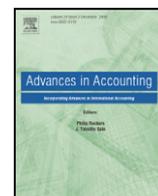




Contents lists available at ScienceDirect

# Advances in Accounting, incorporating Advances in International Accounting

journal homepage: [www.elsevier.com/locate/adiac](http://www.elsevier.com/locate/adiac)

## Issues affecting the development of an international accounting standard on financial instruments

Michael D. Chatham<sup>a,1</sup>, Robert K. Larson<sup>b,\*</sup>, Axel Vietze<sup>c,2</sup>

<sup>a</sup> College of Business & Economics, Department of Accounting, Finance, and Business Law, Radford University, Radford, VA 24142, United States

<sup>b</sup> The University of Dayton, School of Business Administration, Department of Accounting, 300 College Park, Dayton, OH 45469-2242, United States

<sup>c</sup> Baumer Group, 8500 Frauenfeld, Switzerland

### A B S T R A C T

While the global convergence of accounting standards is making steady progress, certain issues stand out as challenges. A major area where an international accounting standard has not gained universal acceptance is that of financial instruments. The European Union's refusal to adopt all of International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, highlights that fact. The International Accounting Standards Board continues to address financial instruments in efforts to remedy this situation. Thus, it is important to better understand issues affecting the development of an international financial instruments accounting standard. The purpose of this study is to find out what issues are important to respondents in their comment letters regarding the Financial Instruments Discussion Paper (FIDP), and whether stakeholder groups differ in positions and the reasons given to support their views. The FIDP represented a major step toward approval of IAS 39 and proposed fair value accounting for all financial instruments. Over 1500 pages of comment letters were generated by the 168 respondents, who represented over 20 countries and several different stakeholder groups. While most respondents disagreed with the FIDP, differences in support and the specific issues used to support those positions were found by stakeholder interest group (accounting profession, regulators, standard-setters, financial analysts, and preparers) and by stakeholder nationality.

© 2010 Elsevier Ltd. All rights reserved.

### 1. Introduction

While the global convergence of accounting standards is making steady progress, certain issues stand out as challenges. A major area where an international accounting standard has not gained acceptability to all constituents is that of financial instruments. The European Union (EU)'s refusal to adopt all of International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, highlights that fact (Walton, 2004; Benston et al., 2006; Zeff, 2006). French President Chirac created a stir in 2003 when he stated that parts of IAS 39 would have “nefarious consequences for financial stability” (Tromans, 2006; Zeff, 2007). The International Accounting Standard Board (IASB) continues to address financial instruments as it works to improve its standards and remedy this situation (IASB, 2008). Thus, it is important to better understand the influences affecting the development of an international financial instruments accounting standard.

The IASB and its predecessor, the International Accounting Standards Committee (IASC), have tried to develop an acceptable financial instruments accounting standard since 1988. One of the most important steps in this process was the IASC's issuance of a Discussion Paper entitled, *Accounting for Financial Assets and Financial Liabilities* (FIDP, hereafter). The FIDP represented a major step toward approval of IAS 39 and proposed fair value accounting for all financial instruments. The purpose of this case study is to explore what issues are important to respondents in their comment letters regarding the FIDP. The study also determines whether there are differences in either the level of support for the FIDP or the arguments and issues used by different stakeholder interest groups (accounting profession, regulators, standard-setters, financial analysts, and preparers) and by stakeholders of different nationalities.

The 168 respondents representing over 20 countries and belonging to several different stakeholder groups expressed their concerns in 172 comment letters (1560 pages) sent in response to the FIDP. Among stakeholder interest groups, the accounting profession and preparers (financial institutions, non-financial corporations, and their trade associations) dominated the respondents. From a geographic standpoint, respondents from Australia, Canada, the EU, Japan, and the United States (US) provided the vast majority of letters. The results indicate significantly higher levels of disapproval to FIDP

\* Corresponding author. Tel.: +1 937 229 2497; fax: +1 937 229 2270.

E-mail addresses: [mdchatham@radford.edu](mailto:mdchatham@radford.edu) (M.D. Chatham),

[Robert.Larson@notes.udayton.edu](mailto:Robert.Larson@notes.udayton.edu) (R.K. Larson), [avietze@baumergroup.com](mailto:avietze@baumergroup.com) (A. Vietze).

<sup>1</sup> Tel.: +1 540 831 5604; fax: +1 540 831 6026.

<sup>2</sup> Tel.: +41 52 728 1603.

proposals by preparers and Europeans. Also, stakeholder interest and geographic groups often used different argumentation to support their positions.

This topic is relevant for several reasons. Financial instruments continue to be an important and contentious accounting topic. Furthermore, given the push to use fair values more widely in accounting, a fuller understanding of the positions taken by different stakeholders should benefit both international and national accounting standard-setters, as well as those that may either be advocating or opposing the “fair-value movement.” The FIDP is appropriate for this purpose because its “fair valuation” aspects impact different interest group stakeholders (e.g., preparers, users, regulators) to varying extents. It is also important to better understand how different parties may articulate their particular opinions regarding fair values. Given the large number of comment letters sent by different stakeholders in various countries, the FIDP provides a good venue for this analysis of financial instruments and should illuminate both the important issues and the diversity of opinions. The paper demonstrates how different stakeholders support their positions in both a qualitative and a quantitative sense, while also offering additional insight into the international accounting standard-setting process.

## 2. Literature review

The accounting standard-setting process may be viewed as a technical process, a political process, or both (Gilfedder and O’Hogartaigh, 2001; Zeff, 2002, 2006; Whittington, 2005; Elbannan and McKinley, 2006; Durocher et al., 2007). The technical view sees standard-setting as identifying the best accounting practice for each issue, whereas the political view perceives standard-setting as making policy decisions from alternatives that might better serve different interest groups.

Lobbying may be defined as any attempt by individuals or private interest groups to influence the decisions of a political organization. A substantial amount of academic literature addresses the role of lobbying and constituent participation in the accounting standard-setting process, but most focuses on US, United Kingdom (UK), and Australian settings rather than with the IASC or IASB (Benston, 1980; Kelly, 1982; Sutton, 1984; Watts and Zimmerman, 1986; Mezas and Chung, 1989; Tandy and Wilburn, 1992; Walker and Robinson, 1993; Weetman et al., 1996; Georgiou, 2002, 2004, 2005; Hill et al., 2002; Elbannan and McKinley, 2006; Larson, 2007). The perspectives examined in these studies include lobbying from a management’s viewpoint, analysis of constituent participation, the influence of various parties on standard-setters, and the motivation for standard-setters to respond to lobbying efforts.

Several motivations for individuals and organizations to lobby accounting standard-setters have been suggested. The process of lobbying standard-setters may occur if interested parties feel that financial reporting techniques have economic consequences — that changes in accounting standards can significantly impact their own businesses. Further, rational individuals and organizations will lobby only if the perceived benefits from lobbying exceed the perceived costs. In estimating the benefits, both the difference in the utilities between possible outcomes and the likelihood that the decision to lobby will sway the outcome of the process are likely to be taken into consideration (Sutton, 1984).

Accentuating this motivation to lobby is the notion that respondents’ disagreements with proposed standards appear to have induced changes by standard-setters. Prior research suggests that the IASC reacted to comment letters written by interested parties and modified the final standards to at least partially meet the requests of those opposing exposure drafts (EDs) (Kenny and Larson, 1993; Guenther and Hussein, 1995; Kwok, 1999; Larson and Brown, 2001).

Motivation for lobbying may also be explained by institutional theory, which comes from literature that examines the importance of social knowledge to organizational behavior (Zucker, 1988). Institu-

tional theory is not new to the accounting or lobbying literature (Mezas, 1990; Fogarty, 1992; Kenny and Larson, 1993; Eden et al., 2001; Larson, 2002, 2007; Durocher et al., 2007) and predicts that an organization will strive for legitimization by becoming or remaining acceptable to its social environment. Consequently, parties may participate in the due process even though it is unlikely that they will be directly affected by proposed changes.

Motivation also exists for standard-setters to react to the views of stakeholders. The IASC and IASB overcame many cultural and legal barriers in their efforts to gain acceptance globally. Much of this success stems from remaining in close contact with many of their constituents. The concern shown in acknowledging the comments of interested parties can also be explained in part by institutional theory. The need for social approval is essential for organizations not judged by objective and quantifiable output standards. Institutional theory predicts that an international accounting standard-setter will continuously monitor and address the desires of its constituents. During this process, the standard-setter must find the proper balance between flexibility and credibility in order to ensure its survival. On one hand, there is the temptation to incorporate a vast array of permitted alternatives in order to appease as many of the leading national “accounting powers” as possible. On the other hand, standards that are too flexible and permit too many forms of accounting presentation probably caused the IASC to lose credibility with some constituents. A major drive to reduce the number of choices in international accounting standards and improve the comparability of financial statements began in 1989 and continues even today. Reducing flexibility was seen as a way to gain greater credibility. However, the need to respond to opposition from constituents over certain proposals slowed the drive to reduce flexibility. For example, while the Last-In First-Out (LIFO) inventory method was kept after strong lobbying in the early 1990s (Guenther and Hussein, 1995), it was ultimately eliminated as an option under international standards in 2003.

Many observers of the standard-setting process note that stakeholders may not all be granted the same weight during the due process. For example, the 1995 agreement with the International Organization of Securities Commissions (IOSCO) was of great importance to the IASC in its attempt to achieve greater global credibility as IOSCO’s members are the securities regulators in individual countries. The IASC worked hard to complete the comprehensive core set of standards required by IOSCO. Its completion and IOSCO’s endorsement of IASs was a significant achievement and a major step toward allowing use of IASs for cross-border listings in all capital markets (Kirsch, 2006; Camfferman and Zeff, 2007). Given the importance of IOSCO’s much needed vote of confidence, there is the possibility that IOSCO’s desire for a financial instrument standard had significantly more weight than interests of other parties.

In an effort to ascertain whether stakeholders are given equal consideration, Kwok (1999) explored the relative power of accountants, regulators, preparers, and users in the due process of two mid-1990s IASC proposals. Kwok found that although a mixed power model generally prevailed, it was difficult for the IASC to issue a standard adverse to the preferences of preparers. However, relatively few studies empirically investigate the due process of the IASC or IASB.

## 3. Developing an international financial instruments standard

IOSCO, the US Securities and Exchange Commission (SEC), and others stated that international accounting standards must be comprehensive in order to achieve global credibility — and that comprehensive standards must include the treatment of financial instruments (Kirsch, 2006). However, financial instruments continue to be a controversial issue. Before IAS 39 was approved, accounting standard-setters in several countries, including the US and the UK, already knew the difficulty in reaching agreement regarding the accounting for financial instruments (Boyd et al., 1996; Wilson and

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات