects are the derivatives, i.e. the gradients of the points in Figure 5.1. From a level of negativity of approximately 0.2, the average marginal effect is declining. It is still significant and positive but its magnitude is less than at lower values. Given that the average level of negativity is 0.06, and that less than 5% of observations have negativity levels of over 0.20, the turning point represents an already high level of negativity. Therefore, it is not surprising that increasing negativity beyond this point has less of an effect than increasing negativity from below and around the mean.

Figure 5.2 Average Marginal Effects of Negativity



This figure shows the average marginal effects of negativity at regular intervals of negativity (NEG), given the occurrence of one of three possible levels of explicitly stated opinion: agreement, disagreement, or no explicit opinion. 95% confidence intervals are indicated by the bars.

By including confidence intervals (at 95%), it can be concluded that these marginal effects are different from 0 in all instances and, therefore, that there is a consistent, significant positive relation between negativity and the likelihood of the IASB rejecting a proposal. This confirms hypothesis 5.3.

As a summary of the average marginal effects for negativity, given varying occurrences of explicit opinion, Table 5.7 reports the average of the marginal effects at the levels of negativity that are present in the sample, but holding constant the occurrences of explicit opinion. It was recommended by Brambor et al. (2005) to calculate the average marginal effects at theoretically meaningful values. These three

points of interest are chosen as it is theoretically plausible that the presence of explicit opinion would make the effect of negativity redundant.

Table 5.7 Marginal Effect of Negativity

	dy/dx	Std. Err.	z
No explicit opinion	0.638	0.173	3.70
Agreement	0.570	0.176	3.23
Disagreement	0.593	0.213	2.78

This table reports the derivatives of the response with respect to negativity for three values of explicit opinion.

The average marginal effect of negativity on the IASB's decision is positive and significant whether or not the response also contains explicit opinions. When the answer contains agreement, the impact of a unit increase in negativity is, on average, 57%, and when there is disagreement, the average marginal effect is 59.3%. However, the average marginal effect of negativity is the greatest when explicit opinion is absent, 63.8%. The highest point in Figure 5.2 is found in the graph representing marginal effects of negativity, given no explicitly stated opinion. This indicates that negativity plays a greater part in deciphering, and acting upon, constituent preferences when opinions are ambiguous, and is evidence that the IASB makes an effort to take account of constituent preferences when deciding whether to implement its proposed changes.

The coefficient for explicit agreement in Table 5.6 is consistently found to be significant and negative, but interestingly, there is no significance for explicit disagreement. This indicates that agreement reduces the probability of the IASB rejecting a proposal and that disagreement has no effect. However, as explained above, marginal effects analysis can help to better understand these effects.

Figure 5.1 plots the predicted probabilities of *REJECT*. It is apparent that the predicted probabilities of *REJECT* are lower when there is explicit agreement. To demonstrate the significance of the marginal effect of explicit agreement, Table 5.8 presents the marginal effect of a change from no explicit opinion to agreement (column 2) or disagreement (column 5) on *REJECT* at various values of negativity.

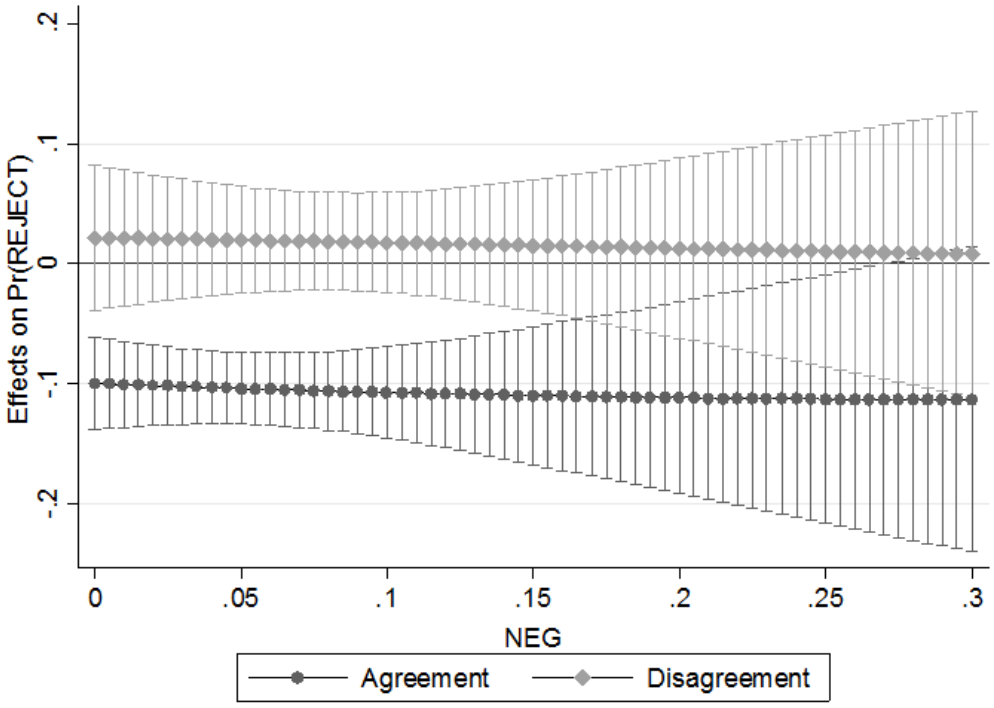
Table 5.8 Average Marginal Effect of Explicit Opinion

	AGREE			DISAGREE		
Level of NEG	**dy/dx**	**Std. Err.**	**z**	**dy/dx**	**Std. Err.**	**z**
0	-0.101*	0.020	-5.15	0.021	0.030	0.69
0.1	-0.108*	0.019	-5.56	0.017	0.021	0.81
0.2	-0.112*	0.041	-2.75	0.013	0.039	0.33
0.3	-0.113	0.065	-1.75	0.008	0.063	0.13
0.4	-0.111	0.087	-1.28	0.003	0.085	0.04
0.5	-0.106	0.105	-1.02	-0.001	0.103	-0.01
0.6	-0.099	0.117	-0.84	-0.004	0.116	-0.04
0.7	-0.090	0.125	-0.72	-0.007	0.123	-0.06
0.8	-0.080	0.126	-0.63	-0.009	0.124	-0.07
0.9	-0.069	0.123	-0.56	-0.010	0.121	-0.08
1	-0.059	0.116	-0.51	-0.010	0.115	-0.09

This table presents the average marginal effect for *AGREE*, i.e. occurrences of explicit agreement in responses and *DISAGREE*, i.e. occurrences of explicit disagreement in responses at regular intervals of *NEG*, i.e. the negativity score based on a modified ratio of negative to total words. *Significant at the 5% level.

Explicit disagreement is still not found to have a significant marginal effect at any of the tested values of negativity. However, explicit agreement has a significant negative effect if negativity is less than 0.27. All but 54 (1%) observations fall within this range. Out of the 54 observations falling outside this range, 15 expressed explicit agreement. To highlight, and ensure, the significant impact of explicit agreement at the more typical values of negativity, Figure 5.3 plots the marginal effect of explicit opinion at a range of values for negativity from 0 to 0.3 which provides a clearer visualisation.

Figure 5.3 Average Marginal Effects of Explicit Opinion at Various Values of Negativity



This graph displays the average marginal effects of a change from no explicit opinion to explicit agreement or disagreement for values of negativity, *NEG*, ranging from 0 to 0.3 (99% of the sample). Confidence intervals are indicated at 95%

The graph illustrates that a discrete change from no explicit opinion to explicit agreement has, on average, a significant negative effect on the probability of the IASB rejecting its proposal for the common values of negativity, i.e. below 0.27. The marginal effects are around -0.1 for agreement, i.e. the likelihood of the IASB rejecting a proposed change is reduced by around 10% if met with agreement at common values of negativity, until it becomes insignificant at 27% negativity and above. This is consistent with hypothesis 5.1 and suggests that proposed changes that are met with explicit agreement are less likely to be rejected than changes that are met with the same levels of negativity and no explicit agreement.

The observation below is an example of one of the fifteen observations with exceptionally high levels of negativity, yet explicitly stating agreement. This observation, with a negativity score of 0.35 is taken from a comment letter from the German Accounting Standards Committee in response to IASB's 2002 ED on Disclosure, Presentation, Recognition and Measurement.

> "*We agree with the proposed guidance. However, additional guidance would be helpful to distinguish between an active market and a non-active market, since the definition provided in IAS 38.7 is not sufficient. We also see a need for additional guidance how to deal with market disturbance, market narrowness, the valuation of block trades or the valuation of irregular trades.*"

This demonstrates the ambiguity of these observations as there is support for the IASB to implement a change, yet dissatisfaction with the change as it stands. The average marginal effect of agreement in these cases is not significant and could indicate that the IASB views this similarly to how it views observations without agreement. However, the small number of observations in this range makes this difficult to substantiate.

Disagreement has no significant marginal effect on the probability of the IASB rejecting proposals across the range of negativity scores presented in Table 5.8 and Figure 5.3.[26] The absence of an effect for disagreement is inconsistent with hypothesis 5.2. Grossman and Helpman (2001) theorised that lobbyists must phrase their transfer of information in a way that aligns with the ideology of the regulator that they are trying to influence. As the exposure drafts are produced according to the

[26] As reported in Table 5.6, when excluding negativity from the model, the coefficient for disagreement remains insignificant.

conceptual framework and ideology of the organisation, explicit disagreement may be seen as a signal of incongruence between the views of the lobbyist and the IASB. It is therefore likely that the IASB is reluctant to consider such submissions.

The coefficient for *POSTC* is positive and significant as the IASB has rejected more of its proposals since the commencement of the financial crisis in 2008, for reasons not captured by the measures of opinion in comment letter submissions.

5.7 Summary and Conclusion

This chapter set out to investigate whether the IASB takes account of formal lobbying within its due process. Whilst this is a major issue within accounting literature, the lack of an appropriate methodology, and an appropriate theory of regulation to guide the methodology, has hindered empirical investigation of this issue. In their review of accounting literature and its implications for GAAP, Kothari et al. (2010) identified ideology theory of regulation as a potential framework for studying accounting standard development. This, as of yet neglected, framework more effectively explains the role of external influence than public interest theory or capture theory, as it recognises that accounting standards are a joint outcome of the ideology of the standard setter and special interest lobbying.

Prior literature has been more effective in explaining what induces lobbying than how the standard setter responds. However, it is generally recognised that various standard setters tend to align their standards, in part, to the wishes of lobbyists. In addition, extant literature has highlighted various elements of the process that demonstrate lobbying influence, which has led to a focus on disagreement, as well as occasions where the standard setter deviates from its intended course of action by rejecting its

proposed changes. Combining these elements allows the isolation of the self-interested lobbying component of the standard setting.

Lobbyists do not always explicitly state their opinion, yet incur the cost of submitting comment letters. This suggests that lobbyists expect to have some influence and potentially block proposed changes by expressing their discontent in an alternative way. To overcome the methodological challenges stemming from the ambiguous nature of comment letters, and to avoid connotations of subjectivity that result from manual content analysis, computerised textual analysis was undertaken to generate a method that can assess the negativity in comment letter responses to proposed changes presented in exposure drafts issued by the IASB. Based on the methodological advances in accounting and finance literature and programmatic modifications to suit the lobbying context, a continuous negativity score is obtained for the responses of lobbyists.

The descriptive statistics of this measure show that disagreement or high levels of negativity tend to be combined with longer responses, both in terms of the answer to the question relating to the specific change with which the lobbyist disagrees, and for the total letter. This signals that lobbyists spend greater effort when they oppose the proposed change and are trying to change the position of the IASB than when they agree with the proposed change.

Further, it is found that the IASB is less likely to implement a proposed change if it has been met with higher levels of negativity. Logistic regression analysis provides robust results that whilst explicit opinion is only significant when a lobbyist agrees with the proposal, the measure of negativity is consistently found to affect the IASB's decision as whether or not to implement a change.

Overall, these findings provide support for the ideology theory of regulation in this setting and provide robust, objective evidence that the IASB takes account of aggregate special interest lobbying. That is, whilst an ideological conviction guides the development of proposals, there is room for influence at a later stage in the process. Consistent with the ideology theory, there is no evidence of influence being granted to lobbyists who explicitly disagree with proposed changes. One possible interpretation of this finding is that this approach alienates the standard setter by seemingly opposing the ideology. Instead, discussing the change in a negative way has the possibility to persuade the standard setter to reject its proposals or substantially alter them.

Whilst this chapter provides strong evidence for IASB's susceptibility to lobbying, Chapters 6 and 7 further investigate the characteristics that make lobbyists more or less likely to be ideologically aligned with the IASB, as well as more influential in shaping the outcome of the final standard.

6. The Influence of Constituent Group Lobbying in the Development of IFRS: The Case of Accounting for Financial Instruments.

6.1 Introduction

The legitimacy of the standard setting process of the IASB is crucial to the recognition of IFRS around the world as the appropriate accounting standards. However, one of the major criticisms of the IASC, that prompted its restructure, was a lack of transparency in the standard setting process (Collett et al. 2001; Street 2006; Camfferman and Zeff 2007, p. 15). The IASB recognises the importance of this issue and, as part of the restructure in 2001, made a commitment to a transparent standard setting process by publicising comments from interested parties to its proposals made in discussion papers and exposure drafts. This provides an opportunity to scrutinise the organisations' decisions in the light of lobbying, and identify sources of influence, in order to evaluate the legitimacy of the process.

There have been numerous calls from the academic community for research to develop greater understanding of the international accounting standard setting process (e.g., Barth 2008; Arnold 2009; Kothari et al. 2010). In promoting research that enhances understanding of the relationship between micro accounting practices and the macroeconomic and political environment, Arnold (2009) draws attention to a key area of importance, namely how financial reporting standards are shaped by, and have

helped shape, the financialization of the economy, and, in particular, the extent to which the financial industry is influential in the standard setting agenda.

This chapter focuses on the development of international standards for financial instruments. The financial industry is the main user of these standards and has a keen interest in the outcome of the process, and this is evident from the extensive participation of this constituent group via comment letter submissions. The development of the standards in question is particularly important in light of the financial crisis and the resulting scrutiny of bank asset valuation practices. *"…solvency and survival of our major financial institutions now turns on how accountants value bank assets and the extent to which auditors require firms to consolidate off-balance sheet entities"* (Arnold 2009, p. 803).

Whilst conflicting preferences of constituent groups are recognised to be a key feature of the political process underlying IFRS (e.g., Watts and Zimmerman 1978; Sutton 1984; Jorissen et al. 2011), numerous factors have hindered robust results of the identification of sources of influence. Arnold (2009) cites the overreliance on quantitative databases as a cause for the disregard of such research topics. In addition, there is a question of how much of the influence is actually observable to academic researchers, and what can be inferred about what goes on behind the scenes. In addition, the lack of a suitable theoretical framework complicates the interpretation of results at an intermediate time in the standards' development.

The ideology theory of regulation recognises that there are two components to the development of regulation: the ideology of the regulator and the special interest lobbying (Kothari et al. 2010). This framework provides a conceptualisation for

interpreting the results of prior studies and guides the methodology in this chapter. The findings in Chapter 5 support the theory by confirming that there is room for influence by constituents after the IASB has issued an exposure draft, as the IASB is found to take account of the aggregate levels of negativity and agreement in the responses to the invitation to comment section of its exposure drafts when deciding whether to reject or implement its proposed changes.

The aim of this chapter is to extend the analysis from Chapter 5 to test whether the room for influence is limited to the aggregate preferences of all constituents or if certain lobbying constituent groups are more influential. A composite measure of opposition is therefore developed based on factor analysis of the opinion measures developed in Chapter 5, namely explicitly stated agreement and disagreement in the responses as well as level of negativity, measured as a modified weighted ratio of negative to non-negative words. This chapter, therefore, further analyses the ideology theory of regulation in the context of accounting standard setting by assessing whether the IASB proposes changes that are particularly acceptable to certain constituent groups, and whether there is room for influence to shape the final version of the standard.

In the first stage of the analysis, the level of opposition is regressed on constituent group and control variables. Linear predictions based on marginal effects are generated in order to assess the tendency to oppose the proposed changes within the various constituent groups, thus capturing the ideological alignment of the standard setter and the group. The results from the first stage of the analysis strongly support that groups differ in their level of opposition to the IASB's proposals and that the

greatest amount of opposition came from the financial industry and the least from regulators.

The second stage analysis examines the impact of opposition and its dependence on constituent group on the IASB's decision to implement or reject a proposed change. Logit regression analysis is, therefore, used to test the effect of constituent groups' opposition on the likelihood of rejection by including an interaction term for the constituent group and opposition. Predictions and marginal effects of opposition on the IASB's decision to reject a proposal are generated for the various constituent groups. The results from the second stage analysis support that accountants, the financial industry, regulators, the business community, and standard setters are influential in the development of accounting standards when the proposed changes concern classification and measurement issues. However, for disclosure and other issues, the influence is limited to lobbyists from the business community.

Section 6.2 discusses prior literature and develops hypotheses. Section 6.3 outlines the research design and descriptive statistics. Section 6.4 presents the results including the graphs from the analysis of the marginal effects. Section 6.5 concludes.

6.2 Literature Review and Hypothesis Development

This section reviews extant literature on the impact of various constituent groups on accounting regulation. Ideology theory of regulation provides the theoretical lens for interpreting prior findings as well as for developing hypotheses regarding lobbying success of the various constituent groups.

6.2.1 Motivations and Characteristics

As discussed in Chapter 3, literature on the motivations indicates that the process is characterised by constituents with different, sometimes conflicting, preferences and, as such, provides the context for the empirical analysis of constituent group influence. Positive Accounting Theory (PAT), as developed by Watts and Zimmerman (1978) or Sutton's (1984) economic theory of lobbying usually provide the theoretical underpinning for this strand of literature. PAT makes predictions as to the positions taken by firms to proposed changes to accounting standards. In their model, all parties aim to maximise their utility and firms will lobby for policies that further their self-interest. The empirical literature confirms that lobbying is motivated by self-interest and the most frequent participants are large firms which will experience an adverse impact on their reported financial results (e.g., Watts and Zimmerman 1978; Sutton 1984; Schalow 1995; Dechow et al. 1996; Hill et al. 2002; Ang et al. 2000)

Sutton's (1984) model predicts that two factors affect the decision to lobby: the potential effect of the accounting standard and the likelihood that the lobbying efforts will influence the standard setter. Preparers of financial information are predicted to lobby more than users of financial information. This occurs as preparers of financial information tend to be less diversified in terms of income, making the potential effect more significant. Similarly, less diversified preparers of financial information are more likely to lobby than are more diversified preparers. There is a large amount of support for this prediction across settings (e.g., Jupe 2000; McLeay et al. 2000; Stenka and Taylor 2010; Jorissen et al. 2011; Giner and Acre 2012).

With regards to a wider set of constituent groups, Jorissen et al. (2012) analysed characteristics of senders of comment letters to multiple IASB exposure drafts, from 2002-2006, across a range of issues. They found that preparers, accountants, and standard setters reacted more when accounting numbers were subject to change, whereas there was greater participation by users, stock exchanges, and regulators regarding disclosure issues, indicating that the different issues at stake motivate lobbying by different constituent groups.

In terms of agreement between constituent groups, Puro (1984) observed a relationship between auditor lobbying and accounting data for their clients but found that this agency relationship did not hold for accounting changes that decreased clients' wealth, yet directly increased auditors' wealth. This was deduced from auditors' tendency to support increased disclosure requirements which would result in higher fee income for the auditor, whilst imposing additional costs on their clients. Similarly, Brown (1981) found that preparers and auditors represented distinct clusters in terms of positions taken on a large number of selected FASB projects in the years 1974-1977. That is, there may be similarities in how certain auditors and their clients lobby but in terms of average preferences they represent distinct interest groups. In addition, Saemann's (1999) content analysis of four institutional lobbyists revealed that marked differences between the views of users and preparers are causing controversy in the process.

Tendencies to care about different issues, and the different economic motivations of various parties, lead to a standard setting process that is characterised by conflicting preferences. The standard setter is therefore faced with a decision as whether to

change its course of action in light of the lobbying that occurs in response to a proposed change.

Sutton (1984) theorised that influence would be more effective at an earlier stage in the process than at a later stage, and preferably through unobservable means. However, the literature has not provided empirical support for the greater propensity to lobby in the early stages of the process (e.g., Georgiou 2010; Jorissen et al. 2012). Nevertheless, this does not exclude the possibility that the activities of influential parties are effective early on in the process, even if unobservable to researchers. Sutton (1984) recognised that although aspects of the process are unobservable, the total lobbying process can be effectively approximated by analysing the distribution of observable lobbying, as the use of various lobbying methods are related. This was supported by Georgiou's (2010) survey of investment management firms, which found that comment letter submissions were related to the use of other forms of lobbying. Therefore, whilst the observed influence after the exposure draft has been issued is limited to special interest lobbying, the period leading up to the issuance of the exposure draft does not necessarily exclude all special interest lobbying. However, it is reasonable to conclude that the formation of the exposure draft includes more of the ideological component, and, as such, the level of opposition to proposed changes can reveal the extent of ideological alignment between the IASB and the lobbyists.

Whilst this stream of literature does not, in itself, contribute to our understanding of the effects of lobbying, it highlights that the process is characterised by conflicting preferences. In addition, although PAT and Sutton's (1984) lobbying model focus on *ex-ante* lobbying decisions, as opposed to the outcome of lobbying, the implication is that whoever lobbies does so to obtain some benefit and so there is a reasonable

probability that their views will be taken into account. The level of opposition expressed to the changes proposed by the IASB is therefore predicted to vary according to the constituent group to whom the lobbyist belongs.

Hypothesis 6.1: Opposition to proposed changes is dependent on constituent group.

6.2.2 Constituent Groups and Lobbying Success

The ideology theory of regulation stresses that regulation is a response to market failure, but predicts that lobbying will then influence the regulators, making regulation a joint outcome of political ideology and special interest lobbying (Kothari et al. 2010). The ideology of the IASB therefore guides the agenda setting and the proposed changes of the exposure drafts. As a result, the reaction of lobbyists to the changes that the IASB proposes in its exposure drafts is likely to depend on the closeness of the ideological views of that constituent group and that of the IASB. If one were to analyse the alignment between the finalised standard and the comment letters, there is no opportunity to establish whether closeness is due to successful lobbying, as the most closely aligned constituent group may have agreed with the initial proposal. In order to establish causation, the initial reaction needs to be considered in order to assess its ability to affect the standard setter, making ideology theory a suitable framework for analysing lobbying success.

The IASB classifies the various constituent groups as "*accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals*" (IFRS Foundation, 2011, p. A18*).* Kwok and Sharp (2005) interviewed IASC board members in their analysis of IASC's segment reporting and intangible assets projects. The

interviews revealed that board members tended to aggregate the opinions within letters of separate stakeholder groups when considering the comment letters. Therefore, the IASB's own grouping of stakeholders serves as a suitable starting point for a classification to detect sources of influence. The potential for ideological alignment and lobbying success by the constituent groups is discussed below.

Users and preparers

If the role of financial reporting is to increase transparency in an aim to promote efficient capital allocation and prevent market failure, which is its role according to the prevailing paradigm of accounting research (Arnold 2009), then providers of capital are the key stakeholder group. This is consistent with IASB's conceptual framework which states:

> *"The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit."* (IFRS Foundation 2011: 9, OB2).

As such, it would follow that the IASB has a self-imposed obligation to develop the standards to incorporate changes that will benefit users. However, in the earlier stages of international accounting standard setting it was argued that the voice of users is represented on a rhetoric basis by members of the audit industry, as opposed to in person by users themselves (Hopwood 1994).

Taking account of user views, as conveyed in comment letters, would be a natural choice when considering comment letters in relation to the conceptual framework. However, consistent with Sutton's (1984) model and Hopwood's (1994) argument, the participation of this constituent group is relatively limited. Georgiou (2010) finds that the reason for the low participation of this group is due to the perceived high costs of lobbying, whilst Durocher et al. (2007) argues that it is due to the perception amongst users that their views will not be taken account of as this would not increase the perceived legitimacy of the standard setter. Alternatively, as lobbyists are perceived to more frequently lobby to oppose a change in the status quo (e.g., Kenny and Larson 1993), if changes are proposed to benefit users, as per the conceptual framework, then incurring the cost of lobbying is unnecessary as users expect the beneficial change to go ahead.

Mian and Smith (1990) found that whilst the FASB had argued that its proposal to require consolidation of financial subsidiaries was developed in the interest of users, this group most often opposed the proposal. In contrast, Saemann's (1999) content analysis of comment letters, sent by four institutional organisations, on twenty FASB accounting standards showed that the FASB's position tended to align with that of users initially, and they retained their favour for increased uniformity and increased additional disclosure, but their finalised standards also incorporated preparer preferences by compromising on the issues that preparers had strongly opposed, namely costly disclosure, volatility, and conservatism.

However, identifying users of financial reports requires some arbitrary classification. Jorissen et al. (2012) classified the user group as investors, financial analysts, consumer organisations, and other parties that use financial information for decision

making. This was separated from financial preparers, which included individual financial institutions including insurance firms. Separating institutional investors and those who use financial information for decision making, from the rest of the financial industry will necessarily involve some arbitrary allocations, as the financial industry arguably belongs to both the preparer group and the user group. As the main holders/traders of financial instruments, the financial industry can be considered a preparer group, in particular when it comes to financial instruments accounting. The motivations for users and preparers are potentially different. For example, whilst users have been found to prefer increased uniformity and increased additional disclosure, preparers oppose costly disclosure, as well as volatility and conservatism (Saemann 1999).

Similar to Sutton's (1984) prediction that preparers are more likely to lobby than users due to being less diversified in terms of income, it is likely that preparer motives would take precedence, as the impact of a change on their own reports and ability to raise external finance will be more important than the potential impact on their ability to analyse certain investment opportunities as part of a diversified portfolio. Investment associations have previously been separated from the financial industry (e.g., Jorrissen et al. 2012), and thought to represent users. However, constituent groups are likely to conduct research and lobby on behalf of their members (Grossman and Helpman 2001) and their members are from the financial industry, with primarily preparer objectives, and are therefore grouped along with the rest of the financial industry.

Whilst the financial industry is considered a preparer group in the context of the chapter for the reasons above, the concerns of undue influence in the development of

accounting standards for financial instruments are particularly attributed to the financial industry. For example, Perry and Nöelke (2005) conducted network analysis of the European Financial Reporting Advisory Group (EFRAG), the IASB, and their different committees and working groups. They found that actors from the financial sector have more opportunities for influence than other business actors. If their influence has been prominent at earlier stages in the development, then this group is likely to be more positive to proposed changes than the rest of the business community. Moreover, the financial industry has been argued to effectively have captured financial market regulators (Hardy 2006). Therefore, the financial industry, including financial analysts and investment firms, is treated as a distinct group from the rest of the business community.[27]

As mentioned above, users, as opposed to preparers, are a key target group of the conceptual framework on which the IASB develops it standards (IFRS Foundation 2011). Therefore, it is likely that preparers will react negatively to proposed changes as they may have been developed without them in mind. However, support of the preparer group, or at least their compliance with the standards, has been found to be crucial for the development of sustainable standards. For example, Rahman et al. (1994) noted that after the stock market crash in 1987, many companies in New Zealand ceased to comply with the standard on investment property accounting and the standard was subsequently withdrawn as it could not be effectively enforced. Further, in Europe, the macro-hedge issue that led the E.U. to adopt IAS 39 with a carve-out stemmed from concerns amongst banks (Armstrong and Jagolinzer 2005).

[27] Out of the 4938 observations in the sample, only 4 were responses from financial analysts.

This again illustrates how support from this group is crucial to the enforcement of the standards.

There is some evidence in the literature of the influence of preparers. For example, McLeay et al. (2000) used manual content analysis to identify whether the 269 proposals contained within five published comments by preparers, auditors, and academic experts were reflected in the finalised regulation during the transformation of the Fourth European Company Law Directive into German accounting law. They found that whilst the preparer group, initially, appeared more likely to be successful in having their proposals incorporated into the law, this was dependant on the support of at least one additional constituent group. Further, in a study that focused solely on preparers, Brown and Feroz (1992) manually coded letters, that responded to the first exposure draft, according to their position on four issues on the FASB's project on general price level adjustment. The study found that changes between the first and second exposure draft frequently represented views expressed in the letters. In addition, Kwok and Sharp (2005) empirically analysed comment letters within the development of projects for segment reporting and intangible assets, as undertaken by the IASC, the predecessor to the IASB, and found that no group had absolute power, but that the final outcome tended to align with the majority view, which was often expressed by preparers. Similarly, Yen et al. (2007) concluded that the FASB addressed the most common objections in the comment letters to the FASB's Comprehensive Income Reporting exposure draft.

In light of the empirical evidence highlighted above, in addition to the importance of preparers' acceptance of accounting standards for their effective enforcement, it is plausible that the sheer volume of lobbying by preparers, and its resulting

representation of the majority view, compels standard setters to take account of the preferences of this group.

The Profession

The standing of accounting professionals has risen as a result of accounting functions growing in numbers and importance in organisations and serving as the basis for decision making (Hopwood 1992). Further, the profession, in particular the big four, are considered to be centrally involved in accounting regulation, including, but not limited to, the standard setting processes, both nationally and internationally (Cooper and Robson 2006). For example, the IASC was traditionally made up of members of the profession. However, in its restructure into the IASB, the membership on the board became more diverse, as outside parties, in particular the FASB and the SEC were sceptical of the prior structure and its strong ties to the profession (Camfferman and Zeff 2007, p. 15).

Early critique of U.S. accounting standard setting organisations' closeness with the profession resulted in the 1976 Metcalf Staff Report concluding that the U.S. accounting standard setting lacked independence from the profession, and was in particular dominated by large accounting firms. However, the report did not provide any objective evidence and sparked academic responses from Hussein and Ketz (1979), Newman (1981), and Brown (1981) who all concluded that these concerns were exaggerated. The Newman study computed empirical power indices by measuring how often the fifty members on the two boards had voted on the winning side, and how crucial the vote was to winning. It was concluded that neither on the Accounting Principles Board (APB), nor on its successor body, the FASB, did the profession completely dominate the standard setting processes.

Rahman et al. (1994) used a case study approach to exploring the establishment, withdrawal, and reestablishment of the standard on investment property accounting in New Zealand, SSAP 17. They reviewed the minutes of the standard setter's meetings and found that auditors expressed most concern regarding diverse accounting practices, which led to adding the project to the standard setter's agenda, and the establishment of the standard in 1983. However, as mentioned above, as companies ceased to comply with the standard after the 1987 stock market crash, it was withdrawn and, crucially, was only reintroduced after constituent preferences had been established. Similarly, Pong and Whittington (1996) studied the withdrawal of current cost accounting in the U.K. Compliance with SSAP 16, issued in 1980, was initially high but as companies increasingly ceased to comply with the standard, it was made non-mandatory and eventually withdrawn in 1988.

Auditors have the potential to spot problems, or occurrences where accounting practices diverge, and bring them to the attention of the IASB. This group also participates with national standard setters and can provide technical expertise to the board. As such, this group does not only benefit from avenues of influence early in the process, but is in fact integral to the direction and development of new and existing standards. The probable ideological alignment with the IASB is therefore expected to result in low levels of opposition to proposed changes.

Regulators

Regulators, including government bodies and financial market regulators, are also in a good position to influence the agenda of standard setters. According to the ideology theory of regulation, regulators aim to identify and address causes of market failure (Kalt and Zupan 1984). In this pursuit, they can spot divergence in accounting

practices or potential problems with the application of accounting standards. The IASB has previously revealed that it was taking account of prudential bank regulators' concerns during the development of IAS 39. When issuing the amendments to the FVO in 2005 they stated:

> *"In particular, as a result of continuing discussions with constituents, the Board became aware that some, including prudential supervisors of banks, securities companies and insurers, were concerned that the fair value option might be used inappropriately... In response to those concerns, the Board published in April 2004 an Exposure Draft of proposed restrictions to the fair value option. In March 2005 the Board held a series of round-table meetings to discuss proposals with invited constituents. As a result of this process, the Board issued an amendment to IAS 39 in June 2005 relating to the fair value option."* (IASCF 2005, p. 16)

This demonstrates the avenue for influence for regulators at an early stage in the process. Taking account of regulators' views, and openly announcing it, could be a strategy to improve the perception of legitimacy of the organisation, as the IASB are seen to collaborate with a constituent group that is perceived to be promoting the public interest in addressing causes of market failure. Moreover, the IASB lacks enforcement power which means that regulators and policy makers are crucial in the implementation of its standards.

Bank regulators have been argued to be particularly susceptible to regulatory capture, due to working in close proximity to the financial industry, a necessity in order to set appropriate regulations (Hardy 2006). Zeff (2008) and Armstrong and Jagolinzer

(2005) indicate that although the pressure that resulted in the limitation of the FVO, prior to the E.U. adoption of IFRS, appeared to come from E.U. officials, the true source of the pressure stemmed from the banking industry in France. Similarities between levels of opposition between regulators and the financial industry are therefore particularly interesting.

National Standard Setters

National standard setters work in collaboration with the IASB to develop standards. Büthe and Mattli (2011) argued that the technical nature of accounting standards is what justifies the power of the IASB. Similarly, Perry and Nölke (2006) argued that the structure of the organisation has restricted the debate regarding its standards to their technical nature. Consistent with this, Giner and Acre (2012) found that the IASB only took account of conceptual arguments in comment letters, whereas economic arguments, which only appeared in comment letters from the preparer group, were ignored. National standard setters, as well as representatives from the accounting profession, have the ability to provide expertise on technical issues which, according to these arguments, put these groups in an advantageous position to influence standard development.

It is widely recognised that institutional/cultural settings affect accounting practices (e.g., Leuz et al. 2003; Ball 2006) which can at times make them less preferable to national accounting standards (Collett et al. 2001). This may prompt national standard setters to oppose proposals if they are incompatible with the institutional setting in their country. Further, Büthe and Mattli (2011) argue that institutional similarities make U.S. actors more likely than European actors to be influential in the IASB's standard setting processes. Therefore, it is unlikely that this group would represent a

coherent group. Both the ideological alignment and the special interest lobbying influence are likely to depend on the closeness between the institutional similarities, including the accounting traditions, of the national standard setter and its home country, and that of the IASB.[28]

Academics

Standard setters have argued that the input of the academic community is valuable as academics do not have a stake in the outcome, rendering their comments unbiased (Barth 2008). Despite this, academic participation in comment letter writing has been low throughout history and made up only three percent of all comment letters written to the IASB in the years 2001-2008 (Larson and Herz 2011). Tandy and Wilburns' (1996) survey of academics, in relation to their participation in the FASB's standard setting, reveals that the reluctance to submit comment letters originated from the perception that they are unlikely to be successful, lack of time or resources, inadequate rewards, and the technical nature of the issues. The IASB does not target the academic community in setting standards, and this group lacks bargaining power in terms of enforcement powers or threat of non-compliance that may benefit other groups. In addition, as argued by Leisenring and Johnson (1994), academic research is difficult to understand for practitioners, including standard setters. The influence by the academic community is therefore likely to be limited.

There are motivations to lobby and certain groups are more inclined to do so, probably because there is a reasonable chance of success and a desire to avoid the potential negative effect of a proposed change. It seems that while there is the potential for several groups to be considered by the IASB in its development of accounting

[28] This topic is further explored in chapter 7.

standards, the ideological view of the standard setter is most likely to be aligned with regulators and the profession. However, both the ideological alignment and the effect of opposition is a topic for empirical investigation. Therefore, it is examined if there is a difference between constituent groups in the likelihood of blocking changes to a standard by opposing them in comment letters.

Hypothesis 6.2: The impact of opposition will depend on constituent group.

6.3 Research Design

6.3.1 Sample

The sample used in the analysis for this chapter is the same as in Chapter 5 and outlined in section 5.4.1. The same 4038 letter-question observations for which a negativity score can be obtained and where there is not both explicit agreement and disagreement are used in the analysis. These observations represent responses to 70 questions from the invitation to comment section in fourteen exposure drafts which relate to completed projects, and to which respondents can express opposition to a specific proposal.[29]

6.3.2 Outcome

As explained in Chapter 5, four researchers identified the outcome of the projects by comparing proposed amendments, referred to in each question, to the subsequently issued amendments to the standards. If the proposal, to which the question relates, had not been incorporated in the subsequent amendment, i.e. the proposal has been

[29] Table 5.1 and 5.4 in Chapter 5 presents the relevant exposure drafts and the filters applied to the sample.

rejected or there has been a substantial change from the proposal to the finalised standard; the variable *REJECT* is coded 1, otherwise 0.

6.3.3 Interest Group Classification

As the analysis focuses on the impact of opposition from certain constituent groups, the comment letters are classified according to the constituent group to whom the author belongs. The starting point is the IASB's own classification, i.e. *"accountants, financial analysts and other users of financial statements, the business community, stock exchanges, regulatory and legal authorities, academics and other interested individuals"* (IFRS Foundation 2011, A18). Accountants, *ACC*, are accounting/auditing firms, associations, and individuals who work for accounting/auditing firms.

Prior literature has classified financial analysts and institutional investors as the users (e.g., Jorissen et al. 2012). However, as discussed above, separating financial analysts and institutional investors from insurance firms and banks, which are considered to be preparers, will pose a problem when dealing with the financial industry as a potentially influential group. Therefore, the financial industry, including financial analysts, institutional investors, banks and insurance firms, are treated as one group, denoted by *FIN*, separate from the rest of the business community, *BUS*.

National standard setters, denoted by *STA*, are separated from other regulatory and legal authorities as the IASB outsource standard setting to national standard setters which may grant them special access. Regulatory and legal authorities, *REG*, include supervisors of financial markets and other regulatory and legal authorities (including government bodies and government advisory bodies). Stock exchanges are also

grouped with regulators as they share enforcement powers. Academics, *ACA*, are authors who indicate affiliation with a university either as students or staff. Following Jorissen et al. (2012), other interested parties were identified as actuaries and consultants, denoted *OTH*.

If it is unclear from the comment letter which constituent group the author belongs to, this is identified by searching for the author or author organisation online. Following Larson (1997) and Jorissen et al. (2012), letters from individuals with specific ties to organisations are grouped with their respective organisation unless the letter explicitly states that the views expressed should not be linked to the organisation. There are seven letters (23 observations) for which authors could not be classified according to a constituent group. These observations represent less than 0.5 percent of the sample and are removed from the analysis.

6.3.4 Composite Opposition

The opinion variables developed in Chapters 4 and 5 are used to create a composite measure of the level of opposition in the responses. It is based on the variable for negativity, *NEG*, and on the occurrences of explicit agreement and disagreement. *NEG* is a weighted ratio of negative to total words. The tone classifications of words are primarily based on the Harvard IV Psychosocial Dictionary but programmatically modified, as described in detail in Chapters 4 and 5, to better suit the context. Explicit agreement and disagreement are identified as in Chapter 5 and included as two binary indicator variables (0/1). Agreement, *AGREE*, is where the first word in the answer is '*yes'* or if there are any non-negated occurrences of '*agree'* and disagreement,

DISAGREE, if the first word is '*no'* or if there are any occurrences of '*disagree'* or *'oppose'* or negated occurrences of *'agree'*.

These measures are correlated and are all measuring opinion to the proposed change within the responses. To derive a single measure of opposition, *OPPOSE*, to the proposed change, principal component analysis is used to generate a composite factor based on the measures of negativity (*NEG*), explicit agreement (*AGREE*), and explicit disagreement (*DISAGREE*). Table 6.1 presents the descriptive statistics and the results of the factor analysis generating *OPPOSE*.

Table 6.1 Descriptive Statistics and Factor Analysis of Opinion in Comment Letters

Panel A: Descriptive Statistics of Opinion in Comment Letters (n=4938)

	NEG	AGREE	DISAGREE
Minimum	0	0	0
Mean	0.059	0.440	0.175
Median	0.050	0	0
Maximum	1	1	1
Standard Deviation	0.068	0.496	0.380

NEG is the adjusted weighted ratio of negative to total words. *AGREE* is the occurrence of explicit agreement. *DISAGREE* is the occurrence of explicit disagreement.

Panel B: Pairwise Correlations of Opinion Measures

	NEG	AGREE	DISAGREE
NEG		-0.248***	0.242***
AGREE	-0.311***		-0.409***
DISAGREE	0.289***	-0.409***	

*** Indicates significance at the 1% level

Pearson (Spearman) Correlations are shown above (below) the diagonal.

Panel C: Results of Factor Analysis

Factor	Eigenvalue	Difference	Proportion	Cumulative
1	1.606	0.804	0.535	0.535
2	0.802	0.211	0.267	0.803
3	0.591		0.197	1.000

Factor Loadings

Variable	OPPOSE	Uniqueness
NEG	0.6286	0.6049
DISAGREE	0.7761	0.3977
AGREE	-0.7803	0.3911

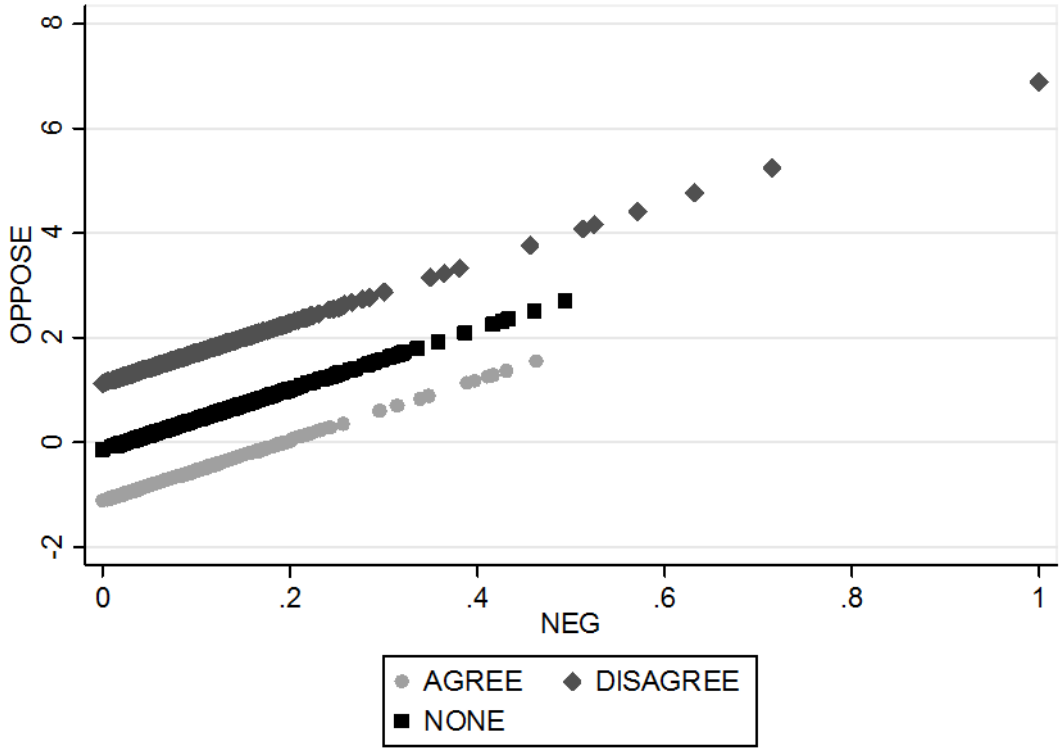
Panel D: Descriptive Statistics of *OPPOSE*

		Explicitly stated opinion		
	All (n=4938)	AGREE (n=2173)	NONE (n=1900)	DISAGREE (n=865)
Minimum	-1.113	-1.113	-0.134	1.137
Mean	0.000	-0.880	0.240	1.684
Median	-0.134	-1.113	0.185	1.612
Maximum	6.900	1.555	2.712	6.900
Standard Deviation	1.000	0.323	0.367	0.493

Column 2 displays summary statistics for all observations. Column 3-5 show the descriptive statistics of *OPPOSE* for the observations separated by the occurrence of explicit opinion, with column 3 where *AGREE*=1, column 4 where there is no explicit opinion, i.e. *AGREE*=0 and *DISAGREE*=0, and column 5 where *DISAGREE*=1.

Panel A of Table 6.1 shows the descriptive statistics of the opinion measures, with the mean level of negativity being 0.059 (5.9 percent), agreement occurring in 44 percent of observations, and disagreement in 17.5 percent. Panel B shows that *NEG* and *DISAGREE* are positively and significantly correlated and both these measures are negatively and significantly correlated with *AGREE*. Panel C shows the results for the factor analysis and factor 1, which is the only one with an eigenvalue over 1, explains 53.5 percent of the variation. The descriptive statistics of the composite factor, *OPPOSE,* are displayed in panel D. For all observations, the mean is 0 with a standard deviation of 1. The lowest value is -1.113 which is obtained only for values that also contain agreement, as indicated by the summary statistics in columns 3-5 which show the summary statistics of *OPPOSE* for observations separated by the level of explicit opinion in the response. The highest value (6.9) is obtained where the observation contains explicit disagreement. To further illustrate the composition of *OPPOSE,* Figure 6.1 plots the value for *OPPOSE* for each observation along the negativity score, *NEG.* The level of explicit opinion is indicated by the markers.

Figure 6.1 Composite Opposition



This figure plots the points for the composite opposition measure, *OPPOSE*, against the negativity score, *NEG*. The markers indicate wheter the observation includes explicit agreement, *AGREE*, disagreement, *DISAGREE*, or no explicit opinion, *NONE*.

Figure 6.1 above illustrates the composition of *OPPOSE*, the composite opposition measure. It shows that observations that contain explicit agreement and no negativity obtain the lowest opposition scores whilst observations with disagreement and high negativity obtain high scores. The composite opposition measure therefore captures explicit opinion coupled with negativity on a continuous scale.

There are 395 observations in the range where *OPPOSE* takes a value between 1.13 and 1.56. This range represent the minimum level of *OPPOSE* for an observation that contains disagreement (1.13) and highest level of *OPPOSE* where there is explicit agreement (1.56). The *OPPOSE* scores in this range are fairly high, greater than one

standard deviation above the mean. As such, it is expected that these responses express stronger than average opposition to the proposed changes. Out of these 395 observations only 37 do not contain explicit disagreement and out of which six contain agreement. *OPPOSE* is, therefore, constructed so that the level of opposition for observations that contain agreement and those that contain disagreement rarely overlap, and that observations that contain explicit disagreement almost always obtain a higher level of opposition than those that contain explicit agreement.

6.3.5 Accounting Issues

As the literature on motivations and characteristics implies, the tendency to lobby and the opinion of lobbyists vary across constituent groups on various accounting issues (e.g., Saemann 1999; Jorissen et al. 2012). To account for this, the proposed changes are classified according to the type of accounting issue that they relate to, i.e. classification and measurement or disclosure and other issues including scope, transitional requirements, and implementation guidance. A dummy variable, *CLASS*, takes the value one for classification and measurement issues, and 0 otherwise.

6.3.6 Control Variables

The OLS regression models include a range of control variables that may independently affect the alignment of the lobbyist and the IASB. First, as international accounting is commonly identified as being grounded in Anglo-Saxon accounting traditions with a strong emphasis on equity investors as the main target group (Nobes 2003), an indicator variable, *ANGLO*, takes 1 if the accounting system in the lobbyists' home country is rooted in Anglo-Saxon traditions, and 0 otherwise.

Similarly, dummy variables for the part of the world that the lobbyist is from is included in the models to capture potential differences in preferences by lobbyists from Africa, Asia, South America, Oceania, Europe, and North America. These controls aim to capture some of the ideological similarities that stem from the similarity in institutional environment and cannot be attributed to the constituent group of the comment letter author.[30]

In addition, financial contributors may have earned influence at earlier stages of the process and, therefore, do not oppose the proposed changes to the same extent. The IASC Foundation has disclosed the origins of financial donations in different ways during the sample period. From 2002-2005, supporters were separated into categories depending on their classification as an underwriter or supporter as well as other characteristics of the contributor, such as the type of organisation. In 2006, contributors were named but not separated according to the magnitude of contribution, and since 2007, contributors have been categorised by country and magnitude of contribution. Therefore, the model cannot incorporate a continuous measure of contributions, but can account for if the lobbyist was a named financial contributor in the year of the comment period or not. Financial contributor, *CONT*, therefore, takes the value 1 if the lobbyist is a named financial supporter in the IASCF's financial report in the year of the comment period and 0 otherwise.

Both the OLS and the logit regression models include two control variables that, potentially, have an independent effect on both the direction of lobbying and on the resulting decision by the IASB. Macroeconomic factors are known to affect the political pressure on regulators (Bertomeu and Magee 2011). Therefore, an indicator

[30] This topic is further explored in Chapter 7.

variable, *POSTC*, takes the value 1 for the exposure draft being issued after the commencement of the financial crisis, as defined by the bankruptcy filing of Lehman Brothers on 15 September 2008, and 0 otherwise. This variable controls for the increased political pressure on the organisation that followed the allegations of its role in the financial crisis (Bengtson 2012). The urgency of potential economic consequences may have altered the rhetoric and level of opposition in the letters. Further, as the criticism was very closely related to financial instruments, the decision to reject certain proposals may have resulted from political pressure that fell outside of the comment letter lobbying, such as the above-mentioned pressure to allow reclassification.

In addition, it is possible that the salience of the topic under consideration affects the level of opposition in the letters. Less substantial alterations may trigger, not only fewer responses, but it is plausible that lobbyists will oppose these matters less in order to seem more ideologically aligned with the organisation, so as not to alienate the standard setter and damage the potential for influence when opposing more important matters. The volume of comment letters received, could, therefore, make the organisation more hesitant in going ahead with implementing proposed changes. Therefore, the log of the volume of comment letters corresponding to the exposure draft, *VOLLG*, is included as a control in the models. Moreover, the length of the responses may signal that the proposed change is particularly complicated or controversial which may therefore increase the likelihood of the IASB rejecting the proposed change or deferring its implementation. *LENGTH*, the number of lines in the answer to the question and *WORDS*, the number of words in the letter, are therefore included as additional control variables.

6.3.7 Model Development

To test the whether some constituent groups are better served by the ideological component of the standard setting, and thereby tend to oppose the changes less, the composite opposition measure, *OPPOSE*, obtained from factor analysis of *NEG*, *AGREE*, and *DISAGREE*, is regressed on constituent group, type of accounting issue, the interaction between constituent group and accounting issue, as well as the control variables discussed in section 6.3.7. Equation 6.1 represents the most complete model used in the OLS regression. However, Table 6.4 also reports the results of models based on the constituent parts of equation 6.1 to indicate the robustness of the result to the inclusion of interaction terms and selection of control variables.

$$OPPOSE_{it} = \beta_0 + \beta_1 Class_{it} + \sum \beta_{2-7} Constituent\_Group_{it} + \sum \beta_{8-15} (Constituent\_Group * Class)_{it} + Controls + \varepsilon_i \quad (6.1)$$

Where i indicates the comment letter and t is the specific question that the observation addresses. *Class* is a dummy variable that takes 1 f the observation relates to proposed changes to classification and measurement issues and 0 otherwise. *Constituent_Group* represents the constituent group dummy variables for accountants, financial industry, regulators, standard setters, academic community, and others, leaving the business community as the omitted group.

Logit models are used to test the impact of opposition and interest groups on the likelihood of the IASB rejecting the proposed change.

$$Pr(REJECT)_{it} =$$

$$\beta_0 + \beta_1 OPPOSE_{it} + \sum \beta_{2-7} Interest\_Group_{it} + \sum \beta_{8-15} (Interest\_Group * Oppose)_{it} + Controls + \varepsilon_i \quad (6.2)$$

Where *REJECT* is a binary dependent variable where y=1 if the IASB rejects its original proposal, 0 otherwise. The interaction term, *Interest_Group* * *Oppose*, allows for the possibility that the impact of opposition is conditional on which constituent group it comes from.

6.4 Results

It is hypothesised that constituent groups are likely to differ in their level of opposition to the IASB's proposed changes due to the differences in ideological alignment between the constituent groups and the IASB. The impact of opposition is then hypothesised to depend on constituent group. The results from the investigation of ideological alignment are presented followed by the impact of opposition expressed by each constituent group on the IASB decision, i.e. the effect of special interest lobbying.

6.4.1 Ideological Alignment

As a result of the principal component factor analysis, *OPPOSE*, the central variable to the hypotheses, has a mean of 0 and a standard deviation of 1. Table 6.2 presents the descriptive statistics of the variables used in the multivariate analysis. In separating the observations according to the type of accounting issues that the proposed change relates to, it is apparent that changes relating to classification and measurement are met with more opposition than are those relating to disclosure requirements and other issues. This is reflected in panel B of Table 6.2 which shows

that all except the smallest constituent group in the sample, ‘other interested parties’, have higher mean levels of opposition for classification and measurement issues than for disclosure and other issues. As well as generating more opposition, classification and measurement issues are met with longer responses, as shown by the higher means of *LENGTH* and *WORDS*. As discussed in Chapter 5, this is likely to be a result of the greater effort spent when trying to convince the standard setter to change its position, than when lobbyists agree with the change and merely indicate their support.

Table 6.2 Descriptive Statistics

Panel A: Descriptive Statistics of Variables used in Multivariate Models

	Pooled (n=4938)			Disclosure and Other (n=1864)			Classification and Measurement (n=3074)		
Variable	mean	sd	median	mean	sd	median	mean	sd	median
OPPOSE	0.000	1.000	-0.134	-0.164	0.878	-0.134	0.100	1.055	-0.041
ANGLO	0.486	0.500	0	0.489	0.500	0	0.484	0.500	0
POSTC	0.531	0.499	1	0.521	0.500	1	0.537	0.499	1
VOLLG	4.987	0.471	4.927	4.760	0.452	4.663	5.125	0.426	5.333
CONT	0.179	0.384	0	0.180	0.384	0	0.179	0.384	0
HIDL	0.240	0.427	0	0.245	0.430	0	0.236	0.425	0
LENGTH	12.93	19.90	6	10.70	16.39	6	14.27	21.64	7
WORDS	2763	2808	2036	2217	2000	1752	3094	3154	2201

Panel B: Descriptive Statistics of OPPOSE separated by Constituent Group

	Pooled (n=4938)				Disclosure and Other (n=1864)				Classification and Measurement (n=3074)			
Interest Group	n	mean	sd	median	n	mean	sd	median	n	mean	sd	median
ACC	1329	-0.132	0.970	-0.353	559	-0.343	0.803	-0.580	770	0.022	1.049	-0.134
FIN	1695	0.174	0.979	0.091	637	0.070	0.916	0.004	1058	0.237	1.010	0.117
BUS	803	-0.002	1.014	-0.134	281	-0.206	0.810	-0.134	522	0.108	1.093	-0.086
REG	255	-0.320	0.919	-0.732	84	-0.488	0.878	-1.113	171	-0.237	0.929	-0.467
STA	657	-0.027	1.034	-0.134	254	-0.212	0.863	-0.134	403	0.090	1.114	-0.018
ACA	134	-0.032	1.180	-0.134	27	-0.063	1.058	-0.134	107	-0.024	1.214	-0.134
OTH	65	-0.236	0.716	-0.134	22	-0.202	0.851	-0.134	43	-0.253	0.647	-0.134

This table presents the descriptive statistics of variables used in the multivariate models. Panel A presents the descriptive statistics of the variables split by the accounting issue that the change relates to and panel B presents the descriptive statistics of the central variable OPPOSE split by constituent group and accounting issue.

Table 6.2 (Continued)

Panel C: Variable Definitions

POSTC	The exposure draft was issued after the commencement of the financial crisis
ANGLO	The accounting culture of the constituent is rooted in Anglo-Saxon Accounting
VOLLG	Natural log of the volume of comment letters sent to the exposure draft
CONT	Indicator variable that takes 1 if the author is a listed financial contributor to the IASC Foundation
HIDL	Author/Author Organisation is a consultant or business association
LENGTH	The number of lines in the response
WORDS	The number of words in the letter
ACC	Author/Author Organisation is grouped as Accountants
BUS	Author/Author Organisation is grouped as Business Community
FIN	Author/Author Organisation is grouped as Financial Industry
REG	Author/Author Organisation is grouped as Regulators
STA	Author/Author Organisation is grouped as Standard Setters
ACA	Author/Author Organisation is grouped as Academics
OTH	Author/Author Organisation is grouped as Other Interested Parties

The distribution of changes relating to the two types of accounting issues amongst the two periods, before and after the start of the financial crisis, is similar. Overall, there is only a slightly higher proportion of observations in the latter period, as indicated by the mean of *POSTC*, 0.531, for the pooled observations. This corresponds to 2624 observations in the period after the beginning of the financial crisis compared to 2314 in the pre-crisis period. Similarly, there is no concern about the distribution of observations with regard to respondents from Anglo-American accounting traditions or financial contributors. Lobbyists from Anglo-American accounting regimes represent nearly half (48.6 percent) of the overall respondents.

The descriptive statistics of the composite opposition measure show that regulators express the lowest mean levels of opposition out of the identified constituent groups. Similarly, accountants and other interested parties express low levels of opposition, although other interested parties make up only 65 observations (1.3 percent). The financial industry expresses the highest mean levels of opposition to the proposed changes, followed by the rest of the business community. The hypothesised differences amongst the groups are supported by the descriptive statistics and are further investigated by regressing *OPPOSE* on the constituent groups, the type of accounting issue, and various controls that may have independent effects on the composite opposition score. Table 6.3 presents the output of the OLS regression models.

Table 6.3 Regression Output

Variable	Model 1	Model 2	Model 3	Model 4
ACC	-0.130***	-0.112**	-0.137*	-0.114
	(0.044)	(0.044)	(0.072)	(0.072)
FIN	0.176***	0.183***	0.276***	0.272***
	(0.042)	(0.042)	(0.070)	(0.070)
REG	-0.318***	-0.323***	-0.282**	-0.207*
	(0.071)	(0.071)	(0.122)	(0.122)
STA	-0.025	-0.015	-0.006	0.010
	(0.052)	(0.052)	(0.085)	(0.085)
ACA	-0.030	-0.069	0.143	0.253
	(0.092)	(0.092)	(0.198)	(0.199)
OTH	-0.234*	-0.237*	0.004	-0.024
	(0.128)	(0.127)	(0.217)	(0.216)
CLASS		0.263***	0.314***	0.185**
		(0.029)	(0.073)	(0.073)
*ACC*CLASS*			0.051	0.087
			(0.091)	(0.090)
*FIN*CLASS*			-0.148*	-0.075
			(0.088)	(0.087)
*REG*CLASS*			-0.063	-0.024
			(0.150)	(0.148)
*STA*CLASS*			-0.012	0.045
			(0.107)	(0.106)
*ACA*CLASS*			-0.275	-0.219
			(0.223)	(0.222)
*OTH*CLASS*			-0.365	-0.252
			(0.267)	(0.264)
CONTROLS				Yes
Constant	0.174***	0.010	0.070*	-0.900***
	(0.024)	(0.030)	(0.039)	(0.167)
Observations	4938	4938	4938	4938
R-squared	0.021	0.037	0.039	0.066

This table presents the results of the OLS regression (Equation 6.1) where *ACC* are accountants, *FIN*, financial industry, *REG*, regulators, *STA*, national standard setters, *ACA*, academics, and *OTH*, other interested parties. The omitted group is *BUS*: the business community. *CLASS* takes 1 if the observation relates to a proposal that would alter a classification and measurement issue, 0 otherwise. Standard errors in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Table 6.3 displays the coefficients from the multiple regressions. The business community serves as the reference category for the constituent group variable. The financial industry (*FIN*) opposes issues significantly more than the business

community. Regulators oppose proposed changes significantly less but when controlling for financial contributions, hidden lobbyists, and part of the world, the difference is of a lower order of significance (10%). Accountants also appear to express less opposition. However, when including the controls, the significance disappears.

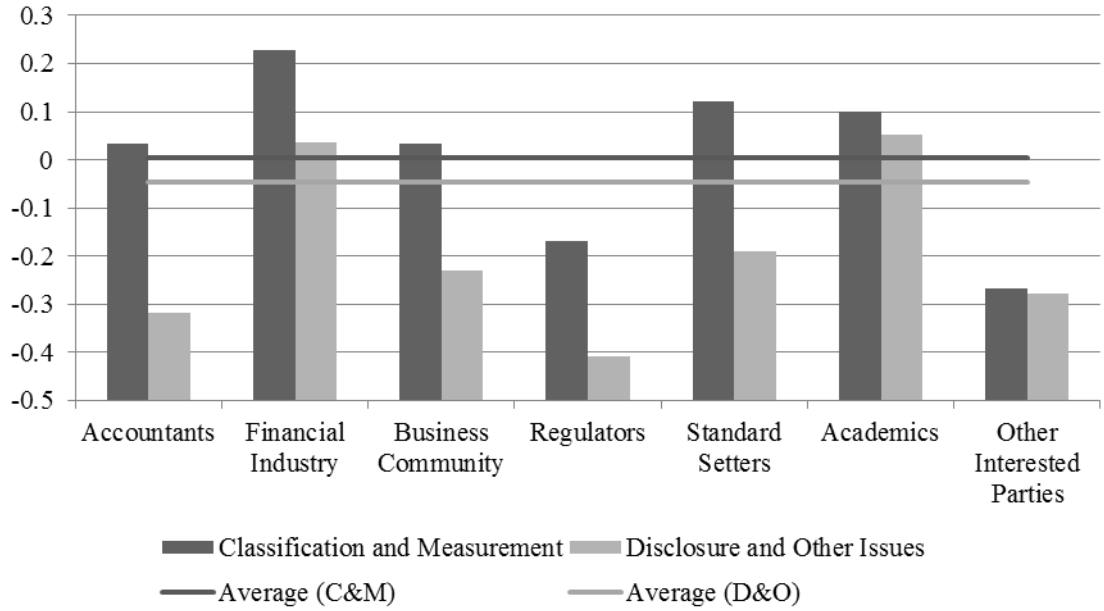
The multivariate regression confirms that opposition varies with constituent group and that classification and measurement issues provoke more opposition than disclosure and other issues do. To further illustrate the differences in the levels of opposition among the constituent groups, Table 6.4 and Figure 6.2 present the linear predictions of *OPPOSE* for each constituent group and type of accounting issue based on equation 6.1.

Table 6.4 Predictions of *OPPOSE* based on Average Marginal Effects

	Interest group	Margin	Std. Err.	z
Disclosure and Other Issues	Accountants	-0.318	0.043	-7.43
	Financial Industry	0.037	0.040	0.94
	Business Community	-0.231	0.059	-3.95
	Regulators	-0.407	0.109	-3.75
	Standard Setters	-0.190	0.063	-3.02
	Academics	0.053	0.191	0.28
	Other Interested Parties	-0.278	0.209	-1.33
Classification and Measurement	Accountants	0.034	0.037	0.91
	Financial Industry	0.229	0.031	7.30
	Business Community	0.035	0.044	0.80
	Regulators	-0.168	0.076	-2.20
	Standard Setters	0.121	0.051	2.36
	Academics	0.099	0.098	1.01
	Other Interested Parties	-0.266	0.151	-1.77

This table displays the predicted value of *OPPOSE* based on the average marginal effects for the constituent groups, separated by accounting issue.

Figure 6.2 Linear Predictions of OPPOSE based on Average Marginal Effects



This figure presents the linear predictions of oppose for each constituent group.

Whilst the predictions of *OPPOSE* for all groups are lower for disclosure and other issues than they are for classification and measurement issues, the level varies with constituent group. The profession (accountants) are more similar to the business community in opposition for the classification and measurement issues, but potentially less so for disclosure and other issues, although the significance disappears when including control variables. The linear predictions indicate that regulators seem particularly well served by the ideological component of the standard setting process even if, when including control variables, the difference between regulators and the business community is of a lower order of significance, at 10%. This is potentially an indication of regulators' opportunity to bring things to the agenda of the IASB prior to this stage in the development and, as a consequence, the proposed changes align with their preferences.

In contrast, the financial industry, the largest group, representing 34 percent of the observations, is found to oppose proposed changes at above average levels for changes belonging to either category of accounting issue. The initial alignment between the proposed changes and the preferences of the financial industry are less aligned than for any other group and significantly different from the rest of the business community.

National standard setters express similarly high levels of opposition as the business community to classification and measurement issues and similarly low levels to disclosure and other issues. Academics and other interested parties represent a small proportion of the observations at 2.7 percent and 1.3 percent respectively, and whilst the linear prediction of *OPPOSE* is above average levels for academics and well below for other interested parties, the opposition for neither group is significantly different from the business community.

6.4.2 Special interest Lobbying Influence

As regards the special interest influence of the various constituent groups, the first evidence of the impact of opposition on the IASB's decision to reject a proposed change is indicated in Table 6.5 which presents the descriptive characteristics of *OPPOSE* for each constituent group and separating observations according to the IASB's decision to implement or reject a proposed change. For accountants, the financial industry, the business community, regulators, and standard setters the levels of *OPPOSE* are significantly greater at the 5% level, in responses to proposed changes that were subsequently rejected or substantially changed. Only for the smaller groups, i.e. the academic community and other interested parties, is there no significant

difference. This is suggesting that overall, the IASB responds to the lobbying of the major constituent groups.

Table 6.5 Descriptive Statistics of Composite Opposition Separated by Constituent Group

	Implemented			Rejected			Significantly different
	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.	yes/no
ACC	798	-0.216	0.945	531	0.043	0.993	yes
FIN	966	0.121	0.989	729	0.244	0.962	yes
BUS	496	-0.158	0.968	307	0.251	1.036	yes
REG	127	-0.503	0.834	128	-0.137	0.964	yes
STA	386	-0.143	0.955	271	0.139	1.117	yes
ACA	65	-0.133	0.952	69	0.063	1.361	no
OTH	36	-0.193	0.815	29	-0.289	0.581	no
Total	2874	-0.093	0.973	2064	0.130	1.022	yes

This table presents the descriptive statistics of the composite opposition measure (*OPPOSE*) for each constituent group, separated by whether the proposed change was implemented or rejected. The difference in means is tested by two-group mean comparison t-test and reported at the 5% level in the last column.

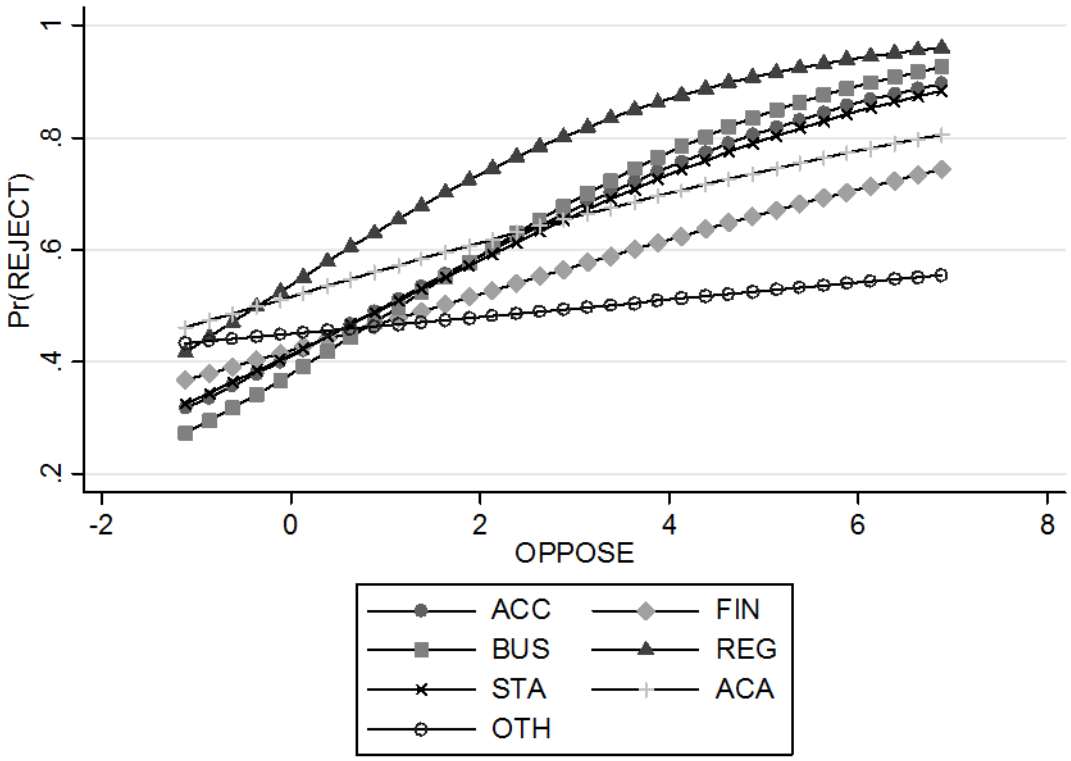
Table 6.6 shows the results of the logit models. The coefficient for *OPPOSE* is positive and statistically significant in all models suggesting that increases in the composite opposition measure are associated with increases in the likelihood of the IASB rejecting the proposed change. However, as explained in Chapter 5, the same level increases can have different effects at different values and are conditional on the initial probabilities, i.e. the values of all other variables. In addition, interaction terms for opposition and constituent groups are included to test if the impact of opposition is conditional on the constituent group that the lobbyist belongs to. Therefore, the coefficients tell us little about the effects of increases in opposition and how it varies for constituent groups. Instead, predictions, based on model 5, i.e. the most advanced model, are generated for the pooled sample and presented in Figure 6.3.

Table 6.6 Logit Regressions

	Pooled Sample N=4938					C & M N=3074	D & O N=1864
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 5	Model 5
Constant	-0.334***	-0.485***	-0.494***	-0.417***	-0.758*	-0.026	-1.776***
OPPOSE	0.224***	0.230***	0.401***	0.410***	0.458***	0.453***	0.465***
ACC		0.104	0.112	0.105	0.118	0.057	0.164
FIN		0.16	0.189*	0.186*	0.07	0.014	0.188*
REG		0.567***	0.652***	0.658***	0.375**	0.372*	0.327
STA		0.134	0.142	0.139	0.13	0.159	0.018
ACA		0.556**	0.559**	0.578**	0.282*	0.141	0.729*
OTH		0.322	0.231	0.232	0.164	0.223	0.133
*ACC*OPPOSE*			-0.178*	-0.175*	-0.072	0.035	-0.261
*FIN*OPPOSE*			-0.273***	-0.277***	-0.245**	-0.154	-0.405**
*REG*OPPOSE*			0.051	0.051	-0.003	0.151	-0.303
*STA*OPPOSE*			-0.134	-0.135	-0.096	0.019	-0.405*
*ACA*OPPOSE*			-0.255	-0.264	-0.251	-0.182	-0.733*
*OTH*OPPOSE*			-0.594	-0.605	-0.393	0.251	-1.283*
CLASS				-0.120*	-0.136*		
POSTC					1.033***	0.916***	1.162***
VOLLG					-0.02	-0.156	0.16
LENGTH					-0.002	-0.012***	0.025***
WORDS					0	0	-0.000***
LR	59.82	81.56	95.57	99.43	390.99	279.28	465.38
Prob>chi2	0.000	0.000	0.000	0.000	0.000	0.000	0.000
McFadden's	0.89%	1.22%	1.42%	1.48%	5.83%	6.18%	9.02%

This table presents the coefficients from the logit regression analysis, equation 6.2. Column 2-6 presents the results of the models for the full sample, column 7 only for observations relating to classification and measurement issues, and column 8 for observations relating to disclosure and other issues. The dependent variable, *REJECT*, takes 1 if proposed change is rejected, and 0 otherwise. The coefficients for the dummy variables for constituent groups are *ACC* if Author/Author Organisation is grouped as Accountants, *FIN* for Financial Industry, *REG* for Regulators and Legal Authorities, *STA* for National Standard Setters, *ACA* for Academics, *OTH* for Other Interested Parties. The omitted group is the Business Community *(BUS*). *CLASS* takes 1 if the proposed change relates to classification and measurement issues. *POSTC* takes 1 if the exposure draft was issued after the commencement of the financial crisis. *VOLLG* is the natural log of the volume of comment letters sent to the exposure draft. *LENGTH* is the number of lines in the response and *WORDS* is the number of words in the letter. *** p<0.01, ** p<0.05, * p<0.1

Figure 6.3 Predictive Margins for the Pooled Sample



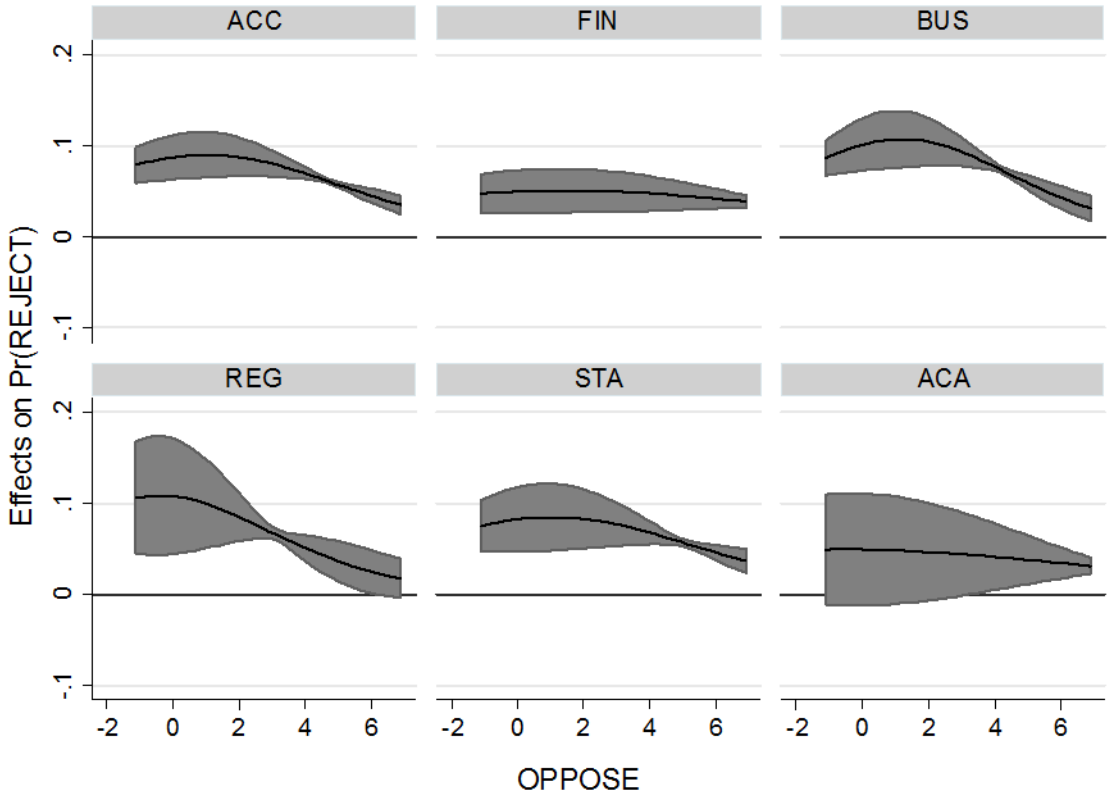
This figure displays the predicted probabilities of the proposed change being rejected at regular intervals of opposition for the 7 constituent groups for the pooled sample based on model 5.

Figure 6.3 plots the predicted likelihood of *REJECT* at regular intervals of *OPPOSE* from its minimum value of -1.113 to its maximum value 6.90 for each constituent group based on model 5, the most advanced model. The more level slopes for academics, other interested groups, and the financial industry suggest that increases in opposition by these groups have less of an impact than they do for accountants, the business community, national standard setters and regulators, which have steeper slopes. In addition, at most common values of *OPPOSE*, comments by regulators, seem to lead to the greatest likelihood of rejection. It seems that the IASB is particularly hesitant in implementing its proposals if they generate interest from this

group and even more so if met with opposition from this group. This is consistent with the need for legitimacy.

To test whether the positive effects of increases in opposition on the likelihood of rejection are statistically significant for each constituent group, average marginal effects are generated for unit increases in *OPPOSE* given the constituent group. The average marginal effects of a unit increase (one standard deviation) in *OPPOSE* at the same values as in Figure 6.3 above, i.e. the minimum (-1.113) to the maximum (6.90) for each constituent group, are displayed in figure 6.4. The values of the points in Figure 6.4 directly correspond to the points in Figure 6.3, as average marginal effects are the derivatives of the function, i.e. the gradients of the slopes in Figure 6.3. Confidence intervals (95%) are indicated by the grey area around the curves. The opposition for the group 'other interested parties' is insignificant at all values of *OPPOSE* and the graph is omitted from Figures 6.4, 6.6, and 6.8 for presentation purposes.

Figure 6.4 Average Marginal Effects



This figure displays the average marginal effects of unit increases (one standard deviation) on the probability of *REJECT* given the constituent group that the author belongs to. For presentation purposes, the plot for the group 'other interested parties' has been removed. The marginal effects for this group were insignificant at all values. The areas around the curves represent the 95% confidence intervals.

Apart from for academics and other interested parties, the overall picture suggests that the major constituent groups are influential in the process. The marginal effect of a unit increase in *OPPOSE*, within the confidence intervals, is above 0 for the most common values of *OPPOSE* for accountants, the financial industry, the business community, and regulators. The magnitude of the average marginal effect is greater at lower values which is the range where most observations fall and where a unit increase is likely to represent the difference between agreeing and disagreeing. At higher values of *OPPOSE*, from around 1.56, observations almost always contain explicit disagreement and an increase is the difference between disagreeing and being a little negative or disagreeing and being highly negative. The average marginal

effects at these values are still positive and significant indicating that negativity is an important component of the *OPPOSE* measure as the IASB is more likely to reject proposals that are met with disagreement and more negativity than disagreement and less negativity.[31]

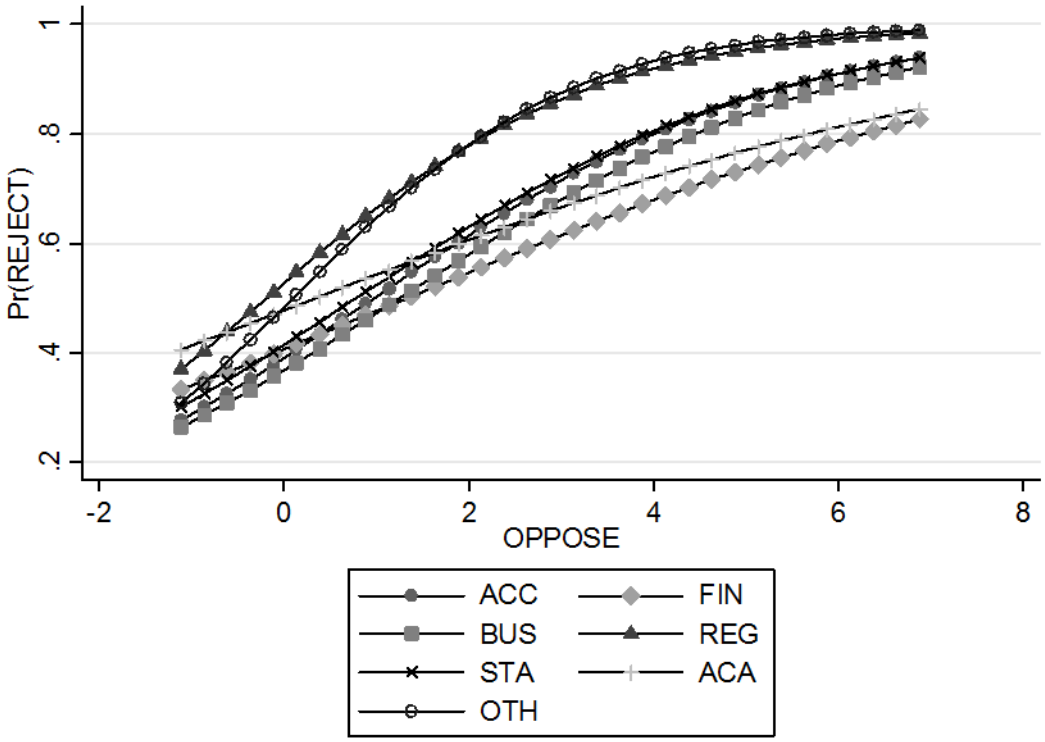
Only the coefficient for the interaction of the financial industry and opposition, among the interaction terms of constituent group and opposition, is consistently negative and significant. It may, therefore, appear that the effect of opposition of this group is the only one that is significantly different (less of an impact on the IASB's decision to reject changes) from the reference category, i.e. the rest of the business community. However, in non-linear models, both the sign and the significance of the interaction term can vary at different levels of probability, i.e. different values of all other variables (Ai and Norton 2000). Therefore, the statistical significance (5% level) of the difference in the marginal effect of opposition by other constituent groups, in comparison to the business community, is analysed using an F-test at regular intervals of *OPPOSE*. The marginal effect of opposition expressed by the financial industry is significantly less than when expressed by the business community at all levels of oppose up to 4.89 (in the 99th percentile). For regulators, the marginal effect is significantly less only at values of oppose above 2.38 (in the 99th percentile). For academics, the marginal effect is significantly less for values above 1.88 (in the 90th percentile). Thus, whilst accountants, the financial industry, the business community, regulators, and standard setters are all influential the process, opposition by the financial industry has significantly lower impact than that of the business community, at the 5% level.

[31] The full analysis is repeated on a sample that excludes the upper 99th percentile of the observations. The results are qualitatively the same.

The changes that relate to classification and measurement issues are found to be less likely to be rejected, as indicated by the negative coefficient (significant at the 10% level). The OLS regression output indicates that constituents lobby differently depending on the type of accounting issue considered. In particular, constituents are found to be less supportive of changes to classification and measurement than to disclosure and other issues. On the other hand, the logit regression output indicates that the IASB is less likely to reject its proposed changes at the same levels of opposition if they relate to classification and measurement issues than to disclosure and other issues. By splitting the sample on the type of accounting issue that the propose change relates to, model 5, the most advanced model, is run separately on observations relating to classification and measurement issues and those relating to disclosure and other issues. The last two columns of Table 6.6 display the coefficients for the model for the split sample.

The coefficients for *OPPOSE* are positive and significant for both types of issues, indicating that the IASB is more likely to reject proposals on either issue to which the constituents express more opposition. Predictions of the impact of opposition by the various constituent groups, based on model 5, are illustrated in Figure 6.5 for classification and measurement issues, with average marginal effects in Figure 6.6, and in Figure 6.7 for disclosure and other issues, with average marginal effects in Figure 6.8.

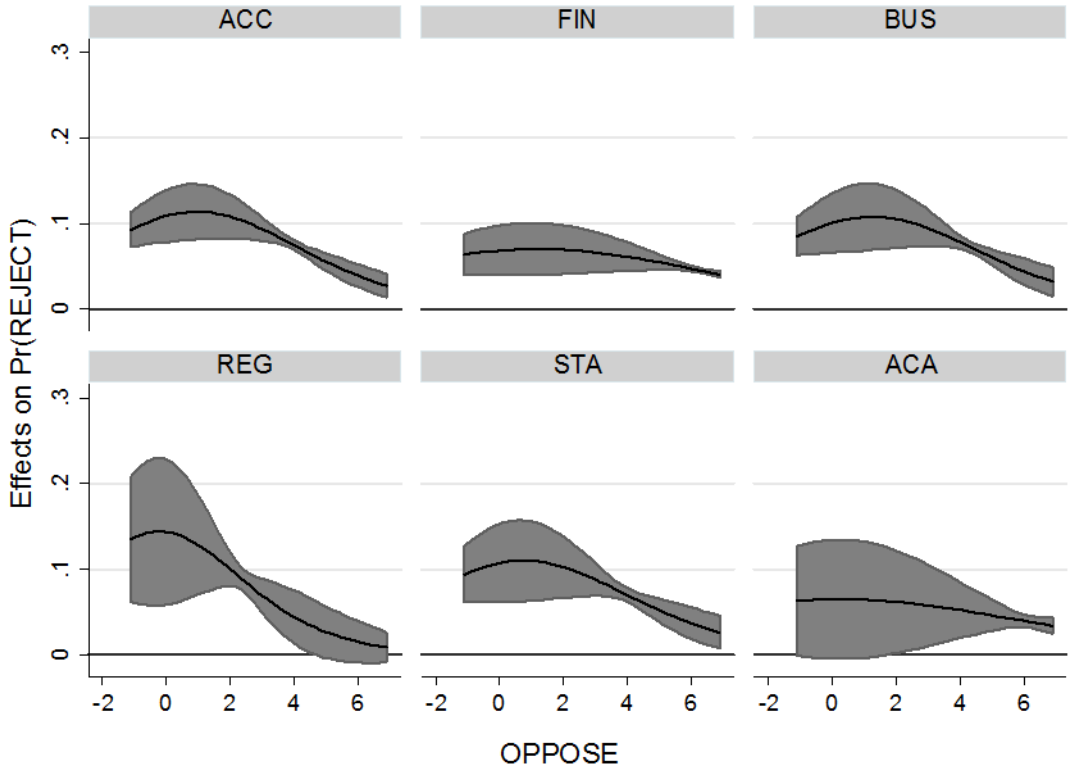
Figure 6.5 Predictive Margins for Classification and Measurement Issues



This figure displays the predicted probabilities of the proposed change being rejected at regular intervals of opposition for the seven constituent groups. The predictions are based on model 5, the most advanced model. Only observations relating to classification and measurement issues are included.

For classification and measurement issues, the curves are all inclining, suggesting that at greater values of *OPPOSE* for all groups, there is a greater likelihood of the proposed change being rejected. The significance of the marginal effect for each group is illustrated in Figure 6.6.

Figure 6.6 Average Marginal Effects of OPPOSE for Classification and Measurement Issues

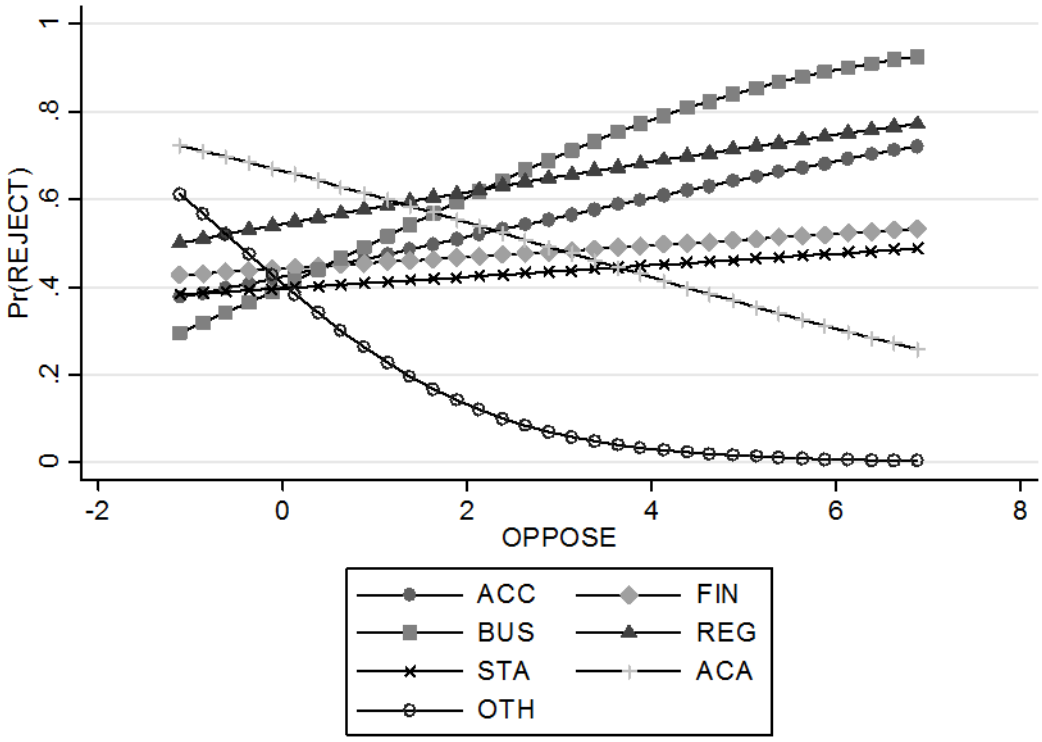


This figure displays the average marginal effects of unit increases (one standard deviation) on the probability of *REJECT* given the constituent group that the author belongs to, based on model 5. Only observations relating to classification and measurement issues are included. For presentation purposes, the plot for the group 'other interested parties' has been removed. The marginal effects for this group were insignificant at all values. The areas around the curves represent the 95% confidence intervals.

Similar to the results for the pooled sample, for accountants, the financial industry, the business community, regulators and standard setters, a unit increase in *OPPOSE* generates a significant positive marginal effect on the probability of the proposed change being rejected at most values of *OPPOSE*. This is suggestive of the fact that these groups are influential in the later stages of standard development and, potentially, that the room for special interest lobbying for these types of issues, is a compromise of the preferences of the major constituent groups. The difference of the marginal effect of *OPPOSE* for each group is compared to the marginal effect of *OPPOSE* for the business community. From this, the only group for which the marginal effect is

significantly less at common values of *OPPOSE* is the financial industry, however from -0.61 to 2.39, the most common values, the difference is at a lower order of significance (10%).

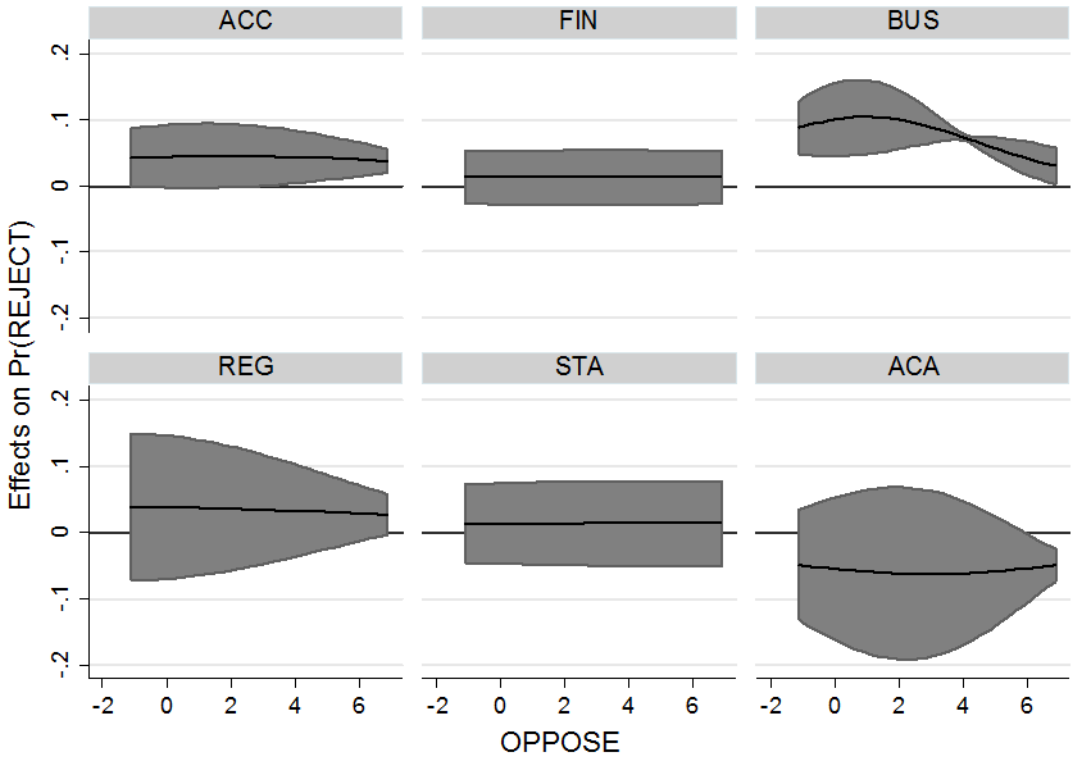
Figure 6.7 Predictive Margins for Disclosure and Other Issues



This figure displays the predicted probabilities of the proposed change being rejected at regular intervals of opposition for the seven constituent groups. The predictions are based on model 5. Only observations relating to disclosure and other issues are included.

The curves in Figure 6.7 are not as uniform as they were for classification and measurement issues in Figure 6.7. The curves for academics and other interested parties are downward sloping, however, the average marginal effect of neither of these groups are significantly different from 0 at any level of *OPPOSE*. The curve for the business community is steeper than the ones for the other groups, indicating that this group is particularly influential.

Figure 6.8 Average Marginal Effects of OPPOSE for Disclosure and Other Issues



This figure displays the average marginal effects, based on model 5, of unit increases (one standard deviation) on the probability of *REJECT* given the constituent group that the author belongs to. Only observations relating to disclosure and other issues are included. For presentation purposes, the plot for the group 'other interested parties' has been removed. The marginal effects for this group were insignificant at all values. The areas around the curves represent the 95% confidence intervals.

Contrary to the results from classification and measurement issues, the only group with influence when it comes to disclosure and other issues is seemingly the business community. It is the only group where the marginal effect of opposition is significant at common values of *OPPOSE*. In addition, the F-test reveals that the marginal effect of opposition is consistently greater for the business community than the financial industry, standard setters, academics and other interested parties at the 5% significance level.

In summary, the results from the logit analysis suggest that accountants, the financial industry, the business community, regulators, and standard setters are all influential

the process, but that these results are mainly driven by their influence for classification and measurement issues. The financial industry, whilst influential on these issues, is significantly less influential than the rest of the business community. For disclosure and other issues, the business community is the only influential constituent group.

6.5 Discussion and Conclusion

Criticism of the legitimacy of the processes of developing international accounting standards triggered the restructure of the IASC into the IASB, who has made a commitment to a transparent standard setting process in response to these concerns (Collett et al. 2001; Street 2006; Camfferman and Zeff 2007, p. 15). However, there are still concerns that some parties wield undue influence on the standards, especially regarding the influence of the financial industry in the development of standards for financial instruments (e.g., Arnold 2009). In addition, there have been numerous calls for research to develop a greater understanding of the standard setting processes (e.g., Barth 2008; Arnold 2009; Kothari et al. 2010). This chapter responds to these calls by grouping comment letter responses according to stakeholder groups and identifying sources of influence by comparing the effect of opposition on the likelihood of the IASB rejecting the proposed changes.

Different constituent groups have different and conflicting preferences when it comes to accounting standards (e.g., Jupe 2000; McLeay et al. 2000; Stenka and Taylor 2010; Jorissen et al. 2011; Giner and Acre 2012). The extent to which the final standard incorporates the preferences is likely to depend on two factors. First, the degree to which the preferences coincide with the IASB's original proposal, i.e. the alignment of the ideology guiding the development of proposed changes to IFRS and the ideology

of the lobbyist. Second, where lobbyists disagree with the proposed changes, how successful they are in convincing the IASB to reject the change. The ideology theory of regulation has been proposed to provide a suitable framework for studying the political process underlying the development of accounting standards as it recognises that accounting standards are a joint outcome of the ideology of the organisation and special interest lobbying (e.g., Kothari et al. 2010). In letting the theory guide the methodology, the analysis is divided in two stages. First, the ideological alignment of the various constituent groups and the IASB is compared by analysing the extent of opposition to the proposed changes by OLS regression. Second, the effect of opposition on the IASB's decision as whether or not to reject its proposed changes is compared for constituent groups by comparing marginal effects from logit models.

The accounting profession, national standards setters, and regulators are active in bringing issues to the fore and their ideological conviction is likely to coincide with that of the IASB, which is guiding the development of proposed changes. Contrary, preparers, including the business community and the financial industry, are more likely to lobby based on self-serving incentives, such as avoiding volatility and costly disclosure (see Saemann 1999). Moreover, the position, and therefore the lobbying, does not coincide with the ideological conviction of the IASB, i.e. to develop standards in the interest of financial reporting users, according to a conceptual framework which is promoting a decision-usefulness approach (IFRS Foundation 2011).

The results confirm that, ideologically, regulators are the most similar to the IASB, as indicated by the lack of opposition in comment letters. The levels of opposition from this group are significantly less than for the business community. However, based on

the OLS regression there is no concluding evidence of ideological differences between the business community and accountants or national standard setters. It is proposed that incongruence between the ideology of the IASB and national standard setters can be a result of the inappropriateness of international standards to certain cultural and institutional settings, a topic which is further explored in Chapter 7. In terms of the profession, the linear predictions reveal that their opposition is lower than that of the business community for proposed changes that relate to disclosure and other issues. Their opposition is significantly less in regression models 1-4 for the pooled observations, but the significance disappears when controls are included. A parallel can be drawn to Puro's (1984) findings that auditors lobby as an agent for its clients but that the agency relationship does not hold for changes that propose more disclosure, as these have the potential to increase auditors' wealth but decrease the wealth of their clients.

Regulators have been argued to be particularly susceptible to capture by the financial industry (e.g., Hardy 2006). It has further been argued that fair value accounting represents the perspective of the financial sector in representing reality as a set of numbers, a central part of the discourse that surrounds financialization (Nölke and Perry 2007). In addition, the indirect influence of this group was demonstrated when the E.U. forced a change to the fair value option as well as adopted IFRS with a caveat for macro hedge treatments in 2005 (Armstrong and Jagolinzer 2005). It is therefore plausible that the power of the financial industry extends to the core of the standard setting processes. However, the financial industry is found to oppose the proposed changes the most, significantly more than the business community and regulators, suggesting that they are the least aligned with the IASB's ideology guiding the

development of financial instruments accounting. The incongruence with both the IASB and other regulators goes some way to alleviating concerns that this group is further capturing the accounting standard setting development.

All groups are found to oppose classification and measurement issues more than disclosure and other issues but the distribution of opposition remains similar, with the financial industry being the most vocal in their opposition, and regulators the least so.

In terms of special interest lobbying, increases in opposition from the major constituent groups, i.e. accountants, the financial industry, the business community, regulators, and national standard setters, are found to increase the likelihood of the IASB rejecting a proposed change. Interestingly, the financial industry is the only group with significantly less influence than the business community. This also holds for the classification and measurement issues. This serves to further refute the concerns of undue influence by the financial industry. For issues relating to disclosure and other issues, this type of influence is limited to the business community with no other constituent group being found to have a significant effect on the IASB's decision.

As mentioned above, preparers lobby mainly in opposition to proposed changes, suggesting that their incentives for lobbying are incongruent with the ideology that is guiding the standard setting. However, the results indicate that the IASB is still likely to grant them influence. If preparers do not accept the standards, there is a possibility of a collapse of the standard setting process due to non-compliance with the standards or by applying pressure on policy makers with enforcement powers. This was found in New Zealand in relation to the investment property accounting (Rahman et al. 1994)

as well as internationally, in the example mentioned above, resulting in changes and a caveat in relation to the E.U. adoption.

In conclusion, whilst ideologically, preparers are not the group catered for, it is the group that most actively takes advantage of the remaining room for influence by extensive comment letter submissions, and the IASB is likely to grant them influence. This confirms results from prior literature that indicate that where standard setters change their position, this is line with the wishes of the preparer group. This has been found in accounting standard setting in the U.S. (e.g., Brown and Feroz 1992; Saemann 1999) and the U.K. (e.g., Hope and Gray 1992; Jupe 2000) and internationally for the IASC (e.g., Kwok and Sharp 2005). However, the financial industry, whilst influential, is significantly less influential than the rest of the business community.

Whilst this chapter provides evidence as regards the ideological alignment of the IASB and various constituent groups, as well as the influence granted to the various groups in shaping the standards, Chapter 7 goes on to examine the impact of country characteristics on these relationships

7. Do Country-Specific Characteristics Matter in Lobbying the IASB?

7.1 Introduction

One of the concerns regarding the global adoption of IFRS is the suitability of the standards across different countries. Whilst many explanations have been given for the way that accounting standards and accounting practices have developed on a country by country basis, they primarily stem from the sources of external finance available to firms which determine the demand for, and purpose of, financial reporting (Nobes 1998). The differences in financing systems affect the reporting environment as a whole, both in terms of mandated practices, e.g., the standards themselves, and the reporting incentives of managers and therefore voluntary disclosures (see Ball et al. 2000; Leuz et al. 2003; Burgstahler et al. 2006). These differences will, therefore, affect how constituents from different countries react to new international accounting developments, and may give rise to conflicts and compromises in the standard setting process.

For example, Nölke and Perry (2007) argued that IFRS' financial market orientation is not suitable in countries where firms primarily rely on debt financing and build up hidden reserves in order to smooth future crises and prevent breaching debt covenants. Fair value accounting removes the conservative bias from reported income and therefore prevents the building up of hidden reserves. Firms in these countries are likely to oppose increased use of fair values as they would have to change their risk strategies as a consequence of implementing a new accounting system.

The developments of IAS 39, and its controversial fair value treatments, arguably demonstrate these issues more than any other standard. Several aspects of the preparation for the European IFRS adoption of 2005 illustrate this. For example, in many European countries, harmonisation programs were undertaken prior to the effective date of adoption to make domestic standards closer to IFRS, and thereby smooth the transition from local GAAP. However, certain requirements and standards, specifically those that required extensive use of fair value, such as IAS 39, were considered to be at odds with conservative valuation of book value of net assets, and therefore not incorporated into the domestic accounting systems until the time of adoption in 2005 (Hellman 2005).[32] Further, the complexity of IAS 39 was cited as the most anticipated problem of implementation amongst firms that had to apply the standard (Larson and Street 2004; Jermakowicz and Gornik-Tomaszewski 2006). Certain treatments within the standard, in particular the abolition of macro-hedging for core deposits, was extremely contentious and was heavily opposed by French banks and the French government, leading to the E.U. adopting the standard with a carve-out for this (Armstrong and Jagolinzer 2005).

Armstrong et al. (2010) further illustrate the differing reactions across countries to IFRS adoption. They found that in 2005-2008, there were generally positive market reactions to events that increased the likelihood of IFRS adoption. However, for firms domiciled in civil-law countries, there were incrementally negative market reactions to the same events. On suggestion was that this was a reflection of the concern for weak enforcement of accounting standards in these countries. However, it was also recognised that it could be due to other factors, such as the possibility that IFRS do not

[32] See Ding et al. 2007, for a detailed account of the differences amongst domestic and international standards.

adequately reflect regional differences in these economies. Similarly, Daske et al. (2008) found that capital market benefits associated with adoption occur only in countries where earnings management was low prior to IFRS adoption and where legal enforcement is strong. Low earnings management prior to IFRS adoption was assumed to represent an institutional environment which provided firms with incentives to be transparent. Increased positive expectations, and subsequent benefits, are thus a function of legal and institutional factors and, therefore, potentially a sign of IFRS being more suitable to the reporting environment in some countries than in others. This raises questions regarding the development of international accounting standards, and the role of country-specific factors in determining the final standards.

International disputes concerning financial instruments accounting are not yet resolved. As per the main recommendations of the Financial Crisis Advisory Group (FCAG) and the G20, the IASB and the U.S. standard setter, the FASB, stepped up efforts to reach convergence on financial instruments accounting in light of the financial crisis. However, the current chairman, Mr Hans Hoogervorst, in his speech *"Closing the accounting chapter of the financial crisis"* recognised that the project of bringing the requirements in IFRS 9 together with U.S. GAAP had failed.[33] This was due to unresolved differences for key areas of financial instrument accounting, including classification and measurement, offsetting, and impairment (IFRS Foundation 2014a). The problematic nature of financial instruments accounting in an international setting makes it ideal for studying the influences of country-specific factors and special interest lobbying on the development of IFRS.

[33] Prior to assuming the role as Chairman of the IASB, Hans Hoogervorst served as co-chairman of the Financial Crisis Advisory Group, a body formed in 2009 to advise the IASB and the FASB in their response to the financial crisis.

Despite the remaining differences, formalised channels of U.S. influence, such as the Norwalk Agreement of 2002, are causing some concern that IFRS will be too similar to U.S. GAAP.[34] For example, in 2009, Atsushi Saito, president and chief executive of the Tokyo Stock Exchange, raised concerns that changes to IFRS 9, to bring requirements closer to U.S. GAAP, would jeopardise Japan's adoption plans (Sanderson 2009). Another concern is the political force of U.S. actors stemming from their power in international affairs. De Lange and Howieson (2006) for example argue that the U.S. has a culture of superiority, making U.S. standard setters unlikely to share power over their accounting standards, and is therefore likely to result in either the capture of the IASB or a wholesale rejection of IFRS.

As 128 countries now require or allow IFRS (Deloitte IAS Plus 2014), it is in the constituents' interest to understand how standards have developed to suit the reporting environment of certain countries more than others. In recognising that the IASB comes under political pressure in its standard setting activities, Barth (2008) asks *"Do political forces from different countries offset or reinforce each other?"* The accounting literature to date shows that institutional factors of countries have an impact on properties of accounting earnings (Ball et al. 2000), on the differences in accounting standards across countries (Ding et al. 2007), and on the informativeness of earnings even when complying with IFRS (Daske et al. 2008). However, there is, as yet, no research into whether these factors have an impact on the development of IFRS. Therefore, in an attempt to shed some light on the standards setting of the IASB, this chapter assesses if country-specific factors predict constituents' opposition to the IASB's proposals, as well as their lobbying success. As per previous chapters,

[34] In the memorandum of understanding, signed by the IASB and FASB in 2002 it is stated: "both the FASB and IASB pledged to use their best efforts to (a) make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programs to ensure that once achieved, compatibility is maintained" (FASB 2002).

ideology theory of regulation is guiding the methodology, and it is recognised that standards are a joint outcome of the ideology of the standard setter and special interest lobbying.[35]

The analysis follows on from Chapter 6 and uses the composite opposition measure based on textual analysis of responses. The chapter first analyses if constituents from different countries differ in the level of opposition according to key features of the reporting environment, namely legal origin and equity orientation, and formal and informal channels of influence available to particular countries and parts of the world. The analysis of these factors shows that constituents from English common-law countries are more ideologically aligned with the IASB, especially when it comes to classification and measurement issues. European constituents express the highest levels of opposition to the IASB's proposed changes. The second stage of the analysis examines whether these characteristics impact on the likelihood of success in blocking changes to the standards that the lobbyist opposes. From this second stage of analysis, the results show that for classification and measurement issues, the IASB seems to be mainly concerned with aggregate opposition. However, for disclosure and other issues, influence is limited to lobbyists from English common-law countries and Scandinavian civil-law countries and for lobbyists from countries in which the importance of equity is the greatest.

The remainder of the chapter is organised as follows. Section 7.2 discusses the literature on the differences in accounting and other institutional characteristics around the world and how this may affect the political processes of international accounting. Section 7.3 describes the research design and the variables used in the analysis.

[35] This theory is a result of findings in Kau and Rubin (1979) and Kalt and Zupan (1984) and promoted in an accounting standard setting context by Kothari et al. (2010). It is discussed in detail in Chapter 3.

Section 7.4 presents the empirical results. Section 7.5 summarises the results and discusses their implications.

7.2 Literature Review and Hypothesis Development

This section focuses on the differences in legal, cultural, and institutional environments that have led to cross country differences in the reporting environment. Moreover, it explores some avenues for influence in the standard setting process.

7.2.1 Differences in Reporting Environments across Countries.

The accounting literature advocates a holistic view of financial reporting and recognises that the reporting environment is a function of various factors including economic culture, accounting standards and their interpretation and enforcement (e.g., Barth et al. 2008; Cieslewicz 2013). In addition, the accounting literature tends to operationalise accounting quality by using earnings management and timely loss recognition where lower earnings management and timelier loss recognition are taken to mean higher levels of accounting quality (e.g., Ball et al. 2000; Leuz et al. 2003; Barth et al. 2008). Accounting standards and their enforcement have been shown to constrain opportunistic earnings management (Ewert and Wagenhofer 2005). However, earnings management and timeliness of loss recognition have also been shown to depend on country-specific factors, in particular the sources of external finance available to firms (Ball et al. 2000; Leuz et al. 2003). Consistent with this, Nobes's (1998) review of the international accounting literature proposed that the major reason for differences in financial reporting is its different purposes across countries. This in turn was concluded to be a function of the differences in financing systems, i.e. the level of equity dependence. Therefore, when predicting the reactions

to the IASB's proposals, it is likely to vary with how well it fits the purpose of financial reporting in the constituents' home countries.

Legal Origin

Studies in finance and political economy show that legal and cultural factors have an impact on the corporate environment. Notably, La Porta et al. (1997) showed that common-law countries protect both shareholders and creditors the best, French civil-law countries the least, and German and Scandinavian civil-law countries somewhere in the middle, which explains the size of capital markets and opportunities for external finance across countries. Further, La Porta et al. (1998) showed that laws pertaining to investor protection and their enforcement vary across countries, and have an impact on corporate governance practices. In particular, limitations to investor protection predicted higher levels of ownership concentration. In a similar vein, Stulz and Williamson (2003) found that religion has an impact on investor protection and that creditors are better protected in Protestant than Catholic countries but that openness to international trade mitigates the influence of religion on creditor rights.

It follows that the purpose and nature of financial information requirements will vary with complementary governance practices. Consistent with this, Ball et al. (2000) showed that timeliness and conservatism of accounting income vary internationally and that economic losses are incorporated in accounting income significantly quicker in common-law countries than in civil-law countries. They argued that the more timely and conservative accounting income serves to monitor managers in common-law countries where there is a greater distance between providers of capital and managers. It was suggested that in civil-law countries, information asymmetry is instead resolved by other institutional features, such as closer relationships with

stakeholders. Features of accounting income are thus a function of its purpose in the context of other institutional arrangements which may effectively be captured by legal origin.

As international accounting is heavily rooted in Anglo-American accounting (Ball 2011) and the restructure of the IASC into the IASB was heavily influenced by the Group of Four (G4) all of which are common-law countries, the accounting system is likely to be more suitable to the institutional arrangements in common-law countries.[36] Characteristics pertaining to the reporting environment of common-law countries, such as low levels of earnings management, are compatible with the objective of international accounting and the fair value paradigm in financial instruments accounting, as it denies preparers the opportunity to smooth earnings by building up hidden reserves (Nölke and Perry 2007).

Accounting Culture

Gray (1988) viewed the accounting system as a subculture to the overall culture in a country and developed hypotheses regarding different features of the accounting systems around the world based on Hofstede's cultural dimensions. For measurement and disclosure, i.e. the purpose and practicalities of financial reporting, the accounting systems were evaluated along the dimensions of secrecy to transparency, and optimism to conservatism. Three accounting systems; Anglo, Nordic, and Asian-Colonial, were identified as being more reliant on notions of optimism and transparency whereas all other identified accounting systems; Germanic, Less Developed Asian, African, Less Developed Latin, More Developed Latin, Near

[36] The G4 included, the Australian Accounting Standards Board (AASB), Canadian Accounting Standards Board (AcSB), U.K. Accounting Standards Board (ASB), U.S. Financial Accounting Standards Board (FASB), Australian Accounting Research Foundation (AARF) and from 1996 New Zealand Financial Reporting Standards Board (FRSB).

Eastern, and Japan, were thought to be more influenced by secrecy and conservatism. Optimism and transparency are arguably the values most akin to the investor orientation and the fair value paradigm in international accounting as it prevents the conservative bias in reported earnings.

Alexander and Archer (2000) argued that the cultural definitions of accounting, referring to Anglo or non-Anglo, are exaggerated in terms of creating a hegemonic alliance in the international politics of accounting regulation. However, others, notably Nobes (2003), dispute this, and point to the formation of the G4, which was a result of the Anglo block of IASC members sharing conceptual frameworks and wanting to move ahead with convergence faster than the IASC. Further, empirical findings by Chatham et al. (2010) reveal that in the responses to IASC's (1997) discussion paper (DP) '*Accounting for Financial Assets and Financial Liabilities'*, there was some clustering of opinions that seems to conform to cultural traditions. For instance, whilst there were high levels of disapproval to the proposals by Europeans, constituents from Nordic countries represented in the sample, i.e. Denmark, Norway, and Sweden, were in general in favour of the proposals.[37]

The reliance on cultural dimensions of accounting, especially using Hofstede's framework, has been heavily criticised for its lack of sound theoretical basis (e.g., Baskerville 2003). However, the cultural dimensions in Gray (1988) and the responses to the Financial Instruments Discussion Paper (Chatham et al. 2010) imply that a crude classification of countries as common law and civil law may insufficiently capture the differences in the reporting environment. Therefore, a more fine-tuned

[37] The discussion paper was issued in March 1997 and contained the results of the IASC and Canadian Institute of Chartered Accountants Steering Committee on Financial Instruments efforts to develop a standard for financial instruments and generated 168 comment letter responses of which six were from Nordic countries.

classification of legal origin, as provided by La Porta et al. (1997), which distinguishes between Scandinavian, French, and German civil law allows for the financial reporting environment to vary accordingly and better capture the perceived suitability of IFRS to the lobbyist's home country.

Legal origin is expected to have an effect on the alignment between constituents' positions and that of the IASB. The IASB proposes changes according to its ideology, which is rooted in Anglo-American accounting and, as a result, likely to be most acceptable to constituents in countries where the institutional arrangements can be approximated by English common law. It is therefore expected that constituents from countries of other legal origin will opposed changes to a greater extent. Either IFRS turn out more similar, or suitable, to certain environments due to the effective lobbying from constituents in countries which share a the ideological conviction of IASB, that the purpose of financial accounting is to enable investor decisions. Alternatively, IFRS is developed in the Anglo-American tradition but then made more acceptable to other constituents by allowing their influence at a later stage in the standard setting process. [38]

Hypothesis 7.1 A: Opposition will depend on the legal origin of the lobbyist's home country.

Hypothesis 7.1 B: Influence will depend on the legal origin of the lobbyist's home country.

[38]Early developments of international standards for financial instruments were the results of a project between the IASC and Canadian Institute of Chartered Accountants and initial drafts were largely based on the U.S. standards.

Equity orientation

Although using a more fine-tuned classification of legal origin is an improvement on relying on common-law/civil-law classifications alone, there is likely still some overlap in institutional settings between countries, which will be affecting the accounting system and the suitability of IFRS. For example, Ding et al. (2007) compared differences between domestic standards and IAS based on a survey of domestic accounting compiled by the five largest auditing firms in 2001.[39] They developed two measures to test the impact of institutional setting on accounting standards. The first measure was 'absence', i.e. the extent to which the domestic accounting standards lacked coverage of the same issues as IAS, and the second measure was 'divergence', the extent to which the domestic standards, covering the same issues as IAS, differed in accounting treatments and application. They found that absence was higher in countries with less developed equity markets and with higher ownership concentration. Divergence was positively associated with the level of economic development and the importance of the accounting profession, but constrained by the importance of equity markets. This emphasises the role of equity dependence as the driver for congruence between IFRS and the domestic financial reporting environment.

One of the key differences in the reporting systems that target equity investors, as opposed to banks and other creditors, is the more extensive disclosure requirements (Nobes 1998). This was confirmed by La Porta et al. (2006) who found that disclosure requirements are positively correlated with more developed stock markets and is linked to the information demands in outsider systems, typical of common-law

[39] The research by Ding et al (2007) relies on survey data obtained prior to the incorporation of the IASB and is thus comparing International Accounting Standards (IAS) issued by the IASC, as opposed to IFRS, to domestic standards.

countries, where information asymmetry is resolved by public disclosure (Ball et al. 2000). There is empirical evidence that the legal origin facilitates opportunities for raising external finance (e.g., La Porta et al. 1997) and that reported earnings in common-law counties better meet the information demands of investors than in civil-law countries (e.g., Ball et al. 2000). However, direct measures of the importance of equity in a country may better capture the investor focus, and thus the ideological alignment between international accounting and the domestic financial reporting system.

Hypothesis 7.2 A: Opposition will depend on the extent of equity dependence in the lobbyist's home country.

Hypothesis 7.2 B: Influence will depend on the extent of equity dependence in the lobbyist's home country.

7.2.2 Channels of Influence and Political Power

Features of the reporting environment may explain incentives to lobby the IASB and generate some hypotheses as to how lobbyists from different countries compete for standards that will suit their reporting environment. There are, however, a number of other factors to consider when predicting lobbying success and the kind of power constituents from various countries may have over the development of standards.

The U.S. and the E.U.

Perry and Nölke (2005) argued that the IASB's favourable stance on fair values is indicative of the financial sector orientation of IFRS, and a function of the processes and structure of the private, as opposed to public, mode of governance of the IASB. The structure of the IASB was largely a result of the American influence on the

restructure of the IASC which made its organisation similar to the U.S. standard setter, the FASB (see Camfferman and Zeff 2007).[40] This mode of governance, and how it facilitates influence, is further discussed and tested in Büthe and Mattli (2011) whose survey results support that American preparers are more satisfied with the level of influence they have on international standard development compared to their European counterparts. Büthe and Mattli (2011) proposed that the similarities between the IASB and FASB provide an institutional fit which facilitates influence by U.S. actors. Conversely, European constituents, who are represented by fragmented competing domestic standard setting institutions, are less able to represent a cohesive view, and therefore less able to gain influence (Buthe and Mattli 2011). Similarly, familiarity with the system of having a private standard setter whose structure has served as the template for that of the IASB, may make constituents both more willing to participate, and more competent at influencing a private standard setter. Along these lines, Jorissen et al. (2013) found that non-familiarity with a system of private standard setting negatively affects the participation of non-preparers in the IASB's standard setting process.

Others have argued that U.S. influence is facilitated by the country's recurring influence in international affairs. For example, DeLange and Howieson (2006) recognised that this influence stems not just from its military and economic power, but also from aspirations of nations and people to embrace American culture, which may translate to an accounting standard setting context. In particular, they recognised that IASB members may aspire to American values and ideals and, therefore, grant U.S. actors extra influence over international standard setting. Moreover, the U.S. has not yet adopted IFRS, and the desire of the IASB to be a truly global standard setter may

[40] The restructure, and the extensive American influence, is discussed more fully in Chapter 2.

mean that U.S. constituents will have bargaining power over standard development that is not afforded to constituents from countries which have already adopted IFRS (Collett et al. 2001).

Conversely, some have argued that E.U. governmental regulatory power exceeds that of the U.S. in this setting as the standards are developed by a standard setting body operating out of London, as opposed to the FASB (Posner 2010). Moreover, the E.U. has put explicit pressure on the IASB in the past, for example in October 2008 when the European Commission called for a change to IAS 39. The change concerned allowing reclassification out of the fair value category into an amortised cost category, and the Commission announced that regardless of the IASB's response, European companies would be allowed to do so. At this point, the IASC Foundation waived its due process in order to quickly implement the reclassification option in order to prevent what they described as *"out-of-control"* European accounting (House of Commons Treasury Committee 2008). In addition, as mentioned in the introduction, there were pre-adoption controversies regarding IAS 39 amongst European constituents. In particular, the fair value option which allowed entities to irrevocably designate any financial asset or liability to be measured at fair value through profit or loss. This issue was another potential European carve-out from IAS 39, but the IASB resolved the issue by suggesting some limitations to its application (IASCF 2004).

Further, it has been argued that countries outside of Europe and the U.S. struggle to have their voices heard in debates about the international accounting standards (e.g., Chand and Cummings 2008). This may affect all aspects of the process, from agenda setting, to influence over the final amendments to a standard. Therefore, the influence of U.S. and European constituents may affect both the extent to which the lobbyists

oppose the IASB's proposals and their potential for influence. Political discourse and anecdotal evidence suggest that this is the case, yet it has not been empirically tested. Due to the above-mentioned similarities in accounting philosophies and organisational structures of the FASB and the IASB, it is hypothesised that U.S. constituents will be more ideologically aligned with the IASB and will, as a result, oppose the IASB's proposals to a lesser extent than other constituents. However, when it comes to special interest influence, both the E.U. and the U.S. seem to have power to influence IFRS. It is therefore predicted that lobbyists from these large economies are granted more influence than other constituents.

Hypothesis 7.3 A: Opposition is greater in responses from non-U.S. constituents than from U.S. constituents.

Hypothesis 7.3 B: Lobbying success is greater for U.S. and E.U. constituents than for other constituents.

7.3 Research Design

The research design largely follows that of Chapter 6. The focus is on the ability of lobbyists to block proposed changes to the four standards dealing with financial instruments: IAS 32, IAS 39, IFRS 7, and IFRS 9. It is examined by analysing the effect of lobbyist opposition on the likelihood of the IASB rejecting its proposed changes. Therefore, the same fourteen exposure drafts which relate to completed financial instruments projects are included in the analysis to enable the identification of an outcome, i.e. whether the proposed change was implemented or rejected, and only the 70 questions (out of a total 91) from the invitation to comment section of the exposure drafts that allow the respondent to express opposition to the proposed change are included.

To measure the opinion in the responses to the IASB's proposals, the same opposition measure is used that was developed in Chapter 6, i.e. the composite measure, *OPPOSE*, based on principal component factor analysis of negative tone and explicit agreement and disagreement in responses.[41] There are 5083 responses to the 70 questions. A negativity ratio could not be obtained for 4 observations as these responses contain only stop words and there are 141 responses which contain both explicit agreement and disagreement, making the observations ambiguous. Therefore, only the 4938 observations for which a reliable opposition measure can be obtained are included in the analysis.

7.3.1 Independent Variables

Legal Origin

Legal origin is classified as English common law, French, German, or Scandinavian civil law. The data on legal origin comes from the work by La Porta et al. (1997, 1998, and 2006) and was obtained from Professor Andrei Shleifer's web page:

http://scholar.harvard.edu/shleifer/publications/economic-consequences-legal-origins

Equity Orientation

In order to capture the importance of equity in a country, a measure is constructed in a similar way to Leuz et al. (2003) and uses the mean rank of two variables used in La Porta et al. (1997). The first variable is constructed as a ratio of the aggregate stock market capitalization to gross national product for the entire time period 2002-2011, scaled by a measure of ownership concentration in the country, developed by La Porta et al. (2006). Scaling the variable by ownership concentration adjusts the ratio for the

[41] The development of negative tone and explicit agreement and disagreement is outlined in detail in Chapter 5. Further, the derivation of the composite opposition measure and the results of the principal component analysis are presented in Chapter 6.

greater information demands in equity markets with greater dispersion of ownership. The second variable is the number of listed domestic firms per capita.[42] The mean rank is constructed so that higher scores indicate greater importance of equity.

There is missing data on ownership concentration for 11 countries: Czech Republic, China, Mauritius, Tanzania, Luxembourg, Romania, Cyprus, UAE, Russia, Poland, and Rwanda. This corresponds to 160 observations, i.e. 3.2% of the observations. These countries are likely to place lower importance on equity, and, as a result, to the extent that deleting these observations creates bias in the results, this would likely understate the differences in the importance of equity amongst the lobbyists and reduce the magnitude and significance of the results. Table 7.1 presents the rank of the importance of equity in the financing system of the country and indicates percentiles used to group observations to test hypotheses.

[42] The data for stock market capitalisation and gross national product was obtained from the World Development Indicators data and is available at: http://data.worldbank.org/data-catalog/world-development-indicators. The country-specific data on ownership concentration was developed in La Porta et al. 1998 as the median ownership stake of the three largest shareholders among its 10 largest publicly traded companies and is available from: http://scholar.harvard.edu/shleifer/publications/economic-consequences-legal-origins

Table 7.1 Importance of Equity Mean Rank

Below Median Equity Importance			Above Median Equity Importance		
Country	**Mean Rank**	**Observations**	**Country**	**Mean Rank**	**Observations**
Low Importance of Equity			*Average to High Importance of Equity*		
Mexico	2	29	Israel	29.5	12
Kenya	4	2	Malaysia	29.5	33
Argentina	7	9	South Korea	29.5	59
Colombia	7	6	U.S.	29.5	350
Turkey	7.5	2	Japan	30	139
Brazil	9	2	Switzerland	32	281
Italy	9.5	86	Canada	34.5	189
Pakistan	9.5	49	*High Importance of Equity*		
Philippines	9.5	3	Singapore	35	67
Austria	11.5	60	U.K.	35	1,097
Germany	13.5	437	Australia	35.5	419
Thailand	15.5	6	Hong Kong	41	47
India	16	89			
Ireland	17.5	90			
Belgium	19.5	81			
New Zealand	19.5	124			
Low to Average Importance of Equity					
Netherlands	20	151			
France	22.5	405			
South Africa	23.5	131			
Chile	24	16			
Denmark	24	75			
Finland	25	7			
Norway	26.5	17			
Spain	28.5	107			
Sweden	29	101			

This table ranks the countries in the sample according to importance of equity in the economy. The left (right) side presents the countries for which the mean rank of the two variables for importance of equity falls below (above) the sample median. Quartiles are indicated by dotted lines to display the groupings used to test the hypotheses.

The U.S. and the E.U.

All observations are classified according to the home country of the author or author organisation of a comment letter. For incorporated organisations, where the sender's country is not explicitly stated in the letter or disclosed on *ifrs.org*, the location of incorporation is used. This is likely to most closely represent the institutional framework, in which the author prepares financial reports. For other organisations, the

headquarters have been used to identify the home country. E.U. and U.S. authors are indicated by dummy variables.

7.3.2 Control Variables

To control for the potentially increased influence of financial contributors, an indicator variable, *CONT*, takes the value 1 if the lobbyist is a named financial supporter in the IASCF's financial report in the year of the comment period and 0 otherwise.

An indicator variable, *BOARD*, takes the value 1 if there is at least one member on the IASB from the constituent's home country during the consultation period for the relevant comment letter. The data is obtained from the IASC/IFRS Foundation's annual reports.

Following Hansen (2011), a dummy variable for hidden lobbyist, *HIDL*, is included if the comment letter author is a business association or a consultant because it will be difficult to determine whose incentives are influencing the opposition.

Political power and influence may be a factor of economic power. To control for this *MARK* is the market capitalisation of listed companies in the country as a percentage of market capitalization of listed companies in the world, in the year of the observation.

Following Jorissen et al. (2013), an indicator variable, *PRIV*, takes 1 if there is/was a private standard setting body in the lobbyist's home country to control for the lobbyist's familiarity with the private standard setting process. This data was obtained from the survey data posted on the website of the International Federation of Accountants (IFAC): http://www.ifac.org/ComplianceAssessment/published.php

An indicator variable, *POSTC*, takes the value 1 for the exposure draft being issued after the commencement of the financial crisis, as defined by the bankruptcy filing of Lehman Brothers on 15 September 2008, and 0 otherwise. This variable controls for the increased political pressure on the organisation that followed the accounting standards being criticised for problems during the financial crisis (Bengtson 2012).

In order to control for the salience of the issue under consideration, the log of the volume of comment letters corresponding to the exposure draft, *VOLLG*, is included in the model. In addition, the length of the responses may signal that the proposed change is particularly complicated or controversial which may therefore increase the likelihood of the IASB rejecting the proposed change or deferring its implementation. *LENGTH*, the number of lines in the answer to the question and *WORDS*, the number of words in the letter, are therefore included as additional control variables.

7.3.3 Model development

The initial reaction to proposed changes indicates the alignment between the ideological component guiding the IASB in its standard setting process and that of the lobbyist. In order to test hypotheses 7.1-7.3.A, i.e. whether the reaction depends on the country-specific factors, the results are reported for variants of regression 7.1 for the pooled sample as well as split by type of accounting issue:

$$OPPOSE_{it} = \beta_0 + \sum \beta Independent_{it} + Controls + \varepsilon_i \quad (7.1)$$

Where *OPPOSE* is the composite opposition measure based on computerised textual analysis, developed in Chapters 4-6. Independent variables are describes in section 7.3.1 and controls in 7.3.2, *i* indicates the comment letter and *t* the specific question that the observation relates to.

Analysis of the average marginal effects of *OPPOSE* interacted with the independent variables for various levels of *OPPOSE* is then based on variations of the logit model 7.2 for the pooled sample as well as split by type of accounting issue:

$$Pr(REJECT)_{it} = \beta_0 + \beta_1 OPPOSE_{it} + \sum \beta Independent_{it} + \sum \beta (Independent * OPPOSE)_{it} + Controls + \varepsilon_i \quad (7.2)$$

where *REJECT* is an indicator variable that takes 1 if the change was rejected or substantially changes, and 0 otherwise.

To further test the ability of lobbyists to block changes that they oppose, two subsamples are created. One includes only responses in which the lobbyist explicitly disagrees with the proposed change as identified by occurrences of *'disagree'* or '*oppos'* (the stem is used to allow for different grammatical variations e.g., *oppose, opposition etc.*), unless negated, or negated occurrences of *'agree'*. The second uses the observations for which *OPPOSE* falls in the top quartile, i.e. the highest degree of opposition. Assuming that these observations represents occasions where lobbyists disagree with the proposed change, the dependent variable, *REJECT*, is equal to lobbying success. In order to test whether country-specific characteristics increase the likelihood of lobbying success, marginal effects from variations of the logit regression 7.3 are analysed.

$$Pr(REJECT)_{it} = \beta_0 + \sum \beta Independent_{it} + Controls + \varepsilon_i \quad (7.3)$$

7.4 Results

7.4.1 Descriptive Statistics

The full sample consists of 4938 letter question observations from constituents in 47 countries. The geographical distribution of the observations closely follows the distribution of the original population of comment letters and is presented in Table 7.2 along with the country-specific dependent variables.[43] The majority of the observations come from European constituents which represent 62.43% of the observations. In terms of countries, the greatest numbers of observations are from the U.K. (22%), Germany (9%), Australia (8%), France (8%), and the U.S. (7%). Further descriptive statistics are presented in Table 7.3.

[43] Chapter 4 included comment letters sent in response to projects that had not yet been completed, this included letters that could not be classified as belonging to a specific country. When filtering the sample according to the criteria in Chapter 5, these observations were removed.

Table 7.2 Geographical Distribution and Country-Specific Variables

Country	Legal Origin	Equity Importance	Board Member Indicator	Freq	%
Africa					
Kenya	English Common Law	Low	0	2	0.04
Mauritius	French Civil Law	NA	0	9	0.18
Rwanda	French Civil Law	NA	0	2	0.04
South Africa	English Common Law	Low-Average	0	131	2.65
Tanzania	English Common Law	NA	0	11	0.22
				155	**3.14**
Asia					
China	German Civil Law	NA	1	38	0.77
Hong Kong	English Common Law	High	0	47	0.95
India	English Common Law	Low	1	89	1.8
Israel	English Common Law	Average-High	0	12	0.24
Japan	German Civil Law	Average-High	1	139	2.81
Malaysia	English Common Law	Average-High	0	33	0.67
Pakistan	English Common Law	Low	0	49	0.99
Philippines	French Civil Law	Low	0	3	0.06
Singapore	English Common Law	High	0	67	1.36
South Korea	German Civil Law	Average-High	0	59	1.19
Thailand	English Common Law	Low	0	6	0.12
Turkey	French Civil Law	Low	0	2	0.04
UAE	English Common Law	NA	0	12	0.24
				556	**11.26**
South America					
Argentina	French Civil Law	Low	0	9	0.18
Brazil	French Civil Law	Low	1	2	0.04
Chile	French Civil Law	Low-Average	0	16	0.32
Colombia	French Civil Law	Low	0	6	0.12
				33	**0.67**
Oceania					
Australia	English Common Law	High	1	419	8.49
New Zealand	English Common Law	Low	0	124	2.51
				543	**11**
Europe					
Austria	German Civil Law	Low	0	60	1.22
Belgium	French Civil Law	Low	0	81	1.64
Cyprus	English Common Law	NA	0	8	0.16
Czech Republic	German Civil Law	NA	0	11	0.22
Denmark	Scandinavian Civil Law	Low-Average	0	75	1.52
Finland	Scandinavian Civil Law	Low-Average	0	7	0.14
France	French Civil Law	Low-Average	1	405	8.2
Germany	German Civil Law	Low	1	437	8.85
Ireland	English Common Law	Low	0	90	1.82
Italy	French Civil Law	Low	0	86	1.74
Luxembourg	French Civil Law	NA	0	5	0.1
Netherlands	French Civil Law	Low-Average	0	151	3.06
Norway	Scandinavian Civil Law	Low-Average	0	17	0.34
Poland	German Civil Law	NA	0	13	0.26
Romania	French Civil Law	NA	0	4	0.08
Russia	French Civil Law	NA	0	47	0.95
Spain	French Civil Law	Low-Average	0	107	2.17
Sweden	Scandinavian Civil Law	Low-Average	1	101	2.05
Switzerland	German Civil Law	Average-High	0	281	5.69
U.K.	English Common Law	High	1	1,097	22.22
				3,083	**62.43**
North America					
Canada	English Common Law	Average-High	0	189	3.83
Mexico	French Civil Law	Low	0	29	0.59
U.S.	English Common Law	Average-High	1	350	7.09
				568	**11.5**
Total				**4,938**	**100**

This table presents the country-specific variables used in the multivariate analysis and the geographical distribution of the sample as organised according to part of the world.

Table 7.3 Descriptive Statistics

Panel A: Descriptive Statistics

	All Issues N=4659					Classification and Measurement N=2909					Disclosure and Other N=1750				
Variable	**Mean**	**SD**	**Min**	**Max**	**N**	**Mean**	**SD**	**Min**	**Max**	**N**	**Mean**	**SD**	**Min**	**Max**	**N**
OPPOSE	0.00	1.00	-1.11	6.90	4938	0.10	1.05	-1.11	6.90	3074	-0.16	0.88	-1.11	4.09	1864
EI_RANK	27.17	8.54	2	41	4778	27.27	8.47	2	41	2978	27.00	8.66	2	41	1800
BOARD_C	0.60	0.49	0	1	4938	0.62	0.48	0	1	3074	0.57	0.49	0	1	1864
PRIV	0.80	0.40	0	1	4805	0.79	0.40	0	1	2994	0.80	0.40	0	1	1811
POSTC	0.53	0.50	0	1	4938	0.54	0.50	0	1	3074	0.52	0.50	0	1	1864
VOLLG	4.99	0.47	3.61	5.51	4938	5.12	0.43	4.01	5.51	3074	4.76	0.45	3.61	5.51	1864
CONT	0.18	0.38	0	1	4938	0.18	0.38	0	1	3074	0.18	0.38	0	1	1864
HIDL	0.24	0.43	0	1	4938	0.24	0.43	0	1	3074	0.25	0.43	0	1	1864
WORDS	2763	2808	97	34716	4938	3094	3154	97	34716	3074	2217	2000	154	34716	1864
LENGTH	12.93	19.90	1	230	4938	14.27	21.64	1	230	3074	10.70	16.39	1	212	1864
MARK	5.87	9.18	0.01	47.74	4925	6.04	9.34	0.01	47.74	3064	5.58	8.92	0.01	47.74	1861

Panel B: Correlations

	OPPOSE	*EI_RANK*	*BOARD_C*	*PRIV*	*MARK*	*POSTC*	*VOLLG*	*CONT*	*HIDL*	*WORDS*	*LENGTH*
OPPOSE		0.0059	0.0797*	-0.0209	0.0392*	-0.1108*	0.1118*	-0.0018	0.0844*	0.1264*	0.2501*
EI_RANK	-0.0153		0.3826*	0.2516*	0.2009*	0.0151	0.0713*	0.0981*	-0.0186	0.0205	-0.0372
BOARD_C	0.0575*	0.4384*		0.0916*	0.3862*	-0.1330*	0.0526*	0.0972*	0.1647*	0.1118*	0.0560*
PRIV	-0.0433*	0.3374*	0.0616*		0.1748*	-0.0359	0.0091	0.0296	0.029	-0.0288	-0.0607*
MARK	0.0862*	0.3835*	0.6843*	0.1674*		-0.0204	0.1229*	0.1261*	0.1225*	0.0705*	0.0109
POSTC	-0.1114*	0.0043	-0.1573*	-0.0308	-0.0535*		0.2756*	-0.0664*	-0.0534*	-0.1395*	-0.0938*
VOLLG	0.1078*	0.0245	0.004	-0.0064	0.1086*	0.3951*		-0.0336	0.0519*	0.3621*	0.0121
CONT	-0.0027	0.0821*	0.0772*	0.0435*	0.2034*	-0.0709*	-0.0596*		-0.1872*	0.1558*	0.0765*
HIDL	0.0951*	-0.0174	0.1431*	0.004	0.1601*	-0.0542*	0.0434*	-0.1977*		0.0269	-0.0055
WORDS	0.1815*	0.0119	0.1043*	-0.0293	0.1427*	-0.1027*	0.4939*	0.1229*	0.1050*		0.2939*
LENGTH	0.4067*	-0.0502*	0.0322	-0.0585*	0.0482*	-0.0344	0.0557*	0.0642*	0.0470*	0.3028*	

This table presents the descriptive statistics for the variables used in the multivariate analyses. Panel A presents measures of dispersion for the pooled sample and split by type of accounting issue. Panel B: Spearman (below the diagonal) and Pearson (above the diagonal) correlation (n=4938), *significance at 0.01

Panel A of Table 7.3 presents the number of letter question observations and the descriptive statistics per type of accounting issue. The composite opposition measure is constructed so that it has a mean of 0 and a standard deviation of 1. In the split sample it is evident that classification and measurement issues tend to be met with higher mean levels of opposition (0.1) than are disclosure and other issues (-0.16), and this difference is statistically significant.

The mean of *BOARD_C* is 0.6 indicating that although there are 47 countries represented in the sample, and only 10 which have a representative on the IASB in the majority of the years in the sample period, constituents from countries with a board member send comment letters more frequently. This is potentially because it facilitates more efficient transfer of information, as hypothesised by Hansen (2011), or because the IFRS Foundation chooses to appoint board members from countries which demonstrate high interest in the standard setting process. It reflects the greatest participation of British, German, Australian, French, and American constituents, 54% of the sample, which had representatives on the IASB for most of the sample period.

The distribution of observations across the pre and post financial crisis period is even and both types of accounting issues are dealt with in each period. The only other major difference between the characteristics of the observations relating to classification and measurement issues and those that relate to disclosure and other issues is the length of the responses. Both the word count of the comment letters and the number of lines devoted to the particular question, are longer for classification and measurement issues. This signals the more complicated or controversial nature of the changes relating to these issues, and is consistent with the greater volume of responses to these questions. It is also consistent with the greater opposition scores for these

observations, as well as with the findings of Giner and Arce (2012) that disagreement tends to be backed up by more arguments than agreement. This is further evident in the correlation matrix in Panel B of Table 7.3 which shows significant and positive correlations between *OPPOSE* and *VOLLG, WORDS,* and *LENGTH*.

Moreover, *EI_RANK, MARK,* and *PRIV* are highly correlated, which is unsurprising, given that bigger capital markets and importance of equity is often associated with societies where market economy and private regulation plays a greater role (Büthe and Mattli 2011). This is further illustrated in Table 7.4 which presents descriptive statistics split by legal origin and show higher mean scores of these variables in English common law countries. The number of board members from English common law countries is also higher than for countries of other legal origin, which explains, and potentially reinforces, the Anglo-American nature of international accounting.

The *EI_RANK* follows the hypotheses and results of La Porta et al. (1997), that common-law countries protect both shareholders and creditors the best, French civil-law countries the least, and German and Scandinavian civil-law countries somewhere in the middle, which explains the importance of equity in a country. In addition, the descriptive statistics also indicate the greater importance of equity in countries of Scandinavian legal origin than of German and French legal origin which explains the similarities between Anglo and Nordic accounting highlighted by Gray (1988). Mean levels of *OPPOSE* are higher for responses from German and French legal origin, than for Scandinavian and English legal origin. This supports the closeness between the Anglo and Nordic accounting culture clusters and their closeness to the international accounting culture.

Table 7.4 Legal Origin and Descriptive Statistics

LEGAL ORIGIN	*OPPOSE*	*EI_RANK*	*BOARD_C*	*PRIV*	*MARK*
English Common Law					
Mean	-0.05	31.34	0.72	1.00	8.34
Median	-0.13	35	1	1	5.37
Max	6.90	41	1	1	47.74
Min	-1.11	4	0	0	0.01
SD	0.99	6.67	0.45	0.06	11.62
N	2736	2705	2736	2608	2725
Scandinavian Civil Law					
Mean	-0.07	26.77	0.41	0.38	0.67
Median	-0.13	29	0	0	0.73
Max	2.59	29	1	1	1.09
Min	-1.11	24	0	0	0.33
SD	1.00	2.35	0.49	0.49	0.27
N	200	200	200	200	200
German Civil Law					
Mean	0.10	22.02	0.50	0.88	3.45
Median	0.02	13.5	0.5	1	2.78
Max	4.78	32	1	1	10.73
Min	-1.11	11.5	0	0	0.07
SD	0.99	8.97	0.50	0.32	2.54
N	1038	976	1038	1038	1038
French Civil Law					
Mean	0.04	20.28	0.42	0.24	2.55
Median	-0.13	22.5	0	0	2.78
Max	6.90	28.5	1	1	4.61
Min	-1.11	2	0	0	0.01
SD	1.03	6.05	0.49	0.43	1.48
N	964	897	964	959	962

This table presents the descriptive statistics of the variables used in the multivariate analyses for observations split by legal origin.

7.4.2 Ideological Alignment

Table 7.5 presents the regression results of opposition on legal origin and the importance of equity in the constituent's home country, as well as an indicator for U.S. or E.U. origin. For Equation A in Table 7.4, *OPPOSE*, is regressed on dummy variables for French, German, and Scandinavian civil law, with English common law serving as the reference group. Control variables from section 7.3.2 are included but not reported. The results show a significant positive relation between opposition and German legal origin. This holds for changes related to both types of issues:

Classification and Measurement and Disclosure and Other, even if at a lower order of significance (10%). Equation E includes all of the explanatory variables in Equations A-C apart from U.S. and E.U. origin and equation F includes all. The results confirm the significant positive relation between opposition and German legal origin, as well as showing a significant positive relation between opposition and French legal origin for classification and measurement issues as well as all issues. This confirms that the IASB is less ideologically aligned with lobbyists from countries of German and French legal origin than lobbyists from English common law countries and is consistent with Hypothesis 7.1 A, that opposition varies with legal origin. There is no significant difference between Scandinavian and English legal origin which could suggest that they are equally well aligned with the IASB. However, when changing the reference group to Scandinavian legal origin there is no evidence of a significant difference between this group and any other group despite its low mean levels of opposition. This is likely due to this group representing only 4% of the observations.

The results from Equation B show that opposition to proposed changes does not tend to vary significantly with the importance of equity. Contrary to expectations, and hypothesis 7.2 A, there is a significant, positive coefficient for *EI_RANK* for two out of the three equations when the additional explanatory variables are included. However, the coefficient is marginal at 0.005, indicating that the changes in opposition are negligible. Legal origin may, therefore, better predict clustering in variation in opposition than the importance of equity, as it better captures enforcement of standards and the operating environment of the financial industry, and thereby the resulting impact of the standards.

There is partial support for hypothesis 7.3 A, as the relationship between *OPPOSE* and the dummy variable for U.S. origin is negative, and significant at 10%, for the pooled sample. The relation between *OPPOSE* and E.U. origin is significant and positive for all issues. Equation D includes all additional explanatory variables apart from legal origin as all U.S. constituents are categorised as English common-law origin. The results of this equation show that the lobbyists from the E.U. tend to oppose classification and measurement issues significantly more than other lobbyists do, and that U.S. lobbyists tend to oppose disclosure and other issues significantly less than other lobbyists do.

The same analysis is also carried out for the greatest participants in the standard setting process by including dummy variables for Australia, France, Germany, U.K., and the U.S. reveal that French lobbyists tend to oppose changes to classification and measurement issues significantly more which is likely to be driving the high European opposition. This is also consistent with the aforementioned opposition by French banks to the treatments in IAS 39 prior to the European adoption which led to the E.U. carve-out of the abolition for macro-hedging (Armstrong and Jagolinzer 2007).

Table 7.5 Multivariate Regression Output

All Issues	(A)	(B)	(C)	(D)	(E)	(F)
Constant	-1.609***	-1.622***	-1.694***	-1.710***	-1.791***	-1.811***
FRENCH	0.051				0.174***	0.147**
GERMAN	0.111***				0.202***	0.181***
SCANDINAVIAN	0.032				0.073	0.051
EI_RANK		0.001		0.001	0.006**	0.005**
U.S.			-0.350*	-0.145		-0.132
E.U.			0.083**	0.097**		0.049
Adjusted R2	9.70%	9.50%	9.70%	9.70%	10.00%	10.10%
N	4938	4778	4925	4778	4778	4778
Classification and Measurement						
Constant	-1.534***	-1.516***	-1.607***	-1.631***	-1.713***	-1.738***
FRENCH	0.083				0.219***	0.191***
GERMAN	0.094*				0.196***	0.177***
SCANDINAVIAN	0.160				0.203*	0.162
EI_RANK		0.003		0.003	0.008***	0.008***
U.S.			-0.246	0.195		0.116
E.U.			0.100**	0.126**		0.058
Adjusted R2	8.20%	7.90%	8.20%	8.20%	8.50%	8.60%
N	3074	2978	3064	2978	2978	2978
Disclosure and Other						
Constant	-1.111***	-1.137***	-1.210***	-1.220***	-1.271***	-1.303***
FRENCH	0.005				0.101	0.067
GERMAN	0.138**				0.208***	0.172**
SCANDINAVIAN	-0.148				-0.101	-0.083
EI_RANK		-0.002		-0.004	0.002	0.000
U.S.			-0.535	-0.927**		-0.728*
E.U.			0.065	0.060		0.044
Adjusted R2	10.40%	10.40%	10.50%	11.00%	11.20%	11.50%
N	1864	1800	1861	1800	1800	1800

This table displays the results of the individual multivariate regressions. Standard errors are clustered on comment letter. * p<0.1, ** p<0.05, *** p<0.01

7.4.3 Special Interest Lobbying

The explanatory variables are included separately in logit model 7.2 to test whether any country-specific characteristics affect the relationship between the IASB choosing to reject a proposed change and opposition by the lobbyist, in the same way as in Chapter 6. The coefficients from the logit regressions for the pooled sample as well as by type of accounting issue are presented in Table 7.6. Moreover, the effects of opposition are tested at regular intervals from the minimum (-1.113) to the maximum (6.9) value of *OPPOSE* and presented graphically in Figures 7.1-7.3.

The predictive margins graphs (the upper graphs) in Figures 7.1-7.3 visualise the predicted probability of the IASB rejecting a change at various levels of *OPPOSE*. The average marginal effects of a unit increase in *OPPOSE* are displayed in the average marginal effects graphs (the lower graphs) in Figures 7.1-7.3 with 95% confidence intervals indicated. The upper graphs correspond to the lower graphs by plotting the derivatives of the predicted probabilities plotted in the upper graphs.

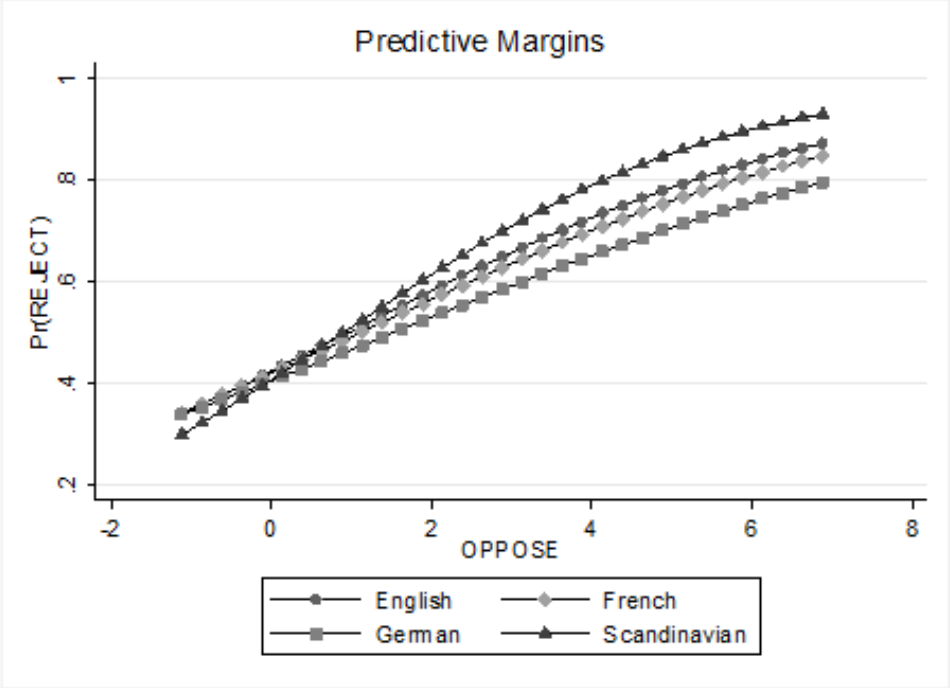
Table 7.6 Logit Regression Analysis

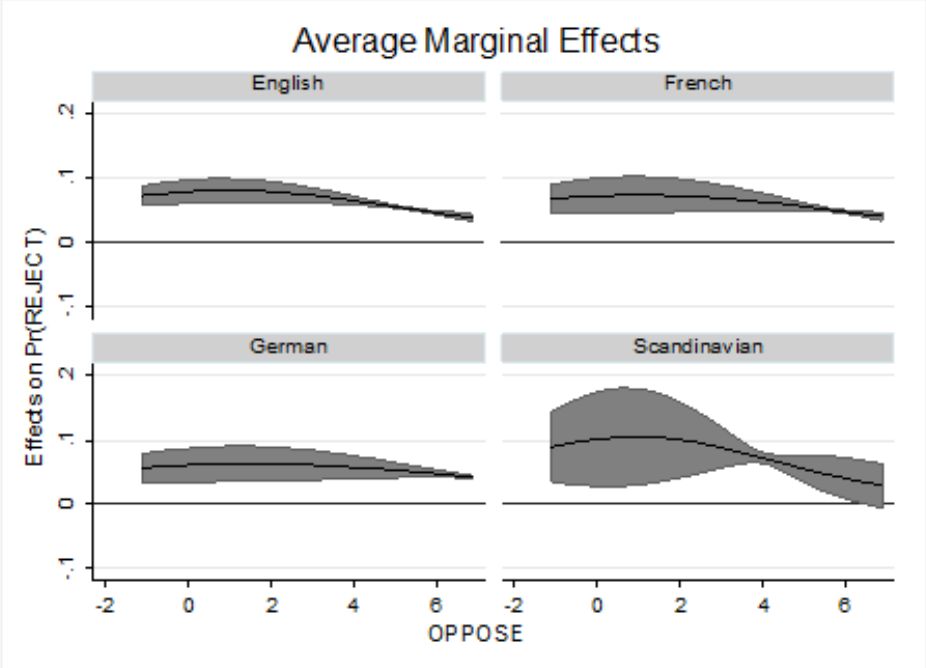
Variable	All Issues Coef.	Classification and Measurement Coef.	Disclosure and Other Coef.
Legal Origin			
Constant	-0.709*	0.108	-1.868***
OPPOSE	0.342***	0.397***	0.211**
FRENCH	-0.018	-0.078	0.073
GERMAN	-0.038	-0.009	-0.075
SCANDINAVIAN	-0.003	-0.055	0.133
*FRENCH*OPPOSE*	-0.029	0.098	-0.201
*GERMAN*OPPOSE*	-0.071	-0.032	-0.183
*SCANDINAVIAN*OPPOSE*	0.107	0.025	0.29
CONTROLS			
Wald Chi2	585.78	277.43	442.83
Prob>Chi2	0.000	0.000	0.000
McFadden's R2	5.62%	6.00%	8.63%
Equity Dependence			
Constant	-0.690*	0.11	-1.891***
OPPOSE	0.378***	0.407***	0.317**
LOW_EI	0.024	-0.012	0.094
LOW-AVERAGE_EI	0.016	-0.028	0.082
AVERAGE-HIGH_EI	-0.035	-0.004	-0.066
*LOW_EI*OPPOSE*	-0.136	-0.036	-0.310*
*LOW-AVERAGE_EI*OPPOSE*	-0.061	0.059	-0.266
*AVERAGE-HIGH_EI*OPPOSE*	-0.024	-0.003	-0.147
Wald Chi2	569.66	269.81	425.55
Prob>Chi2	0.000	0.000	0.000
McFadden's R2	5.67%	6.06%	8.62%
U.S., E.U., and Other			
Constant	-0.660*	0.118	
OPPOSE	0.319***	0.368***	0.194
U.S.	-0.036	-0.068	0.005
E.U.	0.014	0.015	0.052
*U.S.*OPPOSE*	0.011	0.058	-0.055
*E.U.*OPPOSE*	-0.01	0.092	-0.284
Wald Chi2	581.43	274.59	436.95
Prob>Chi2	0.000	0.000	0.000
McFadden's R2	5.60%	5.99%	8.48%

This table presents the coefficients from the logit regression analysis, equation 7.2, run for all observations as well as separately for observations relating to classification and measurement issues, and disclosure and other issues. Errors are clustered on comment letters.
*** p<0.01, ** p<0.05, * p<0.1
Average marginal effect for continuous variables must be tested at specified probabilities and are as such reported graphically in Figures 7.1-7.3.

Figure 7.1 (A) Impact of Opposition based on Legal Origin

All Issues

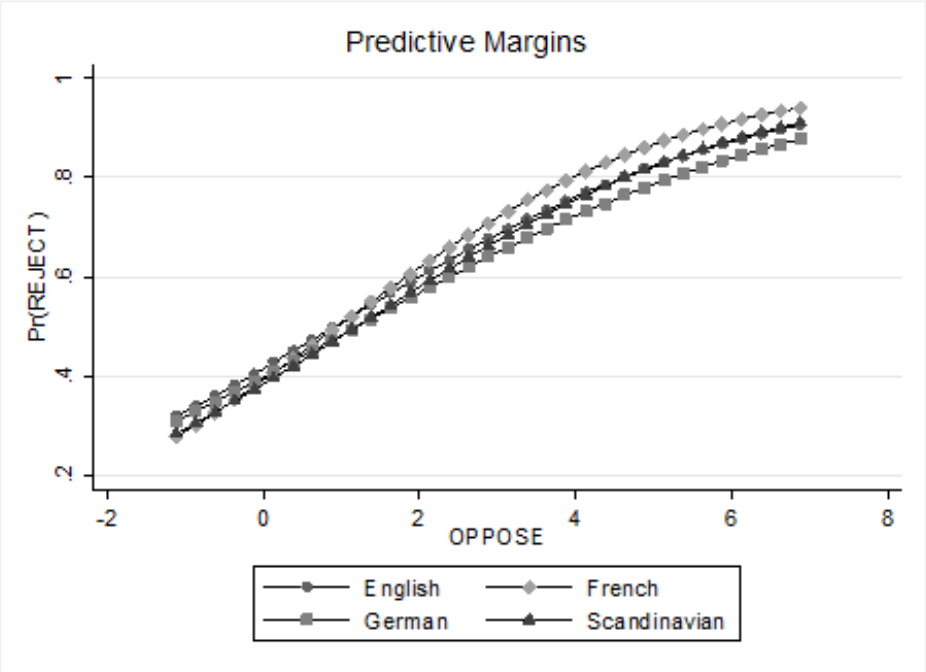


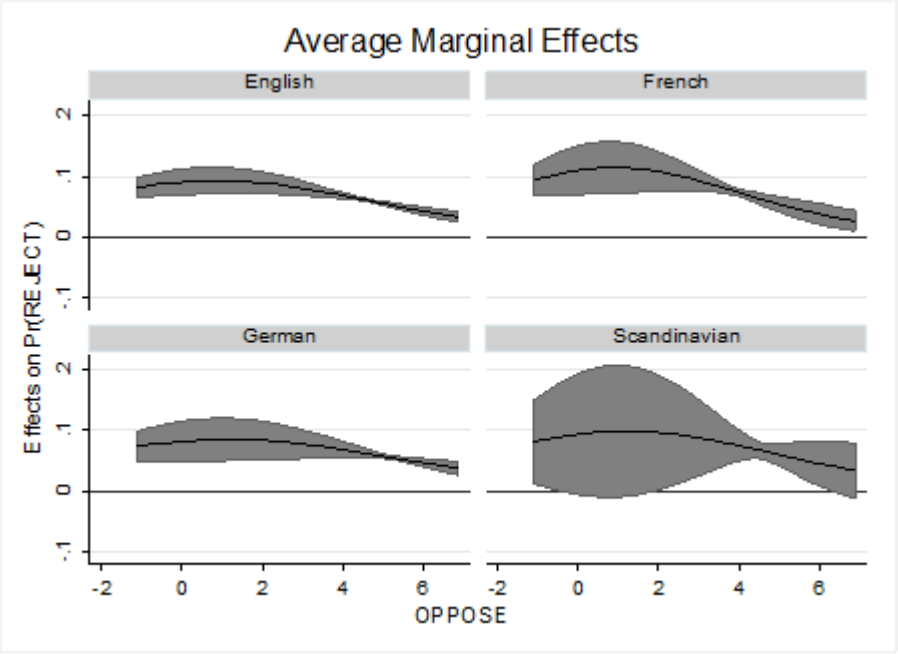


This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the legal origin of the lobbyist's home country. These graphs are developed based on the average marginal effects of lgal origin from model 7.2 for the pooled sample.

Figure 7.1 (B) Impact of Opposition based on Legal Origin

Classification and Measurement

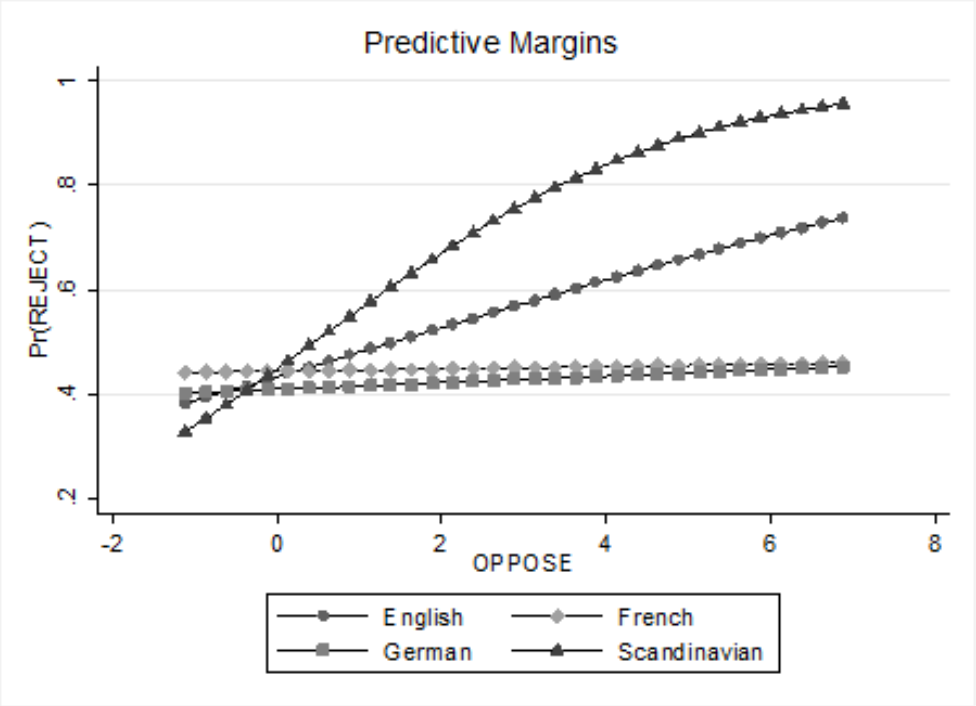


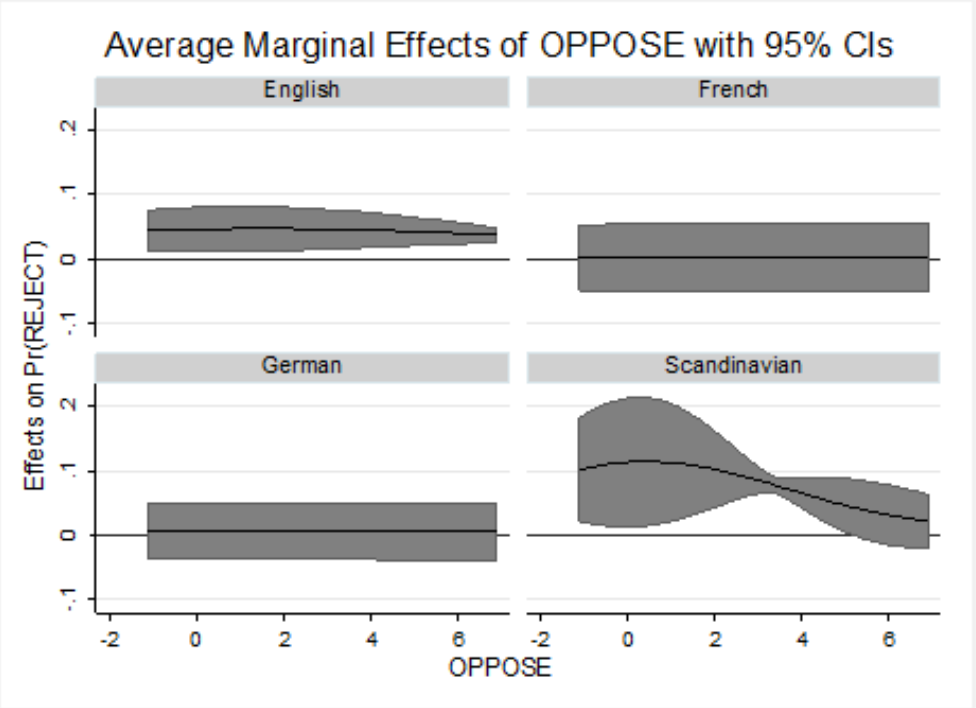


This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the legal origin of the lobbyist's home country. These graphs are developed based on the average marginal effects of lgal origin from model 7.2 for observations relating to classification and measurement issues.

Figure 7.1 (C) Impact of Opposition based on Legal Origin

Disclosure and Other Issues





This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the legal origin of the lobbyist's home country. These graphs are developed based on the average marginal effects of lgal origin from model 7.2 for observations relting to disclosure and other issues.

Legal Origin

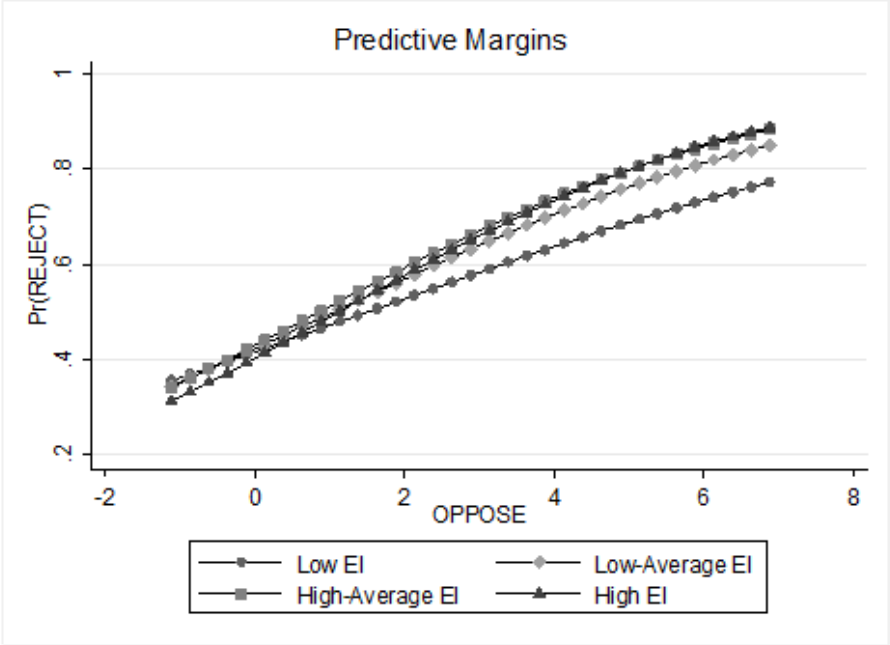
Figure 7.1 presents the predictive margins and average marginal effects for lobbyists from various legal origins. The upward sloping curves in the predictive margins graph (upper) indicate that the predicted likelihood of rejection increases with opposition for all groups in the pooled sample. As the average marginal effects (lower) are all above 0 and the line indicating the lower confidence interval consistently remains above 0, it can be concluded that, overall, lobbyists from all legal origins are influential in the process as increased opposition is related to increased likelihood of the IASB rejecting the change. Therefore, whilst there was some indication that the tendency to oppose changes varies with legal origin, the tendency for the IASB to take account of the opposition of constituents does not, on average, vary with legal origin.

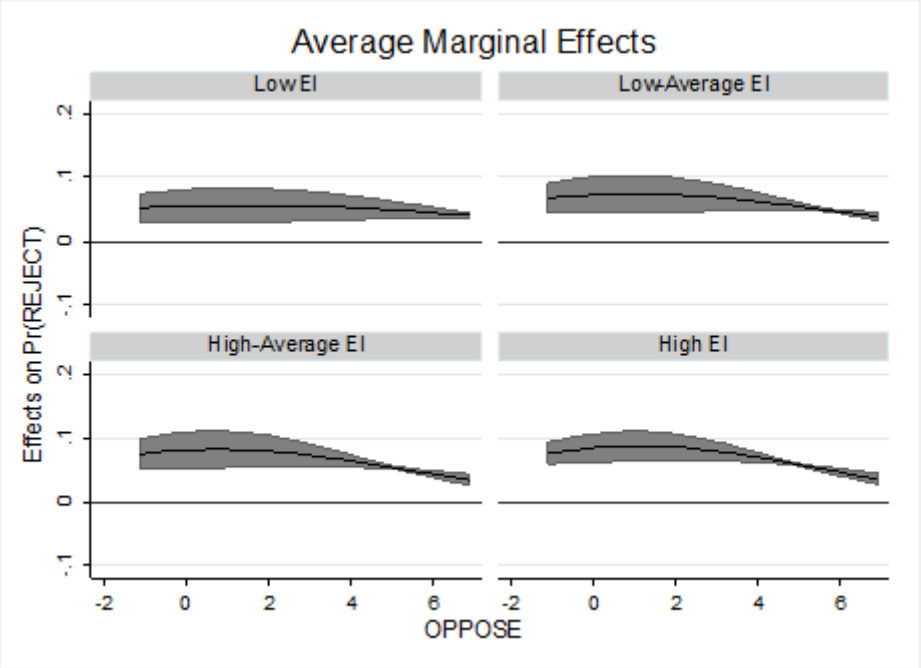
When the model is applied separately to the observation for the different type of accounting issues, presented in Figures 7.1 (B and C), it is clear that the overall effects for the pooled sample were mainly driven by the observations pertaining to classification and measurement issues. For these issues, increased opposition by constituents from countries with English, French, or German legal origin tend to increase the likelihood of the IASB rejecting its proposals. However, the positive average marginal effect of a unit increase in *OPPOSE* by lobbyists of Scandinavian legal origin is insignificant at values of *OPPOSE* between -0.6 and 2.0. Only 28 observations fall in this region, whereas most observations (84 out of 118) for the Scandinavian group fall below -0.6 at which level a unit increase in *OPPOSE* generates a positive, significant average marginal effect. What is more telling about the process, is that lobbyists from Scandinavian civil-law countries, despite making up just 4.3% of the sample, together with lobbyists from English common-law countries are the ones able to block changes to disclosure and other issues. This is indicated by

the steep upward sloping predictive margins curves and the significant positive marginal effects at all common values of *OPPOSE*. In contrast, the predictive margins curves for *OPPOSE* given French or German legal origin are nearly flat. Similarly, the average marginal effects of increases in opposition for these groups are not significant.

Figure 7.2 (A) Impact of Opposition based on Equity Dependence

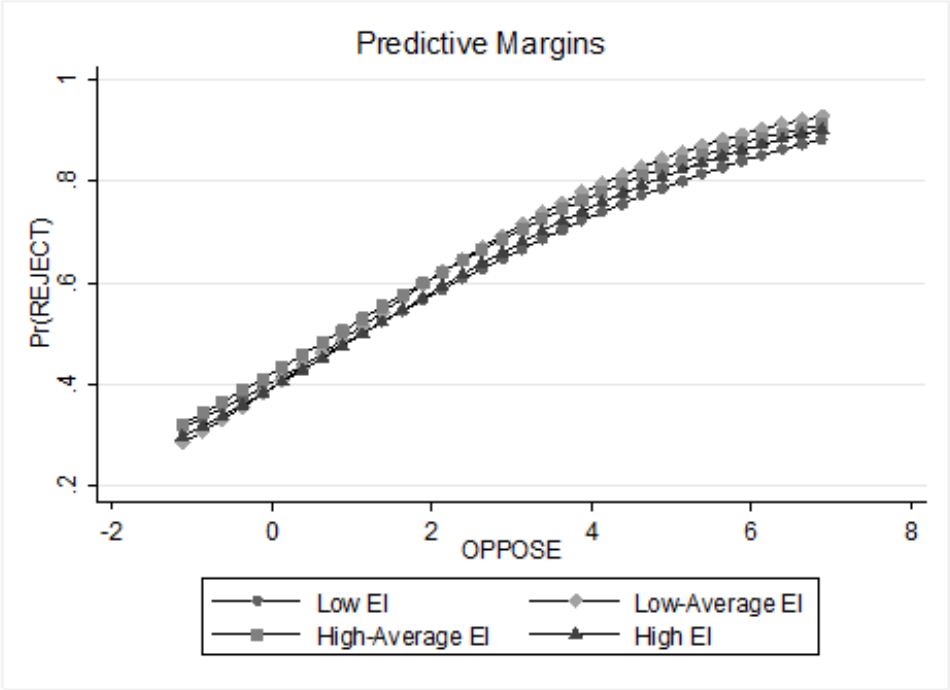
All Issues

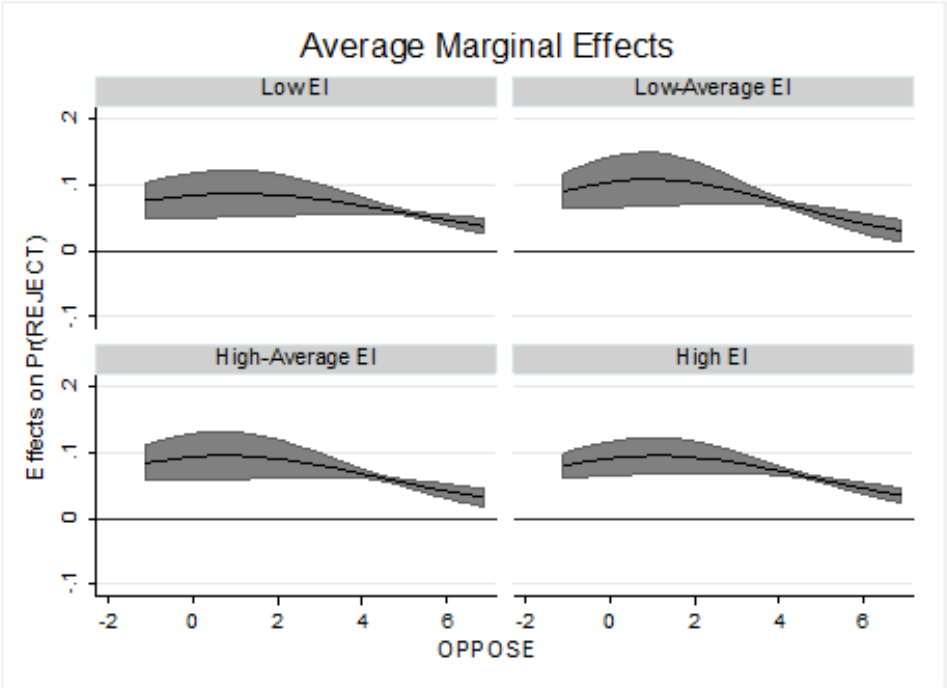




This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the importance of equity of the lobbyist's home country. These graphs are developed based on the average marginal effects of equity importane from model 7.2 for the pooled sample.

Figure 7.2 (B) Impact of Opposition based on Equity Dependence Classification and Measurement

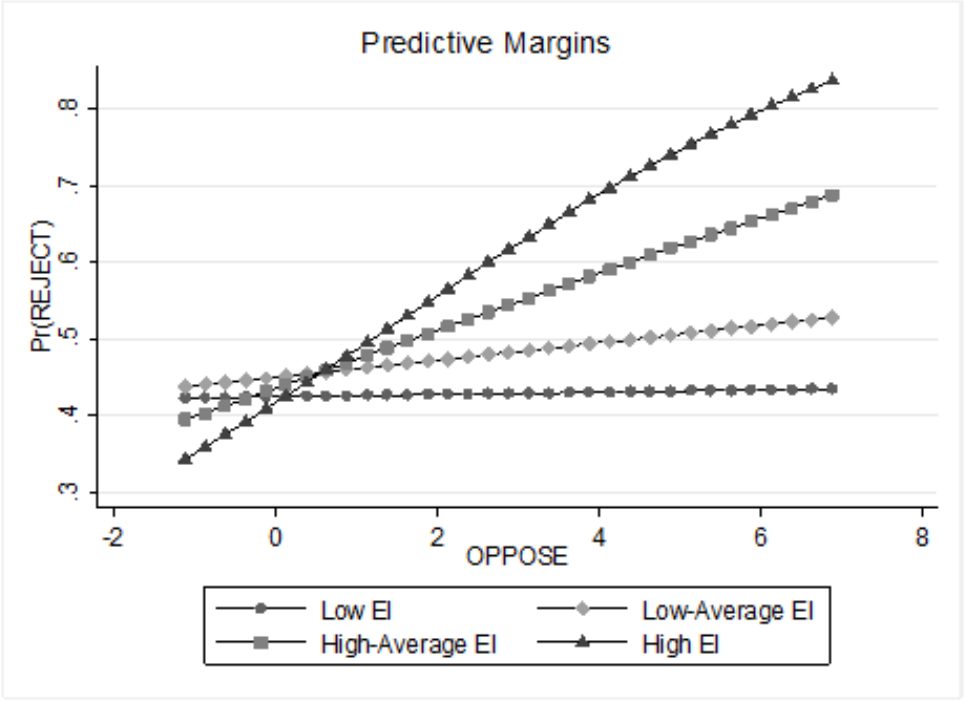


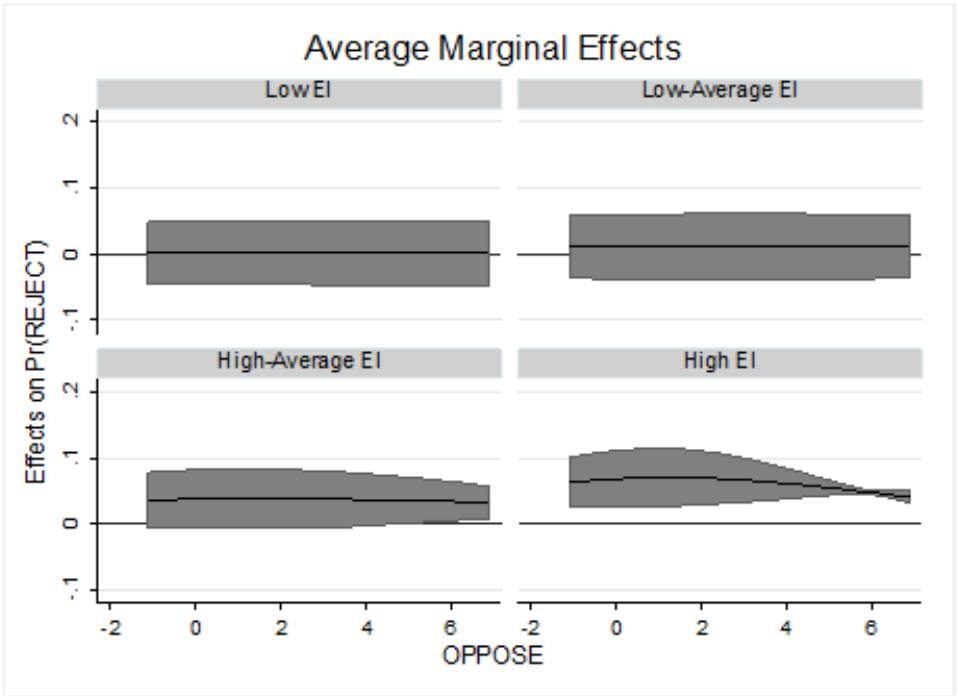


This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the importance of equity of the lobbyist's home country. These graphs are developed based on the average marginal effects of equity importane from model 7.2 for observations relating to classification and measurement issues..

Figure 7.2 (C) Impact of Opposition based on Equity Dependence

Disclosure and Other





This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the importance of equity of the lobbyist's home country. These graphs are developed based on the average marginal effects of equity importane from model 7.2 for observations relating to disclosure and other issues..

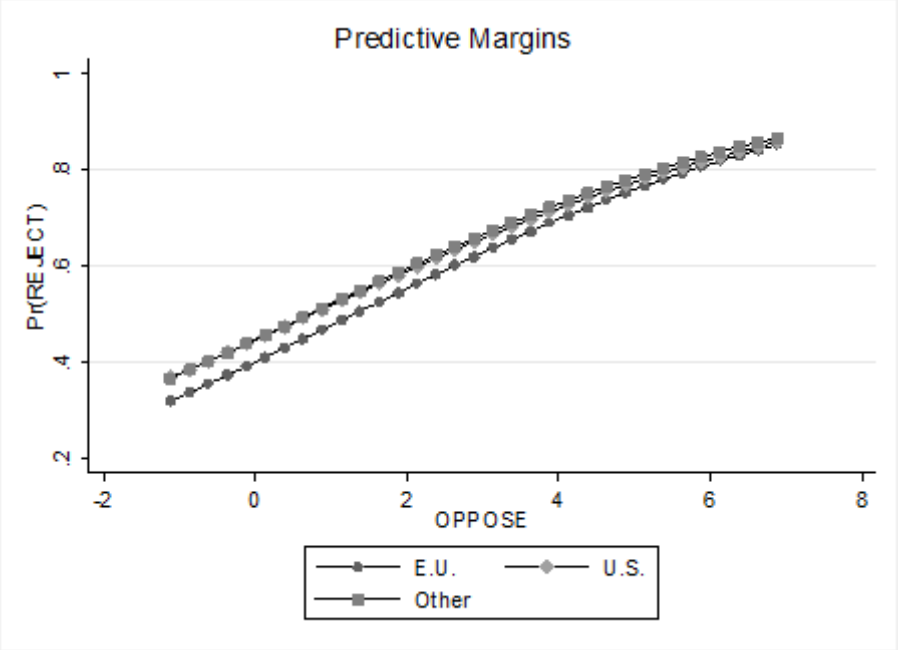
Equity Dependence

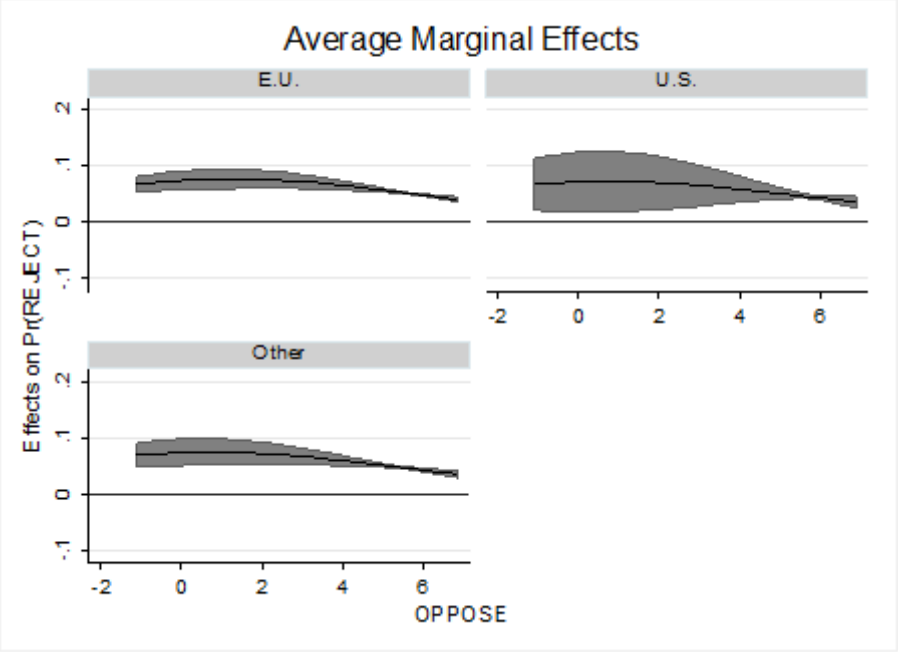
The predictive margins and the average marginal effects of *OPPOSE* given varying degrees of the importance of equity in the lobbyists' home countries are presented in Figures 7.2 (A-C). Given the results for legal origin, the results are unsurprising. The predictive margins show slightly steeper curves for countries with significant equity markets which, in the split sample analysis is found to be driven by disclosure and other issues. This graph, the lower in Figure 7.2 (C), shows that the steepness of the curve for the predictive margins is greater when the importance of equity is greater. Further, only the group with the highest equity importance scores, i.e. Hong Kong, Australia, the U.K., and Singapore are significantly influential at the 5% level of significance.[44] Moreover, the legal origin of these countries is English common law.

[44] The group with the second highest equity importance scores is significantly influential at a lower order of significance (10%). When classifying the importance of equity in two or three groups, according to the median, or according to 0-33, 34-66, 67-100 percentiles of the equity importance mean rank, the group with the greatest importance of equity remains influential for disclosure and other issues at 5% significance.

Figure 7.3 (A) Impact of Opposition - U.S., E.U., and Other

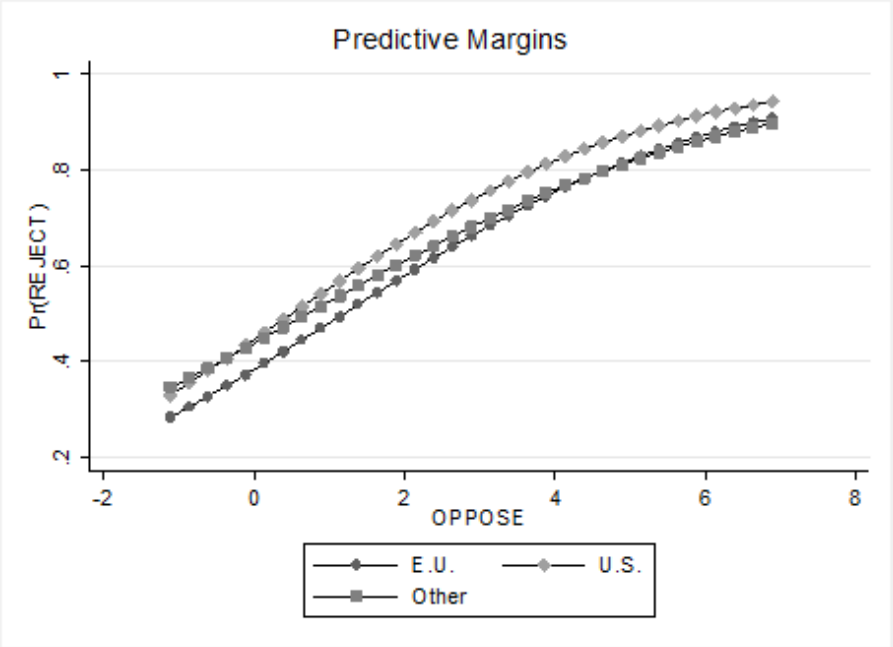
All Issues

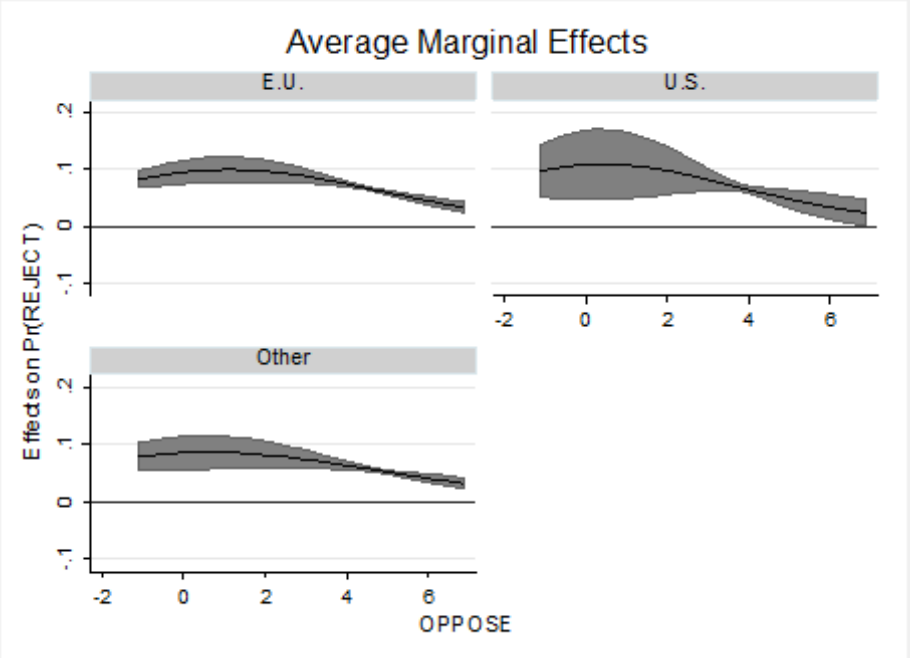




This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the lobbyists being from the U.S., an E.U. country, or another country. These graphs are developed based on the average marginal effects from model 7.2 for the pooled sample.

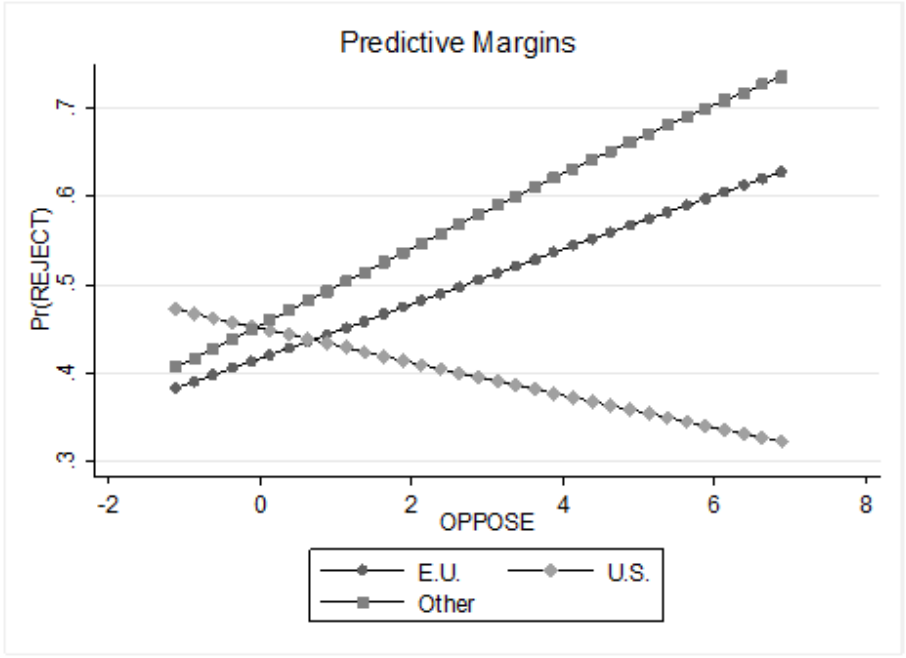
Figure 7.3 (B) Impact of Opposition - U.S., E.U., and Other Classification and Measurement

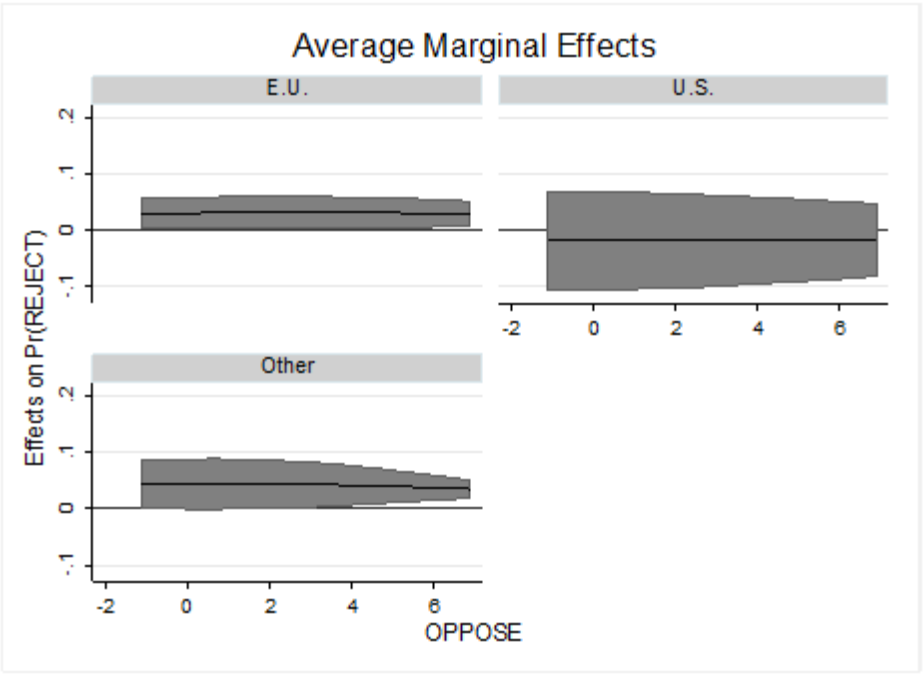




This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the lobbyists being from the U.S., an E.U. country, or another country. These graphs are developed based on the average marginal effects from model 7.2 for observations relating to classification and measurement issues.

Figure 7.3 (C) Impact of Opposition - U.S., E.U., and Other Disclosure and Other





This figure presents the predictive margins of opposition and the average marginal effect of a unit increase (standard deviation) in *OPPOSE* depending on the lobbyists being from the U.S., an E.U. country, or another country. These graphs are developed based on the average marginal effects from model 7.2 for observations relating to disclosure and other issues.

The U.S. and the E.U.

From Figures 7.3 (A-C), which illustrates the predictive margins and average marginal effects of opposition from U.S., E.U., and other constituents, there is no indication that there is a significant difference in the impact on the IASB's likelihood to reject a proposal between the three groups as all are significantly influential in the pooled sample and for classification and measurement issues. In addition an F-test reveals that there is no significant difference between the three groups in the average marginal effects of *OPPOSE* on the predicted likelihood of *REJECT*.

For disclosure and other issues in Figure 7.3 (C), the predictive margins graph for U.S. constituents is not significant at any values of *OPPOSE* as is indicated by the lower graph which shows that the average marginal effects not being different from 0. U.S. constituents were shown to express significantly lower levels of opposition to these types of accounting issues, i.e. they tended to agree more with the IASB initially in comparison to other constituents. However, although it may appear that U.S. constituents are not influential, the difference in the average marginal effects between the three groups is not significant.

7.4.4 Subsample of Opposing Responses

The results presented in section 7.4.3 include observations that do not oppose the change and are testing the effect of increasing opposition by one standard deviation. This would not necessarily lead to a change from agreement to opposition. Therefore, to remove this potential bias from the results, and to allow for a model where the explanatory variables can be tested jointly, model 7.3 is tested on a subsample of observations which oppose the change. The left column of Table 7.6 presents the results of the subsample of observations that contain explicit disagreement. However,

as hypothesised and confirmed in Chapter 5, this form of opposition does not effectively represent the way comment letters express their opposition and are able to block changes. Therefore, another subsample, based on the composite opposition measure, i.e. which additionally takes account of the negativity in the response is derived from the observations which have an opposition score, greater than 1, i.e. one standard deviation from the mean.[45] The results are presented in the right column of Table 7.7.

[45] This score was chosen as it represents a similar number of observations to those containing disagreement. As there is no absolute limit for the level of opposition that is definitely opposing the change, this may seem like an arbitrary allocation. Therefore several values are tested and the results are robust for all values within the top quartile of opposition, above 0.497.

Table 7.7 Logit Regression for Opposition

	Disagreement (N=849)		Opposition (N=921)	
Panel A: Legal Origin				
	Coef.	**Margin**	**Coef.**	**Margin**
Constant	1.445		0.796	
FRENCH	0.011	0.002	0.084	0.019
GERMAN	0.078	0.017	0.101	0.023
SCANDINAVIAN	0.047	0.011	0.323	0.073
EI_RANK	0.003	0.001	0.01	0.002
Wald Chi2		99.23		107.59
Prob>Chi2		0.000		0.000
McFadden's R^2		7.28%		7.20%
Panel B: U.S. and E.U.				
	Coef.	**Margin**	**Coef.**	**Margin**
Constant	1.559		0.949	
U.S.	1.643	0.368	2.023**	0.455***
E.U.	-0.052	-0.012	0.044	0.01
EI_RANK	0.005	0.001	0.013	0.003
Wald Chi2		100.06		108.1
Prob>Chi2		0.000		0.000
McFadden's R^2		7.51%		7.43%

This table presents the coefficients and average marginal effects from equation 7.3 for subsamples of observations where lobbyists explicitly disagrees with the proposed change or expresses high levels of opposition. Errors are clustered on comment letters.
*** p<0.01, ** p<0.05

Panel A of Table 7.7 presents the coefficients and average marginal effects of legal origin, with English common-law serving as the reference group and the importance of equity in the lobbyist's home country. For both samples it can be concluded that there is no significant marginal effect in the relation between the probability that IASB will reject a change and the legal origin of the opposing lobbyist.

Panel B of Table 7.7 focuses on the effect of the opposing lobbyist being from the U.S. or the E.U. The insignificant average marginal effects in the sample of observations that explicitly disagrees confirm the findings in Chapter 5, that explicit disagreement is an ineffective means of trying to influence the IASB. However, the average

marginal effects of U.S. origin are positive, of great magnitude, and highly significant for the subsample of observations containing high levels of opposition. The average marginal effect indicates that, on average, an opposing U.S. constituent is 45.5% more likely to block a change than are their non-U.S. equivalents.

7.5 Discussion and Conclusions

Perhaps the most anticipated source of conflict within international accounting standard setting stems from concerns of implementing an accounting system that has been developed according to Anglo-American accounting traditions and may contradict the demand for, and purpose of, accounting in different countries (e.g., Ball 2006). For example, IFRS incorporate features, such as fair value accounting, which aim to constrain earnings management, an undesirable feature of reporting in Anglo-American market systems. The emphasis on constraining earnings management has been argued to be a feature of the short term view of myopic capital markets, where there is pressure on firms to put capital to its most effective use at all times. However, this may not be appropriate in other capitalist systems where more long-term financial planning requires firms to build up financial reserves to smooth out future crises (Nölke and Perry 2007).

The empirical literature supports that the demand and incentives for low earnings management are dependent on institutional features facilitating outsider systems of finance (Ball et al. 2000; Leuz et al. 2003; Burgstahler et al. 2006). In addition, the academic accounting literature largely assesses the quality of IFRS according to their impact on information content (e.g., Daske et al. 2008) and value relevance (e.g., Barth et al. 2008) in capital markets. This investor focus raises some concerns

regarding the suitability of IFRS to countries with insider systems of finance and how the standard setting process facilitates this development.

This chapter has addressed the role of country-specific factors on lobbying in the development of financial instruments accounting. To do so, the differences in propensity to oppose IASB's proposed changes were tested by OLS regression models and the impact of this opposition on the likelihood of the IASB rejecting the proposed changes was tested by marginal effects analysis from logit models.

The results support that the ideology guiding the initial stages of the development is mostly aligned with preferences of lobbyists from English common-law countries, especially when it comes to classification and measurement issues. Opposition to proposed changes is significantly lower in responses from English common-law countries, than from French and German civil-law countries, and consistent with expectations, as IFRS, in general, are developed with an investor focus as per Anglo-American accounting traditions (Nobes 2003). This is particularly so in the context of financial instruments accounting, as the first discussion papers and exposure drafts were the results of a joint project between the IASC, the predecessor to the IASB, and the Canadian Institute of Chartered Accountants, and primarily based on U.S. standards (Camfferman and Zeff 2007).

Unsurprisingly, U.S. constituents are more ideologically aligned with the IASB when it comes to disclosure and other issues. In contrast, European constituents are found to oppose the changes that the IASB suggests, especially as regards classification and measurement issues. This is mainly driven by French lobbyists who tend to oppose changes to classification and measurement issues significantly more than other lobbyists. Again, this is unsurprising, given the opposition that French banks

expressed to IAS 39 prior to the E.U. adoption of IFRS, which ultimately led to the European carve-out for the abolition of macro-hedging (Armstrong and Jogolinzer 2005).

Overall, legal origin does not have a significant impact on the effect of opposition for the pooled sample. However, for observations of responses to disclosure and other issues, it was found that increases in opposition by lobbyists from Scandinavian civil-law countries, despite making up just 4.3% of the sample, and from English common-law countries, is associated with increases in the likelihood of the IASB rejecting its proposed change. There is no such significant relationship for responses from German and French civil-law countries.

Further, only the group with the highest equity market importance, i.e. Hong Kong, Australia, the U.K., and Singapore, were found to be significantly influential at the 5% level of significance for disclosure and other issues. Influence over these issues seems to be granted to lobbyists from countries where the importance of disclosure is a particularly important feature of the accounting system. For example, Nobes (1998) and La Porta et al. (2006) found that disclosure requirements are positively correlated with more developed stock markets, and Ball (2000) found that this was approximated by common-law legal origin. However, as indicated in the literature on accounting culture, the more fine-tuned division of legal origin is more suitable as it separates the Scandinavian civil-law countries, where the accounting culture is more similar to Anglo-American accounting, from French and German civil-law countries (e.g., Gray 1988). These results, therefore, support that, for these issues, where there is less wide-spread opposition in general, influence is granted to those with the more similar ideology to the IASB and who place the greatest importance on these types of issues.

As increases in opposition do not always represent a change from agreeing to opposing a change, the results of the effect of country-specific characteristics may be understated in the analysis of special interest lobbying for the full sample. Therefore, analysis was carried out on a subsample of opposing lobbyists. The results suggest that opposing constituents from the U.S. are more likely to be successful in blocking proposed changes than are their non-U.S. counterparts. U.S. influence has been argued to be a factor due to the institutional similarities of the U.S. and international standard setting process (Buthe and Mattli 2011). The institutional similarities are largely a result of American influence over the restructure of the IASC into the IASB (see Camfferman and Zeff 2007). The influence of the U.S. standard setter, the FASB, is also formalised in a memorandum of understanding and the commitment to achieve convergence between U.S. and the IASB. The results show that this influence is also reflected in constituent lobbying.

In conclusion it seems that the IASB is developing standards for financial instruments in line with the Anglo-American view of accounting, i.e. for the purpose of enabling firms to obtain equity finance. However, as this is not compatible with the purpose of accounting in many countries where firms rely less on capital markets for external finance, compromises are made to appease opposing parties. Special interest influence is afforded to many constituents, but there is some evidence to indicate that the most influential constituents in the process are U.S. lobbyists. The bias in international accounting towards the Anglo-American view of financial reporting, therefore, appears to be a feature throughout the development of financial instruments accounting. These results, therefore, reinforce the concerns that international standards are being developed that are not suitable to all reporting environments.

8. Conclusion

8.1 Motivations and Aims of the thesis

As highlighted throughout this thesis, the implementation of IFRS has been controversial and problematic. The requirements in the IASB's standards for financial instruments have been particularly contentious, and the project to improve these standards has remained so ever since it was added to the agenda of the IASB in 2001. There have been concerns as to the extent various interested parties are granted influence over these standards. In particular, it has been argued that the financial industry is well placed to influence the IASB and its operating bodies (e.g., Perry and Nölke 2005) and there have been calls for academic research to further our understanding of the influence of this group (e.g., Arnold 2009).

In addition, our understanding of constituent participation in accounting standard setting is limited due to the costly and time consuming methodologies that have been employed in prior research. The most common approach, manual content analysis of comment letters, only facilitates small scale studies or case studies, as opposed to a large scale empirical test (Skinner 2008). These studies have researched standard setting in the U.S. (e.g., Watts and Zimmerman 1978; Brown 1981; Mian and Smith 1990; Brown and Feroz 1992; Saemann 1999), the U.K. (e.g., Hope and Gray 1982; Jupe 2000; Weetman 2001), Australia (e.g., Coombes and Stokes 1985), Germany (e.g., McLeay et al. 2000), and in an international context (e.g., Kenny and Larson 1993, 1995; Hodges and Woods 2004; Kwok and Sharp 2005; Hansen 2011; Giner and Arce 2012).

The evidence of constituent influence in prior literature is mixed. This may be due to various factors, such as the different accounting issues under examination and the standard setting body in question, but also to the shortcomings of manual content analysis and the lack of an appropriate theoretical framework. Therefore, the aim of this thesis was to develop and employ a suitable methodology to produce robust evidence of the opportunity for influence in the IASB's development of accounting standards via an analysis of financial instruments accounting. In doing so, the methodology was developed based on the ideology theory of regulation. Further, the possibility of using textual analysis was explored in order to come up with a more objective and replicable method than manual content analysis for identifying constituent opinions in comment letters.

The ideology theory of regulation sees regulation as the joint outcome of the ideology of the standard setter and the special interest lobbying that may affect its decision. Therefore, it was necessary to develop a methodology which could isolate the special interest component. As such, the methodology focused on instances where the IASB had proposed changes that revealed the organisation's intended course of action. It was then analysed whether lobbyists that opposed the proposals were able to block the changes from being implemented, thus influencing the IASB to deviate from its intended course of action.

The methodology advanced throughout the thesis and was employed to address whether there is room for special interest lobbying to influence the standards in the IASB's financial instruments project. Moreover, it was used to identify sources of influence in the project in terms of constituent groups. Finally, it was analysed whether country-specific characteristics, or being from a particularly powerful economy, affected lobbyists' level of opposition, or their lobbying success.

8.2 Summary of Findings

8.2.1 The IASB Takes Account of External Influence

Chapter 5 provides robust, objective evidence that the IASB takes account of external influence. It shows that the IASB is less likely to implement a proposed change if it has been met with higher levels of negativity. Further, logistic regression analysis provided robust results that whilst explicit opinion is only significant when a lobbyist agrees with the proposal, the measure of negativity is consistently found to affect the IASB's decisions as whether or not to implement a change. This highlights the importance of more sophisticated textual analysis than solely identifying explicit opinion.

Moreover, lobbyists are largely adept to the IASB's tendency to dismiss explicit disagreement and the chapter affords insight into how interested parties try to persuade the standard setter. For example, it shows that explicit disagreement is rare and that high levels of negativity tend to be combined with longer responses. This signals that lobbyists spend greater effort when they oppose the proposed change and are trying to change the position of the IASB than when they agree with the proposal.

8.2.2 The Business Community Influences IFRS for Financial Instruments.

The results in Chapter 6 show that, ideologically, regulators are the group most similar to the IASB, followed by accountants. This is indicated by the lack of opposition in comment letters, and consistent with the ability of these groups to bring issues to the agenda of the IASB. Contrary, lobbyists from the financial industry, followed by the rest of the business community, are the most vocal in their opposition to the IASB's proposals.

All major constituent groups are found to be influential in the process in general. That is, increased opposition from accountants, the financial industry, the business community, regulators, or national standard setters, tend to increase the likelihood of the IASB rejecting its proposed changes. However, for issues relating to disclosure and other issues, this type of influence is limited to the business community with no other constituent group being found to have a significant effect on the IASB's decision.

Whilst ideologically preparers are not the group catered for, it is the group that most actively takes advantage of the remaining room for influence by extensive comment letter submissions. The IASB's likelihood to grant them influence confirms results from prior literature that indicate, that where standard setters change their position, this is in line with the wishes of the preparer group (e.g., Brown and Feroz 1992; Saemann 1999; Hope and Gray 1992; Jupe 2000; Kwok and Sharp 2005).

However, concerns that regulators are captured by the financial industry (e.g., Hardy 2006), or that the financial industry exerts undue influence over the accounting standard development (e.g., Perry and Nölke 2005; 2006), may not be as strong as previous researchers have suggested. The analysis shows that the financial industry opposes the proposed changes the most, and significantly more than the business community and regulators, which suggests that they are the least aligned with the IASB's ideology. Moreover, whilst all major constituent groups are found to be influential, interestingly, the financial industry is the only group with significantly less influence than the rest of the business community, overall.

8.2.3 Financial Instruments Accounting is Influenced by Anglo-American Preferences.

Chapter 7 shows that the IASB's proposals on financial instruments accounting are being developed mainly according to preferences of lobbyists from English common-law countries, especially when it comes to classification and measurement issues. Opposition to proposed changes is significantly lower in responses from English common-law countries than from French and German civil-law countries. Further, the results support that U.S. constituents are more ideologically aligned with the IASB when it comes to disclosure and other issues. In contrast, E.U. constituents are found to oppose the IASB's proposals significantly more than other constituents, especially as regards classification and measurement issues.

The analysis of the pooled observations and the observations pertaining to classification and measurement issues show no evidence that influence is dependent on country-specific characteristics. However, for observations of responses to disclosure and other issues, it was found that influence was limited to lobbyists from English common-law and Scandinavian civil-law countries, as well as countries with high equity importance. Disclosures are particularly important in countries with these characteristics (see Nobes 1998; La Porta et al. 2006) which is likely to influence the success of the lobbying actors. Moreover, Chapter 7 also analyses a subsample of highly opposing observations. The results show that highly opposing constituents from the U.S. are 43% more likely to be successful in blocking proposed changes than their non-U.S. counterparts.

8.3 Conclusions and Opportunities for Future Research

The thesis has developed a robust methodology for analysing accounting standard setting. Text analysis facilitates a novel, yet robust way of improving our understanding of the effects of third parties on the resulting accounting standards. However, existing word lists and methods need to be modified to this context. The thesis has developed a way of making these modifications whist maintaining objectivity on part of the researcher. This, therefore, generates a range of opportunities for investigation of the development of various standards in various settings.

Sutton (1984) and Georgiou (2010) found that comment letter lobbying is linked to other methods of lobbying. This assumption is crucial for research based on comment letters to capture the political process in which a standard is developed. However, exactly how constituents participate in the process, and how comment letter submissions are linked to other forms of lobbying, is still largely unknown. In addition, where lobbying failed to alter the macro-hedging requirements in IFRS for example, it was instead successful in influencing enforcement via the EC's decision to adopt the standard with a carve-out for these treatments. Therefore, lobbying efforts to affect financial reporting are not limited to lobbying the IASB, and future research could explore how interested parties exert pressure on various bodies, and its impact on financial reporting.

Whilst the thesis employs the methodology and provides robust evidence that the IASB takes account of constituent preferences when expressed within the due process, it is limited to observable lobbying and provides no evidence of covert lobbying. Therefore, future research could address how political forces beyond comment letters affect financial reporting. A potential avenue is to investigate the extent to which

external influence guides the agenda of the IASB. Agenda setting arguably includes the most important decisions that the IASB makes, and our knowledge of the role of political forces in this setting is limited.

Further, the emergence of the ideological conviction of the IASB board members has been argued to be linked to the financialization of the economy (Nölke and Perry 2007; Arnold 2009). In support of this, Allen and Ramanna (2013) found that FASB members with a background in the financial industry tend to propose standards that rely on fair value measurement, which has been on the rise in both American and international accounting. This is in contrast to the financial industry's widespread opposition to fair value accounting found by Kwok and Sharp (2005). The thesis finds that the ideological similarity between the IASB and the financial industry is particularly low, and that whilst the financial industry is influential when it comes to classification and measurement issues, it is significantly less so than the business community. Further investigation into the potential interplay between accounting standard setting and the financial industry via other lobbying methods, or other organisations, is therefore a potential area for future research.

The thesis confirms that Anglo-American features of accounting are favoured throughout the development of financial instruments accounting. This is consistent with expectations, as IFRS, in general, are developed with an investor focus as per Anglo-American accounting traditions (Nobes 2003). U.S. constituents appear particularly influential despite not having adopted the standards. The IASB and the FASB have made efforts to converge their standards on financial instruments which is likely to have facilitated U.S. constituents' superior influence. However, both standard setting bodies have announced that this project has failed and decided to diverge on

several issues. Whilst the thesis provides support that there is conflict in the preferences between American and European constituents, academic research could address under what circumstances parties are most likely to be influential. For example, will U.S. constituents remain influential if the convergence project is not resumed?

Finally, the thesis provides no value judgement as whether constituent influence provides a healthy balance or is detrimental to financial reporting. As discussed, financial reporting attributes differ across countries but it is unclear which attributes are the most desirable features. In order to make these value judgements, future research could address what the impacts are of increasing relevance at the expense of losing reliability, and whether international financial reporting should generate unbiased or conservative accounting income.

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Appendices

Appendix 1: Signatories to the IASC Constitution of 1973

Australia	The Institute of Chartered Accountants in Australia Australian Institute of Chartered Accountants
Canada	Canadian Institute of Chartered Accountants
France	Ordre des Experts Comptables et des ComptablesAgréés (Order of Accounting Experts and Qualified Accountants)
Germany	Institut der Wirtschaftsprüfer in Deutschland (Institute of Auditors in Germany) Wirtschaftsprüferkammer (Chamber of Auditors)
Japan	Nihon Kouninkaikeishi Kyoukai (Japanese Institute of Certified Public Accountants)
Mexico	Instituto Mexicano de Contadores Públicos (Mexican Institute of Public Accountants)
Netherlands	Nederlands Instituut van Registeraccountants (Netherlands Institute of Registered Auditors)
United Kingdom & Ireland	Institute of Chartered Accountants in England and Wales Institute of Chartered Accountants of Scotland Institute of Chartered Accountants in Ireland Association of Certified Accountants Institute of Municipal Treasurers and Accountants
United States of America	American Institute of Certified Public Accountants

Reproduced from Camfferman and Zeff 2007, p. 49

Appendix 2: Key Points of the Constitution of the IASC.

1973	Inception and constitution.	– IASC members shall formulate and promote compliance with its basic standards. The extent of non-compliance should be disclosed. – Maximum two board members per country, nominated by the accountancy bodies that were signatories to the constitution (see appendix) – Each country represented shall have one vote. – A two-thirds majority is required to issue proposals through exposure drafts addressed to professional accountancy bodies. – Standards issued for publication must be approved by three-quarters of the total voting rights. – Each country shall contribute one ninth of the budget established by the committee. – The permanent office shall be in London.
1977	International congress of accountants – change of constitution	– The standards should no longer be referred to as 'basic' in the constitution. – The committee may have two non-founder members on a rotation basis but founder members were not subject to re-election. – The IASC board should determine how much each country should contribute. – Membership was redefined as all of the professional accountancy bodies that were signatories to the Constitution in 1973 or that subsequently become members, dropping the term 'associate member'.
1982	International congress of accountants – change of constitution	– Eliminated the distinction between founder members and non-founder members. – IFAC Council was to nominate and appoint up until thirteen board members of whom nine should be from countries with the highest status and development of the accountancy profession. – The board could appoint four other organisations with an interest in financial reporting to be members of the IASC. – Board members term was five years and re-appointment was allowed. – IFAC member bodies should ensure that published accounts comply with the standards and disclose the compliance. Non-compliance was no longer required to be disclosed. – IFAC would contribute 10% of the IASC's annual budget.
1992	Change of constitution	– IASC gets the power to raise funds. – The administrative office should no longer be required to be London. – Removed the notion that membership should be drawn from IFAC.

– Each member body will have one vote which can be made by proxy.

Appendix 3: IAS Plus Timeline

IAS 32

September 1991	Exposure Draft E40 *Financial Instruments*
January 1994	E40 was modified and re-exposed as Exposure Draft E48 *Financial Instruments*
June 1995	The disclosure and presentation portion of E48 was adopted as IAS 32 *Financial Instruments: Disclosure and Presentation*
1 January 1996	Effective date of IAS 32 (1995)
December 1998	IAS 32 was revised by IAS 39, effective 1 January 2001
17 December 2003	Revised version of IAS 32 issued by the IASB
1 January 2005	Effective date of IAS 32 (2003)
18 August 2005	Disclosure provisions of IAS 32 are replaced by IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2007. Title of IAS 32 changed to *Financial Instruments: Presentation*
22 June 2006	**Exposure Draft of proposed amendments relating to Puttable Instruments and Obligations Arising on Liquidation**
14 February 2008	IAS 32 amended for Puttable Instruments and Obligations Arising on Liquidation
1 January 2009	Effective date of amendments for puttable instruments and obligations arising on liquidation
6 August 2009	**Exposure Draft *Classification of Rights Issues* proposing to amend IAS 32**
8 October 2009	Amendment to IAS 32 about Classification of Rights Issues
1 February 2010	Effective date of the October 2009 amendment
16 December 2011	*Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* issued
17 May 2012	Amendments resulting from *Annual Improvements 2009-2011 Cycle* (tax effect of equity distributions). Click for More Information
1 January 2013	Effective date of May 2012 amendments (*Annual Improvements 2009-2011 Cycle*)
1 January 2014	Effective date of December 2011 amendments

Source: Deloitte. *IAS plus.* IAS 39/ [online] available at: http://www.iasplus.com/en/standards/standards/standard31 [accessed 9/10/2012]

IAS 39

October 1984	Exposure Draft E26 *Accounting for Investments*
March 1986	IAS 25 *Accounting for Investments*
1 January 1987	Effective date of IAS 25
September 1991	Exposure Draft E40 *Financial Instruments*
January 1994	E40 was modified and re-exposed as Exposure Draft E48 *Financial Instruments*
June 1995	The disclosure and presentation portion of E48 was adopted as IAS 32
March 1997	Discussion Paper: *Accounting for Financial Assets and Financial Liabilities*
June 1998	Exposure Draft E62 *Financial Instruments: Recognition and Measurement*
December 1998	IAS 39 *Financial Instruments: Recognition and Measurement*
April 2000	Withdrawal of IAS 25 following the approval of IAS 40 *Investment Property*
October 2000	Limited revisions to IAS 39 effective 1 January 2001
1 January 2001	Effective date of IAS 39 (1998)
21 August 2003	**Exposure Draft *Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk* (Macro Hedging) issued for public comment**
17 December 2003	Revised version of IAS 39 issued by the IASB
31 March 2004	IAS 39 revised to reflect Macro Hedging
17 December 2004	Amendment issued to IAS 39 for transition and initial recognition of profit or loss
1 January 2005	Effective date of IAS 39 (Revised 2004)
14 April 2005	Amendment issued to IAS 39 for cash flow hedges of forecast intragroup transactions
15 June 2005	Amendment to IAS 39 for fair value option
18 August 2005	Amendment to IAS 39 for financial guarantee contracts
1 January 2006	Effective date of the April, June and August 2005 amendments
6 September 2007	**Proposed amendment to IAS 39 for exposures qualifying for hedge accounting**
22 May 2008	IAS 39 amended for *Annual Improvements to IFRSs 2007*
1 January 2009	Effective date of the May 2008 amendments to IAS 39
30 July 2008	Amendment to IAS 39 for eligible hedged items

13 October 2008	Amendment to IAS 39 for reclassifications of financial assets
1 July 2008	Effective date of the October 2008 reclassifications amendment
22 December 2008	**Proposed amendment to IAS 39 for *Embedded Derivatives Assessment***
12 March 2009	Amendment to IAS 39 for embedded derivatives on reclassifications of financial assets
16 April 2009	IAS 39 amended for Annual Improvements to IFRSs 2009
1 July 2009	Effective date of the July 2008 and March 2009 amendments
1 January 2010	Effective date of the April 2009 revisions to IAS 39
5 November 2009	**Proposed amendment to IAS 39 for impairment of financial assets measured at amortised cost**
12 November 2009	Classification and measurement provisions of IAS 39 replaced by IFRS 9 effective 1 January 2013, with earlier application permitted

Source: Deloitte. *IAS plus.* IAS 39/ [online] available at: http://www.iasplus.com/en/standards/standards/standard38 [accessed 9/10/2012]

IFRS 7

22 July 2004	**Exposure Draft ED 7 *Financial Instruments: Disclosures***
18 August 2005	IFRS 7 *Financial Instruments: Disclosures* issued Click for IASB Press Release
1 January 2007	Effective date of IFRS 7
10 January 2008	IFRS 3 (2008) is issued as a consequence deleting paragraph 3(c) – scope exemption for acquirer for contracts for contingent consideration
14 February 2008	IAS 32 is amended for puttable instruments and obligations arising on liquidation, adding to IFRS 7 paragraph 3(f) scope exemption for such instruments classified as equity
22 May 2008	Consequential amendment to IFRS 7.3(a) following from Improvements amendment to IAS 27, IAS 28 and IAS 31. The requirement to present additional disclosures of IAS 27, IAS 28, and IAS 31 in the individual financial statements accounting for interests in subsidiaries, associates or joint ventures in accordance with IAS 39 has been deleted.
13 October 2008	Amendment to IFRS 7 for disclosures relating to reclassifications of financial assets.
1 July 2008	Effective date of the October 2008 reclassifications amendment
23 December 2008	**Exposure Draft of proposed amendments to IFRS 7 issued (project abandoned January 2009)**
5 March 2009	Amendment to IFRS 7 on enhancing disclosures about fair value and liquidity risk.
1 January 2009	Effective date of the: • March 2009 enhanced fair value disclosure amendments • scope exemption for puttable instruments classified as equity • exemption from presenting additional IAS 27, IAS 28 and IAS31 disclosures amendment
1 July 2009	Effective date of the January 2008 IFRS 3 consequential amendment
6 May 2010	IFRS 7 amended for Annual Improvements to IFRSs 2010
7 October 2010	Amendment to IFRS 7 on enhancing disclosures about transfers of financial assets.
1 January 2011	Effective date of May 2010 amendment to IFRS 7
1 July 2011	Effective date of October 2010 amendment to IFRS 7 related to transfers of financial assets
16 December 2011	*Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)* issued
16 December 2011	*Disclosures — Offsetting Financial Assets and Financial Liabilities*

	(Amendments to IFRS 7) issued
1 January 2013	Effective date of December 2011 amendment to IFRS 7 related to offsetting of financial assets and financial liabilities
1 January 2015	Effective date of December 2011 amendment to IFRS 7 related to transition to IFRS 9 (or otherwise when IFRS 9 is first applied)

Source: Deloitte. *IAS plus.* IAS 39/ [online] available at: http://www.iasplus.com/en/standards/standard47 [accessed 9/10/2012]

IFRS 9

14 July 2009 **IASB issues exposure draft *Financial Instruments: Classification and Measurement***

12 November 2009 IASB issues IFRS 9 *Financial Instruments*, covering classification and measurement of financial assets, as the first part of its project to replace IAS 39. Concurrent with issuing IFRS 9, the IASB published a Project Summary and Feedback Statement and a separate Summary of Responses to European Concerns.

28 October 2010 IASB reissues IFRS 9 *Financial Instruments*, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Concurrent with reissuing IFRS 9, the IASB published a IASB feedback statement.

4 August 2011 **IASB publishes an exposure draft proposing to push back the mandatory effective date of IFRS 9 *Financial Instruments* from 1 January 2013 to 1 January 2015.**

16 December 2011 IASB publishes *Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)*, which amends the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, and modifies the relief from restating comparative periods and the associated disclosures in IFRS 7

1 January 2013 Original effective date of IFRS 9, with early adoption permitted starting in 2009

1 January 2015 Revised effective date of IFRS 9, with early adoption permitted.

Source: Deloitte. *IAS plus.* IAS 39/ [online] available at: http://www.iasplus.com/en/standards/standard49 [accessed 9/10/2012]

Appendix 4: Archive IASB Projects - Comment Letters

- Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB, 10th Aug 2005

- ED 3 Business Combinations, 14th Jul 2005

- **Exposure draft of proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts, November 2004**

- **ED7 – IAS 39 Financial Instruments – Disclosures, October 2004**

- **IAS 39 Financial Instruments – Cash Flow Hedge A/c of Forecast Intra Group Transactions, October 2004**

- **IAS 39 Financial Instruments - Transition and Initial Recognition of Financial Assets and Financial Liabilities, October 2004**

- **ED Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option (2004)**

- Proposed Amendments to IAS 19 Employee Benefits-Actuarial Gains and Losses, Group Plans and Disclosures (issued for comment 29 April 2004)

- Discussion Paper Preliminary Views on Accounting Standards for Small and Medium-sized Entities, 6th Oct 2004

- Exposure Draft ED 6 Exploration for and Evaluation of Mineral Resources (issued for comment 15 January 2004

- **ED on Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Fair Value Hedge for a Portfolio Hedge of Interest Rate Risk, 14 Nov 2003**

- ED 5 Insurance Contracts, 10th Dec 2003

- ED2 Share-based Payment Comment Letters March 2003

- **Amendments to IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement, 14 October 2002**

- Exposure Draft E65 - *Agriculture* 1999

Source: IFRS Foundation 2012b. Archive IASB Project – Comment Letters. [online] available at: http://www.ifrs.org/Archive/Pages/Archive-IASB-Project-Comment-Letters.aspx [accessed: 10/10/12]

Appendix 5: All Projects since 2006 in Alphabetical Order

Project name [click on the name to access the project page]	**Status**	**Last published due process document**	**Mandatory application date***
Agenda consultation 2011	Ongoing	August 2011 - Agenda consultation document	na
Amendments to IFRS 1	Completed December 2010	The IASB issued two narrow amendments to IFRS 1 - *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 July 2011
	Completed January 2010	The IASB issued amendments that relieve first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7	1 July 2010
	Completed July 2009	The IASB amended the retrospective application of IFRSs for first-time adopters	
	Completed May 2008	The IASB issued *Cost of an investment in a subsidiary* (Amendments to IFRS 1 and IAS 27)	1 January 2009
Amendments to IFRS 7 financial instruments disclosures	**Completed March 2009**	**The IASB issued *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7 *Financial Instruments: Disclosures*)**	**1 January 2009**
Annual improvements	na	Project cycle 2009-2011 Project cycle 2008-2010	1 January 2013
Borrowing costs	Completed March 2007	The IASB issued a revised IAS 23	January 2009
Business combinations	Completed January 2008Post Implementation Review scheduled for 2012]	The IASB issued IFRS 3 *Business Combinations* and an amended version of IAS 27 *Consolidated and Separate Financial Statements*	1 July 2009
Business combinations under common control	Paused	As of an agenda decision from September 2007	na
Conceptual framework	Ongoing		
Phase A - Objectives and qualitative characteristics	Completed September 2010	The IASB and the FASB, the U.S. national standard-setter, complete the first stage of conceptual framework	na
Phase B - Measurement objectives		November 2005 - Discussion paper	na

Phase D – Reporting entity		March 2010 - Exposure draft	
Consolidation	n/a		na
Consolidation and disclosure	Completed May 2011	The IASB issued IFRS 10 *Consolidated Financial Statements*; IFRS 12 *Disclosure of Interest in Other Entities*	1 January 2013
Consolidation: Investment entities	Ongoing	August 2011 - Exposure draft *Investment Entities*	na
Credit risk in liability measurement	**integrated into IAS 39 replacement project**	**October 2009 - The IASB integrates the project into its project to replace IAS 39**	**na**
Derecognition - disclosures	**Completed October 2010**	**The IASB issued Amendments to IFRS 7 *Financial Instruments: Disclosures***	**TBC**
Earnings per share	Paused	August 2008 - Exposure draft *Simplifying Earnings per Share (Proposed amendments to IAS 33)*	na
Effective dates	Paused	October 2010 - The IASB together with the U.S.-based FASB published a **Request for Views** to gather views with a comment period that ended on 31 January 2011	na
Embedded derivative	**Completed March 2009**	**The IASB issued Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)**	**Annual periods ending on or after 30 June 2009**
Emissions trading schemes	Paused	Agenda decision outstanding	na
Extractive activities	Paused	July 2010 - Discussion paper *Extractive activities*	na
Fair value measurement	Completed May 2011	The IASB issued IFRS 13 *Fair Value Measurement*	1 January 2013
Financial Instruments projects [FI]			
FI - Recognition and measurement	**Completed July 2008**	***The IASB issued Eligible Hedged Items* (Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*)**	**31 July 2008. Retrospective application required for annual periods beginning on or after 1 July 2009**
FI with characteristics of equity	**Paused**	**February 2008 - Discussion paper *Financial Instruments with Characteristics of Equity***	**na**
FI - puttable	**Completed**	**The IASB issued Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1**	**1 January 2009**

instruments	**February 2008**	***Presentation of Financial Statements — Puttable Financial Instruments* and *Obligations Arising on Liquidation***	
Replacement of IAS 39			
Phase I – Classification and measurement	**Completed November 2009** **October 2010**	**The IASB issued IFRS 9 *Financial Instruments.* The standard covers the classification and measurement of financial assets.** **The IASB adds the requirements for classifying and measuring financial liabilities to IFRS 9**	**See project Effective dates**
Phase II – Amortised cost and impairment of financial assets	**Ongoing**	**January 2011 - Supplementary document**	**na**
Phase III – Hedge accounting:	**Ongoing**		**na**
General hedge accounting		**December 2010 - Exposure draft *Hedge Accounting***	
Macro hedge accounting			
FI - Asset and liability offsetting	**Completed**	**December 2011 - the IASB and FASB issued common disclosure requirements on offsetting. The IASB issued Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**	**1 January 2013 with retrospective application required.**
Financial statement presentation			
Phase A	Completed March 2006	The IASB issued a revised IAS 1 *Presentation of Financial Statements*	
Phase B - Replacement of IAS 1 and IAS 7	Paused	July 2010 - Staff draft	na
Phase B – Presentation of items of OCI	Completed June 2011	The IASB issued Amendments to IAS 1 *Presentation of Financial Statements*	1 July 2012
FSP – Discontinued operations	Paused	July 2010 - Staff draft of proposed standard	na
Government grants	Deferred	No due process document	
Group cash-settled share-based payment transactions	Completed June 2009	The IASB issued Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	TBC
IFRS for SMEs	Completed July 2009	The IASB published the *IFRS for SMEs*	na

Reclassification of financial assets - Amendments to IAS 39 and IFRS 7	**Completed October 2009**	**The IASB permitted the reclassification of financial instruments**	**1 July 2008**
Income taxes	Completed December 2010	The IASB issued Amendments to IAS 12	
Insurance contracts	Ongoing	July 2010 - Exposure draft *Insurance contracts*	na
Intangible assets	Deferred		
Investment in debt instruments	**na**	**December 2008 - Exposure draft *Investments in Debt Instruments* (Proposed amendments to IFRS 7)**	
Joint ventures	Completed May 2011	The IASB issued IFRS 11 *Joint arrangements*	January 2013
Leases	Ongoing	August 2010 - Exposure draft *Leases*	na
Liabilities	Paused	April 2010 - IASB staff paper *Recognising liabilities arising from lawsuits*	na
Management commentary	Completed December 2010	The IASB issued IFRS *Practice Statement Management Commentary*	na
Post-employment benefits (including Pensions) [PEB]	Completed June 2011	The IASB issued Amendments to IAS 19 *Employee Benefits*	1 January 2013
PEB – Defined benefit plans	Completed June 2011	The IASB issued IAS 19 *Employee Benefits*, which is effective from 1 January 2013**.**	
PEB – Termination benefits	Completed June 2011	The IASB included amendments in Amendments to IAS 19 *Employee Benefits*	
PEB - Prepayments of a minimum funding requirement	Completed November 2009	The IASB issued Amendments to IFRIC 14	1 January 2013
PEB - Discount rate for Employee Benefits	Stopped	October 2009 - Board decides not to proceed	na
Rate-regulated activities	Paused	July 2009 - Exposure draft *Rate regulated activities*	na
Related party disclosures	Completed November 2009	The IASB issued a revised IAS 24 *Related Party Disclosures*	1 January 2011
Revenue recognition	Ongoing	June 2010 - Exposure draft *Revenue recognition*	na
Share-based payment - vesting conditions and cancellations (IFRS 2)	Completed December 2007	The IASB issued Amendments to IFRS 2 *Vesting Conditions and Cancellations*	1 January 2009

Segment reporting	Completed November 2006	The IASB issued IFRS 8 Segment reporting	
Transition Guidance—amendments to IFRS 10	Completed December 2001	IFRS 10 *Consolidated Financial Statements* arising from the exposure draft published in December 2011.	

Source: IFRS Foundation 2012a. All projects since 2006 in alphabetical order. [online] available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/All_projects.aspx [accessed 10/10/2012]

Appendix 6: Additions to the Master Dictionary

Word	#	Word	#
amortising	59	jeopardise	13
auditability	37	judgemental	56
behavioural	55	macrohedge	10
categorisation	92	maximise	28
categorise	16	measureable	52
categorised	75	minimise	284
centralisation	10	minimising	57
centralised	38	obtainability	27
characterise	53	operationality	93
characterised	30	operationalize	25
collateralised	171	optimise	21
conditionality	21	organisational	26
corporates	202	penalise	12
counterintuitive	131	penalised	12
criticise	22	presentational	48
criticised	55	procyclical	38
crystallisation	27	procyclicality	79
decentralised	18	recognising	623
derecognise	172	redeliberate	27
derecognised	869	redeliberated	23
derecognises	19	redeliberation	18
derecognizing	23	redeliberations	20
emphasise	168	representationally	42
emphasised	37	scrutinise	10
emphasising	26	securitisations	79
finalisation	96	securitised	77
finalise	90	standardisation	12
finalised	275	standardised	61
finalises	78	summarise	40
finalising	200	summarises	46
harmonise	24	timescale	20
harmonised	27	tranching	15
hedgeable	51	unamortised	11
incepted	13	underlyings	11
incomparability	28	understandability	213
intragroup	351	unrecognised	231
		verifiability	307

This table reports the words that did not match words in Loughran and McDonald's master dictionary but that were added to the new master dictionary and the number of occurrences