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The IASB standard-setting process: Participation and perceptions of financial statement users

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ABSTRACT

The interests of users of financial statements are, in theory, paramount to accounting standard-setters. However, there is a dearth of research into users' participation in, and influence on, the process of setting accounting standards. The enhanced status now accorded to the International Accounting Standards Board (IASB) offers the opportunity to examine these issues in a new regulatory context. This study reports the results of a questionnaire survey of the perceptions of, and participation in, the IASB process of a sample of UK investment management firms. The findings suggest that these firms' participation is not as low as is often inferred from the public record of comment letters. In particular, a considerable number of firms participate through representative report user organisations such as the Investment Management Association. Other findings suggest that the major factor inhibiting investment firms from participating is the cost of lobbying, not complacency that the IASB is 'on their side' and will naturally safeguard their interests. Moreover, the respondents consider the accounting profession and the European and US accounting standard-setters to be the dominant interest groups in the IASB standard-setting process.

1. Introduction

In 2001 the International Accounting Standards Committee (IASC) restructured itself into the International Accounting Standards Board (IASB).[1] Since the adoption of the International Accounting Standards (IAS) regulation by the European Commission and the convergence agreement with the Financial Accounting Standards Board (FASB), the IASB has grown in importance and has, arguably, acquired the status of a private standard-setter whose activities are of primary interest to a global audience (Jorissen, Lybaert, & Van de Poel, 2006). Its standards are developed through lengthy public consultation procedures which may include the undertaking of field tests, invitations to comment on exposure drafts, public round-table meetings and public hearings. According to Watts and Zimmerman (1986), standard-setting of this type is a political process in which interest groups lobby to effect wealth transfers.

Although a considerable number of studies have dealt with the lobbying activities of various interest groups in national private sector standard-setting processes, only a very limited number have examined the lobbying pressures that the IASB is subjected to (e.g., Zeff, 2002). Moreover, the overwhelming majority of past studies, irrespective of their regulatory context, have focused on the preparers of financial statements (e.g., Francis, 1987; Georgiou, 2004; Larson, 1997; MacArthur, 1988; Schalow, 1995). Investigations of the lobbying activities of audit firms (e.g., Deegan, Morris, & Stokes, 1990; Meier, Alam, & Pearson, 1993; Puro, 1984) have been less extensive; and only a small number of studies have

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[1] See Kirsch (2006) for a comprehensive history of the IASC.

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examined the involvement of users of financial statements. This involvement, however, is critical as accounting standard-setters often justify the adoption of their standards by appealing to financial statement users' interests. In her analysis of the FASB's standard-setting process, Young (2003, p. 629) argues that such appeals are merely used as a rhetorical device by the FASB:

> Users of financial statements are shadowy figures within the paragraphs of financial accounting standards. They haunt these texts, lurking off-page, until the FASB claims to speak for them. Then, they are ushered briefly onto the page to serve as an additional justification for changing existing accounting requirements. Even though users are rarely presented as actively seeking information or as being consulted by the FASB, they act as another source of authority for the FASB in its standard-setting process.

The degree to which such criticisms are justified largely depends on the extent to which users of financial statements participate in the standard-setting process and the amount of influence they exert. As indicated above, only a few studies have dealt with this issue in general; and an even smaller number have been undertaken within the specific context of the IASB's process. The purpose of this study is to fill this gap in the literature. Specifically, it reports the results of a questionnaire survey relating to the nature and volume of participation of a sample of UK investment management firms in the IASB standard-setting process over the period 2001 to June 2006 inclusive. In addition, it reports evidence of the investment firms' perceptions of the influence that different interest groups exert on the IASB's decision making process.

Therefore, the study makes a contribution to the literature in three main ways. First, it provides evidence of the lobbying activities and perceptions of financial statement users, who have previously been largely neglected. Second, it examines these issues in the context of the IASB, whose importance cannot be overstated. Third, it bases its findings on information gathered on various participation methods; such information is not always publicly available. In a similar way to Georgiou (2004) and Tandy and Wilburn (1996), the study obtains evidence directly from potential participants in the standard-setting process.

The paper is organised as follows: Section 2 reviews the literature on financial statement users' lobbying of accounting standard-setting bodies; Section 3 develops the study's hypotheses; Section 4 discusses the research design; Section 5 reports the study's findings; and Section 6 summarises the results and draws the conclusions.

2. Literature review

Prior literature on the lobbying activities of financial statement users can be grouped into studies relating to national accounting standard-setters and those relating to the IASC/IASB. In the context of the US regulatory environment, Tandy and Wilburn (1992) reported that, out of a total of 13,369 comment letters received by FASB in relation to the adoption of its first 100 accounting standards, only 239 (185 from individuals and 54 from representative organisations) were submitted by report users. More recently Hochberg, Sapienza, and Vissing-Jørgensen (2009) investigated lobbying in relation to the passage of the Sarbanes-Oxley (SOX) Act. They reported that, out of a total number of 1,948 letters which they analysed, 125 (6.4%) were from investor groups. This is not a negligible number but it is substantially lower than the number of letters submitted by preparers, 629 (32.2%).

In the context of the UK's Accounting Standards Board (ASB) process, Weetman, Davie, and Collins (1996) investigated lobbying on the issue of the Operating and Financial Review (ASB, 1993). They reported that, out of a total of 104 comment letters, 14 were submitted by report user groups. In addition to the examination of comment letters, the authors undertook interviews with 20 financial statement users, partly in order to establish the reasons why they had not made written submissions. They noted that only one respondent was able to articulate a clear reason for not writing: that analysts do not expect to be influential in the lobbying process, since it is the preparers of accounts who hold the key to consensus. Others offered reasons such as a tradition of not responding in writing, a statement that fitted with the authors' observation that there were 'indications that the analysts were encountering ASB representatives at informal meetings where they felt they could express their views on current issues'.

Van Lent (1997) investigated the lobbying activities of various interest groups, including those of report users, in the promulgation of Dutch financial reporting regulations for companies engaging in banking and insurance activities. The author documented that lobbying by most report users was not intensive, but he also noted the substantial resources devoted to lobbying by the financial press and a large investment firm which managed to have an important influence on the resulting accounting standard.

Using Vroom's (1964) expectancy theory, Hardy's (1994) power framework and Suchman's (1995) legitimacy typology, Durocher, Fortin, and Côté (2007) developed an integrative explanatory model of user participation in the Canadian standard-setting process. The authors undertook interviews with 27 Canadian report users and their findings, which were used to refine their model, supported their expectations. For example, they reported that a perception by users, that it was the task of accountants to set accounting standards, affected the cognitive legitimacy granted by users, which in turn negatively affected their participation in the process (Durocher et al., 2007, p. 53).

There are also a number of studies which relate to the IASC period. Kenny and Larson (1993), in their examination of the submissions made to the IASC on the issue of Joint Ventures, listed only two report user organisations: the Security Analysts Association of Japan and the US Association of Investment Management Research (AIMR). Kenny and Larson (1995) also reported a low level of user participation in their examination of submissions relating to 14 exposure drafts that the IASC