Agenda Formation in Accounting Standards-Setting

By
Bryan Arthur Howieson BCom.(Hons) MCom.

This thesis is presented for the degree of
Doctor of Philosophy of
The University of Western Australia

UWA Business School

Accounting

2016
THESIS DECLARATION

I, Bryan Arthur Howieson, certify that:
This thesis has been substantially accomplished during enrolment in the degree.

This thesis does not contain material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution.

No part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of The University of Western Australia and where applicable, any partner institution responsible for the joint-award of this degree.

This thesis does not contain any material previously published or written by another person, except where due reference has been made in the text.

The works are not in any way a violation or infringement of any copyright, trademark, patent, or other rights whatsoever of any person.

The research involving human data reported in this thesis was assessed and approved by The University of Western Australia Human Research Ethics Committee. Approval #: RA/4/1/5309.

This thesis contains only sole-authored work, some of which has been published and/or prepared for publication under sole authorship.

Signature:

Date: 14th December, 2016.
ABSTRACT

This thesis examines the agenda formation processes of accounting standard-setters. The main body of the thesis consists of three papers which respectively (1) review the literature provided by standard-setters regarding their agenda processes, (2) analyse the political pressures on standard-setters that were generated by the Global Financial Crisis, and (3) document how the sphere of authority (SOA) of the Australian Accounting Standards Board (IASB) was impacted over the period 2002 to 2012 following Australia’s adoption of International Financial Reporting Standards (IFRS). The thesis documents how political pressures can result in a standard-setter losing control of its agenda of technical topics but it also shows how standard-setters can proactively generate a strategic agenda in which the technical agenda is a tool for improving the quality of financial reporting. Although the SOA of the AASB collapsed in 2002 after IFRS adoption, the arrival in 2009 of an assertive and motivated Chair at the AASB reinvigorated the AASB’s SOA. This was achieved, in part, by promoting the AASB as a leader within a regional coalition of national accounting standard-setters. The thesis demonstrates that we can achieve a deeper understanding of why a standard-setting organisation behaves as it does if we investigate the personal characteristics of key individuals in those organisations such as the Chair.
“... the further we go and the more closely we study, the more plainly is it brought home to us that we merely are waifs shipwrecked on the ocean of Nature; and ever and anon, from a sudden wave more transparent than others, there leaps forth a fact that in an instant confounds all we imagined we knew.”

Maurice Maeterlinck, *The Life of the Bee*, 1901
CONTENTS

Thesis Declaration i
Abstract ii
Acknowledgements v
Authorship Declaration: Sole Author Publications vi

Chapter 1: Introduction 1
  1.1 Background 1
  1.2 Structure of the Thesis 3
  1.3 The Themes of the Thesis 4

Chapter 2: Agenda Formation and Accounting Standards Setting: 11
Lessons from the Standards Setters

Chapter 3: GFC or KFC: How Accounting Standards-Setters Were 35
Battered and Fried

Chapter 4: The Phoenix Rises: The Australian Accounting Standards 49
Board and IFRS Adoption

Chapter 5: Conclusions 111
  5.1 Introduction 111
  5.2 Accounting Standard-Setters’ Agendas 112
  5.3 The Relationship Between the IASB and NASSs 114
  5.4 The Role of Individuals 116
  5.5 Future Research 118
ACKNOWLEDGEMENTS

I have known my supervisor Philip Brown for about thirty-five years (for the statistically minded that’s about 64% of my lifetime!). Throughout those years he has been my lecturer, colleague, supervisor but especially my mentor and friend. Philip has patiently put up with my foibles, my ‘feet of clay’, and my terrible sense of humour and never gave up on me even though he must have often despaired that this thesis would ever get completed. Of course, I am just one of a great many people who have benefitted from his kindness and generosity and I count myself considerably lucky to have enjoyed the company of this colossus of our discipline. Philip, I am, of course, forever indebted for your friendship and support and I thank you most sincerely for all that you have done for me over the years.

Over the many years that this thesis has taken to come to fruition, I have also been blessed to have had the support of so many of my friends among the academic community in Australia, New Zealand and elsewhere. I thank all of them for their kindness. Without wishing in any way to downplay my thanks to this multitude, I would especially like to acknowledge the enthusiastic and generous encouragement of Paul De Lange, Robert Faff, Frank Gilders, Kate Harris, Michael Jones and Brendan O’Connell who kept the faith that this thesis would be completed.

I also wish to thank the anonymous interviewees of Chapter Four who willingly and frankly shared their experience of standard-setting with me and who, over many years, have supported my commitment to their endeavours.

Finally, I thank Mum, Dad and Greg Howieson and Christopher James for the love, support and sacrifices that they have made on my behalf.

Bryan Howieson
Adelaide, 14th December, 2016
AUTHORSHIP DECLARATION: SOLE AUTHOR PUBLICATIONS

This thesis contains the following sole-authored work that has been published and/or prepared for publication:

Details of the work:

Location in thesis:
Chapter Two

Details of the work:

Location in thesis:
Chapter Three

Details of the work:
Howieson, B. A., “The Phoenix Rises: The Australian Accounting Standards Board and IFRS Adoption”, currently undergoing third review with the *Journal of International Accounting Research*.

Location in thesis:
Chapter Four

Signature:

Date: 14th December, 2016
CHAPTER ONE

Introduction

1.1 Background

The quality of financial reporting in the world’s capital markets is significantly influenced by the requirements of accounting standards. Despite the technical nature of these accounting standards, their content is often highly controversial (see, for example, Howieson, 2011; Thesis, Chapter Three) because changes in financial reporting requirements have the potential to shift wealth among interested parties such as managers, shareholders and debtholders (Watts and Zimmerman, 1986). Internationally and domestically accounting standards are determined by small technically elite committees who, although not appointed by populist vote, follow a public due process in the development of these standards as a means of managing constituent reactions to them. Until very recently, only relatively late stages in the due process have been observable to outsiders (i.e., from the issuance of an exposure draft to the release of the final standard) and consequently the manner in which topics are added to the technical agenda of an accounting standard-setter has remained something of a ‘black box’ (Walker and Robinson, 1993). However, the setting of the standard-setter’s agenda has the potential to significantly impact on the standard-setter’s constituents because control of the agenda determines what topics are addressed, how they are defined (their scope), and, as a result, the content of any standard that might ultimately be issued. As the agenda setting process has been largely unobservable, how the agenda is set and managed remains an open question. For example, it is unknown whether the determination of an accounting standard-setter’s agenda is independent of any particular constituent group’s influence.

This thesis expands our understanding of accounting standard-setting by exploring, in a series of three related papers, the processes associated with the technical and politico-strategic agendas\(^1\) of accounting standard-setters. In particular, the thesis investigates these matters with an emphasis on the individuals who work within accounting

\[^1\] The concept of an ‘agenda’ is defined in Chapter Two and how that concept is understood by accounting standard-setters is investigated in Chapter Four.
standard-setting entities and the political environments that they experience. The thesis is motivated by:

i. a general paucity of evidence about the agendas of accounting standard-setting. Relative to the extensive literature on the lobbying of standard-setters by interested parties such as accounting firms and corporations, there is only a small body of published papers on accounting standards agenda setting. Chapter Two presents the arguments as to why agenda setting is an important research topic. However, in summary an entity’s ability to control a standard-setter’s technical agenda, for instance, affects whether a topic becomes the subject of an accounting standard and how that topic is defined and understood as a subject for rule making;

ii. calls for research which investigates the role of individuals within accounting standard-setting entities to supplement the available evidence on the behaviour of those organisations (Allen and Ramanna, 2013; Gipper et al., 2013). For example, although the deliberations of the members of accounting standard-setting boards are generally observable via written minutes and attendance at meetings, little is known about the role played in agenda formation by the technical support staff;

iii. calls for research that explores the less observable processes of accounting standard-setting of which agenda formation is a part and which requires researchers to gather evidence beyond the (potentially sanitised) written records that have typically been used in studies investigating lobbying behaviour (Walker and Robinson, 1993; Gipper et al. 2013). As the agenda formation activities of accounting standard-setters have, until recently, been largely unobservable to outsiders, the determination of an accounting standard-setter’s agenda is potentially a useful vehicle for a lobbyist to attempt to exert influence in its self-interest; and

iv. since 1991 the candidate has enjoyed a productive association with staff and board members of the Australian Accounting Standards Board (AASB) with whom he has acted as a consultant and researcher on various standard-setting

---

2 It is only in recent years that accounting standard-setters have begun to publish summaries of their agenda decisions. Although this development assists in making accounting standard-setting processes more transparent, written summaries provide limited information on the deliberations that drove the decision.
projects. This association provides a rare opportunity for the researcher to access ‘insider experience’ with the agenda formation process.

### 1.2 Structure of the Thesis

Following this introductory chapter, this thesis contains the following three papers which are presented as Chapters Two to Four:


Chapter Two presents a literature review of how the agenda decision is experienced by individuals within accounting standard-setting entities, primarily but not exclusively the U.S. Financial Accounting Standards Board (FASB). That review identifies a number of potential research topics some of which, as discussed in section 1.3 below, form the basis for the archival research reported in Chapter Three and the interview-based study reported in Chapter Four. As noted above, the papers forming Chapters Two and Three have been published. At the time of submitting this thesis, the paper that forms Chapter Four is unpublished but it is currently undergoing a third review at the *Journal of International Accounting Research* and it was selected in a competitive process for presentation as a ‘plenary’ paper at the Joint International Conference of the *Journal of International Accounting Research/Accounting, Organizations and Society*, Augsburg, 7 – 9 July, 2016. The paper was presented at that conference and was also presented at the Annual Conference of the Accounting and Finance Association of Australia and New
Zealand (AFAANZ), Gold Coast, 3 – 5 July, 2016 where it won the Best Paper prize in the International Accounting stream. Further, as acknowledged on the front page of that paper, it has benefitted from considerable workshopping and feedback from eminent scholars.

The collective implications and contributions of the three papers are presented in Chapter Five, which concludes the main body of the thesis.

1.3 The Themes of the Thesis

As noted in section 1.1, it has long been recognised that accounting standard-setting is a political process (see, for example, Solomons, 1978; Zeff, 2006). The majority of academic research has investigated this political process within the context of lobbying on accounting exposure drafts with a focus upon the political strategies of lobbyists external to the standard-setter. There has been far less research on the standard-setting processes that occur prior to the release of an exposure draft and little attention has been paid to whether standard-setters themselves are proactive in managing the political implications of their activities.

With this context in mind, the paper in Chapter Two reviews the literature generated directly by accounting standard-setters about their experience and perceptions of the agenda processes involved in standard-setting. The objective of Chapter Two is to collate and analyse publicly available statements by accounting standard-setters about how the technical agenda is determined. A literature review provides the foundation for identifying gaps in our understanding of agenda setting and consequently prompts research questions for investigation in this thesis. However, standard-setters may be reticent to reveal in public statements any information that may indicate bias or other factors that could be perceived negatively. Further, some aspects of the agenda setting process may have become so intuitive to standard-setters that they find it difficult to provide explicit statements on those matters. An attempt to reduce the impact of these potential limitations provides a motivation for the interview based study that forms Chapter Four.
The literature review in Chapter Two suggests some key sets of research questions including:

1. To what extent do accounting standard-setters have a politico-strategic agenda and what, if anything, is the inter-relationship between the politico-strategic agenda and the agenda of technical accounting topics (Howieson, 2009, pp. 581, 595; Thesis pp. 15, 29)? To what extent do accounting standard-setters (both national accounting standards-setters and the International Accounting Standards Board (IASB)) have autonomy over their technical agenda, especially given the significant rise in the acceptance across many jurisdictions of International Financial Reporting Standards (IFRS)?

2. What is the political nature of the relationship between the IASB and National Accounting Standard-Setters (NASSs) and how does this impact upon the agendas of accounting standards-setters? What strategies do these entities adopt to maintain and expand their own political influence? (Howieson, 2009, p. 595; Thesis p. 29)?

3. Accounting standard-setting entities consist of small numbers of technically elite rule makers and support staff who play specially defined roles in a jurisdiction’s financial reporting regulation. Given this context, what is the role of individuals within those entities in determining those entities’ agendas (Walker and Robinson, 1993, p. 9; Howieson, 2009, p. 580; Thesis p. 14)?

Prompted by this review, the paper in Chapter Three addresses the first and second set of questions above by way of an analysis of the impact of the Global Financial Crisis (GFC) on the IASB and the Financial Accounting Standards Board (FASB). The paper that forms this chapter (Howieson, 2011) was an invited commission for the *Australian Accounting Review*. The paper was designed to be a timely investigation of the impact of the GFC and so adopted an approach that uses archival data readily available from the media, standard-setters, political committees and other sources. As with the literature review in Chapter Two, this research method could be limited by restrictions
imposed by any inaccuracies in the various sources or by an unwillingness for some sources to reveal all pertinent information. However, the wide variety of sources consulted in the preparation of the paper assists in triangulating the information content and reduces noise that may otherwise lead to a misinterpretation of events.

The paper in Chapter Three documents the response generated by these two entities at an organisational level to the political pressures they experienced. The analysis of this data revealed that the IASB and the FASB were significantly underprepared to manage external political pressures in a time of high crisis. The agenda and standard-setting processes of both accounting standard-setters were seriously impaired as politicians with populist objectives and self-interested financial institutions sought to exploit the GFC as a means to damage the credibility of fair value measurement and shift blame for the crisis on to accounting standards. The oversight committees and due process rules of both standard-setters were insufficient to protect the IASB and the FASB from this outside interference and accounting standard-setters were not well equipped to manage a debate that was driven by political rather than technical concerns. This resulted in the IASB and FASB entering into ‘tit-for-tat’ ad hoc revisions to their respective financial instruments standards in an attempt to placate the lobbyists. The resulting threats to the legitimacy of the two accounting standard-setters were only diminished when external parties representing users of financial statements (such as the Financial Crisis Advisory Group and investment analysts) publicly complained about the political interference with the standard-setters’ independence. The case demonstrates the fragility of standard-setting processes that emphasise technical expertise without sufficient preparedness for managing crises.

All three of the above questions are investigated in the paper in Chapter Four using data collected from in-depth interviews conducted in 2012 with six technical staff of the AASB and two founding Board members of the IASB. The interviews elicit insights from those directly involved as to the impact of the Financial Reporting Council’s (FRC) 2002 directive to adopt IFRS from 1 January 2005 on the AASB’s technical and strategic agendas and its sphere of authority (SOA) (Rosenau, 2007). An interview method, rather than a focus group method, was adopted to allow in-depth data to be gathered and without generating any concern among the interviewees that their comments
might be subject to criticism by their colleagues. For example, the then Chair and CEO of the AASB was one of the interviewees. Other technical staff might have sought to temper their comments for fear of offending the CEO if a focus group approach had been adopted. The use of an interview approach also provided an opportunity to avoid the limitations noted earlier about relying on secondary sources of data. On the other hand, there is a danger that the familiarity between the researcher and the interviewees may have ‘polluted’ the data if the interviewees had sought to provide answers they thought were the ones the researcher ‘wanted to hear’. It is considered that this problem was limited, however, because there is no clear evidence in the transcripts that interviewees adopted such a strategy. Indeed, some of the interviewees made explicit comments that were acknowledged as being inconsistent with what might be considered to be prior expectations based on academic theories. For instance, interviewee DD commented

“I mean, putting it bluntly, I think you and I have talked about whether you needed a conspiracy theory to kick your paper along. I don't think you do.”

Such statements show a willingness for the interviewees to put their own views forward.

The study in Chapter Four identified three periods during which the AASB’s SOA waxed and waned. Prior to 2002 the SOA of the AASB was international and influential, primarily through its involvement in the G4+1 group of standard-setters (Street, 2005; Camfferman and Zeff, 2007). However, as a result of the FRC’s directive in 2002, the AASB’s SOA collapsed to local issues with an emphasis on public sector and private not-for-profit sector accounting issues. Initial efforts by the AASB to regain its SOA were unsuccessful. Interviewees indicated that the AASB’s SOA deteriorated because the IASB no longer needed to attract Australian adoption of IFRS. Instead, the IASB moved on to courting other countries who it wished to convert to IFRS adoption. The AASB’s SOA remained limited until 2009 when a growth in the development of an Asian-Oceanian bloc of standard-setters combined with a new AASB Chair (who had considerable prior experience with the IASB). The new Chair revitalised the AASB’s SOA by driving a politico-strategic agenda that promoted IFRS adoption in the region. This in turn helped to further develop a regional epistemic community of standard-
setting staff through the vehicle of the Asian-Oceanian Standard-Setting Group (AOSSG).

In addition to this chronological investigation, other major themes were identified in the analysis of the interviews. For example, one theme explores what standard-setters understand by the term ‘agenda’ and how this extends beyond the ‘technical agenda’ which is commonly the focus of academic literature. The interviewees indicated that the technical agenda is one tool that can be used in furthering a standard-setter’s strategic agenda. In the case of the AASB, the strategic agenda had two objectives: (i) promoting the regional adoption of IFRS and (ii) promoting standards for the public sector. Another theme investigates the power relationship between the IASB and NASSs. This latter theme has eight sub-themes which explore the various mechanisms by which an accounting standard-setter may seek to promote its own relative power and influence with other accounting standard-setters. One of the important implications from the analysis of these themes is the significance of developing an understanding of the motivation and characteristics of key individuals such as the standard-setter’s Chair. Knowledge about what motivates a Chair, their particular political skills, and how they are moulded by their prior experience are important determinants of how the standard-setting entity behaves. Consequently, if the unit of analysis moves beyond the organisation itself to the individuals within standard-setting organisations, future research into accounting regulation may be able to develop greater understanding of, for example, the patterns of behaviour adopted by standard-setting organisations or why IFRS adoption is more successful in some jurisdictions than others. Morely’s (2016) recent study of how the social psychology of the individual Board members of the IASB impacted on the presence of fair value measurements in IFRS is one useful example of such a change in research focus.
REFERENCES


CHAPTER TWO

Agenda Formation and Accounting Standards Setting: Lessons from the Standards Setters
Abstract

There are many studies on lobbying of accounting standards, but the technical agenda of regulators is taken as ‘given’ and why a particular topic was admitted to the agenda is not investigated. Agenda formation is important as control of the agenda determines which topics get regulated and the form of the regulatory response. A few studies have explored agenda formation across regulatory institutions but are largely silent on the role of individual decision makers and technical staff. However, the standards setters have sought to explain their agenda processes. This paper reviews statements by the members of accounting standards setting agencies about their experiences of agenda formation. It identifies insights gained from standard setters and makes some suggestions for future research.

Key words: Agenda formation; Accounting standards setting; Financial reporting regulation

JEL classification: M48

doi: 10.1111/j.1467-629X.2009.00299.x

1. Introduction

A very extensive literature exists which examines the lobbying behaviour of various interest groups (principally large corporations and large accounting firms) with respect to regulations/standards proposed by accounting and auditing standards setting entities (primarily in the USA, UK and Australia). Much of this literature is reviewed in Walker and Robinson (1993), Baskerville and...
Newby (2002), and Zeff (2006) with other recent studies including Hill et al., (2002), Wilson and Ahmed (2002), Monem (2003), Tandy and Wilburn (2003), and Georgiou and Roberts (2004). In general, these lobbying studies examine one or more of the following topics:

- What economic incentives exist for various entities to lobby accounting standard-setters?
- How do economic incentives influence the preferences of lobbyists for the specific proposals of accounting standard setters?
- Is the lobbying behaviour of large accounting firms independent of the lobbying preferences of the firms' clients?
- Are accounting standard setters responsive to the concerns of lobbying entities and are the standard setters unduly influenced by particular interest groups?

Walker and Robinson (1993) in their review of the lobbying studies literature strongly argue that our understanding of the accounting rule setting process is highly incomplete because in the existing literature (Walker and Robinson, 1993, p. 9):

1. the issues examined by the researchers have been limited to items already on the formal agenda\(^1\) of rule making bodies;

2. the studies have only examined written submissions, which provide limited insights into the nature of political activity surrounding accounting rule development.

They go on to indicate that the issue of how items find their way on to the standard setting body’s agenda is vitally important but not well understood (Walker and Robinson, 1993, p. 9):

Hence the studies are looking at a late stage of the rule-making process on particular issues – the stage that may be the least contested. The answers to important questions such as How do issues gain admission to the agenda of a rule-making body?, How are some issues removed from the agenda or from active consideration?, What prompts the rule-making body to review or enact an accounting rule?, and Who are the gatekeepers that control the rule-making agenda? may reveal the existence of more significant lobbying behaviour than that evident in written submissions to discussion memoranda or exposure drafts. To date . . . there has been little attention directed to such questions.

\(^1\) The term ‘agenda’ is used in a general sense here to refer to the list and ranking of potential technical accounting or auditing topics for formal consideration by an accounting or auditing standards setting body. The concept of an ‘agenda’ is more formally explored in Section 2 of this paper.
The rule-makers themselves support the fact that agenda formation is an important aspect of standard setting. For instance, Beresford, an ex-Chairman of the US Financial Accounting Standards Board (FASB), has asserted (1993, p. 70):

I continue to believe that agenda setting is the single most important decision that we make at the FASB. Yet, for all the care that goes into this process, it may be one of our least understood and least appreciated activities.

The agenda of the rule makers is also of interest to those who might be affected by any potential accounting rule. Beresford reports that (1989b, p. 2):

[O]ne reason the Board has yet to win any popularity contests is that it is perceived as doing things to people rather than for people. Maybe that is why so many constituents are preoccupied with how and why we place topics on our agenda. Perhaps they reason that if the FASB doesn’t put anything on the agenda, it can’t ‘do’ anything to us.

Fogarty et al. (1992, p. 26) have argued, inter alia, that although accounting standard setters (in particular, the FASB) have asserted in their authoritative statements that ‘agenda setting is accomplished in a neutral manner’, acceptance of such a statement does not provide a basis for adequately studying the activities of accounting standard setters. This problem is not overcome when it is noted that ‘most all of the publicity that [a standard setter] receives pertains to the nature of its output’ (Fogarty et al., 1992, p. 33) whereas the agenda decision goes virtually unexplored by accounting researchers. They note that the shaping of the agenda reflects the actual power among a standard setter’s constituents. They summarize the significance of understanding the importance of the agenda process as follows (Fogarty et al., 1992, pp. 36–36):

[Agenda decisions form an important domain to consider in understanding standard-setting. Far from a neutral effort to identify that which needs to be repaired, agenda processes reflect the same political dilemmas that pervade the balance of standard-setting. However, due to the strategic interests of the [standard-setter] and its ability to pursue its survival objectives, agenda setting cannot be thought of as a process wholly dominated by constituent wishes. Such a view is consistent with an unsophisticated notion that politics are evil. Project selection constitutes highly politicized action and merits study in that light.

Despite the importance of the agenda formation process, it has largely remained unexamined by accounting researchers except for a small group of empirical studies (Nobes, 1991, 1992; Young, 1993; Klumpes, 1994, 1995; Mezias and Scarselletta, 1994; Walker and Robinson, 1994a; Gordon and Morris, 1996; Ryan, 1998; Weetman, 2001; Hodges and Mellett, 2002; Jones et al., 2004). One reason for the paucity of literature on the agenda formation process is the difficulty in observing it. The majority of the papers just cited (with the exception of Mezias and Scarselletta (1994)) explore agenda formation at

© The Authors
Journal compilation © 2009 AFAANZ
the institutional level, often using the ‘issue expansion’ models of Cobb *et al.* (1976) and Cobb and Elder (1982) and they commonly view agenda formation as a ‘competition’ between rival regulators for control of the ‘regulatory space’ (see e.g. Walker and Robinson, 1994a). Largely missing from this extant literature is the study of the individual actors (i.e. standards board members and their technical staff) who are primarily responsible for making agenda decisions. Knowledge about how standards setter ‘insiders’ (as individuals and as a group) analyse and prioritize potential technical topics would fill a large gap in our understanding about the political processes surrounding standards setting. It would also assist lobbyists to understand how they might best frame their petitions to regulators and assist the regulators to more clearly explicate the reasons for admitting or rejecting a particular technical item on their formal agenda.

Space considerations do not allow a formal review here of the existing accounting agenda studies cited above or of the models developed in the politics literature for studying the agenda formation process.\(^2\) Rather, the focus of the present paper is to collate the existing literature on agenda formation that describes the agenda experiences of the standards setters themselves and, in the light of this review, suggest some potential research topics that explore accounting standards setting agenda formation at the micro level, rather than at the institutional level that has been the major focus to date.

The present paper proceeds by describing the concept of an ‘agenda’ and then Section 3 describes the anecdotal evidence provided by members of the US FASB. Section 4 describes the scant direct evidence provided by other standards setters, such as the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB) as to how they make agenda decisions. The present paper finishes by using the literature review to suggest some future research topics.

2. The concept of an ‘agenda’

The term ‘agenda’ can be used in a neutral and descriptive sense to refer to a list of items that are to be the subject of consideration by an entity or group. The list may be a series of problems, issues, or activities that need to be resolved or undertaken. The list could also be a set of objectives that need to be achieved.\(^3\) The term ‘agenda’ is used here in the sense of the list of accounting problems or issues that the standards setter has formally acknowledged as those topics that it is actively considering for the promulgation of accounting standards

\(^2\) The interested reader can find an excellent summary of the political models in Robinson (2000).

\(^3\) Sometimes, the term *agenda* can carry negative connotations where it is used to convey the perception than an entity or group is acting to promote its own self-interest at the expense of others.

© The Authors
Journal compilation © 2009 AFAANZ
or other authoritative pronouncements. The agenda of accounting standards setters is often referred to as a ‘technical agenda’ because it is a list of projects for which the standards setter is developing accounting rules about definitions, recognition criteria, measurement, and disclosure items. The technical agenda can be distinguished from a ‘political’ agenda by which the standard setter might, for example, be seeking to defend or extend its power in the regulatory arena.\textsuperscript{4}

The political science and mass communications literatures have noted that the concept of an agenda can be an extremely complex one. Rogers \textit{et al.} (1993, p. 69, italics in original), for example, have noted that studies into the agenda setting process within the mass communications literature can be classified into three types:

\textit{Media} agenda setting includes those studies that conceptualize the mass media news agenda as the main dependent variable of study. \textit{Public} agenda setting includes those studies that conceptualize the relative importance of issues to members of the public as the main dependent variable of study. \textit{Policy} agenda setting includes those studies that conceptualize the issue agenda of governmental bodies or elected officials as the main dependent variable of study.

In the accounting literature, studies of agenda formation have primarily fallen within the ‘policy’ category, where the focus has been upon the technical agenda of an accounting standards setter such as the IASB, the FASB or the AASB.

Within the context of the ‘policy’ agenda setting category, Kingdon (1984, p. 204) has sought to clarify the nature and complexity of a policy agenda:

A governmental agenda is a list of subjects to which officials are paying some serious attention at any given time. Thus an agenda-setting process narrows the set of subjects that could conceivably occupy their attention to the list to which they actually do focus. Obviously, there are agendas within agendas. They range from highly general agendas, such as the list of items occupying the president and his immediate inner circle, to rather specialized agendas, including agendas of such subcommittees as biomedical research or waterway transportation. Subjects that do not appear on a general agenda may be very much alive on a specialized agenda.

These comments illustrate the highly dynamic nature of the agenda setting process by which potential issues of interest emerge, might become a matter of general attention, and finally may (or may not) be admitted to the specific policy agenda of an appropriate rule-maker. The quote also demonstrates the potential complexity of the agenda process, which ‘poses considerable problems for the

\textsuperscript{4} Of course, the two types of agendas are interrelated as demonstrated by research studies which have explored the competition between alternative rule making bodies (see e.g. Walker and Robinson, 1994a, 1994b; Klumpes, 1995).

© The Authors
Journal compilation © 2009 AFAANZ
researcher aiming to develop a universal model of the agenda process’ (Robinson, 2000, p. 13).

The formation of an agenda is just part of a policy making process that Kingdon (1984, p. 3) has suggested consists of at least four stages: ‘(1) the setting of the agenda, (2) the specification of alternatives from which a choice is to be made, (3) an authoritative choice among those specified alternatives, as in a legislative vote or a presidential decision, and (4) the implementation of the decision.’ For Kingdon (1984, p. 4), a thorough understanding of the agenda process extends across the first two stages of the policy-making process, that is agenda setting and alternative specification, because different entities or ‘actors’ might play different roles in these stages. For example, members of a standards setting board may promote a particular accounting issue on to the technical agenda but it might be the board’s technical staff who determine and define the set of alternative accounting solutions to that issue.

The role of the actors in the agenda process cannot be separated from the nature of the issues. At least two different distinctions can be found in the literature. Schattschneider (1960, pp. 22–28), for instance, has distinguished between ‘private’ and ‘public’ definitions of issues. Private issues are those strongly controlled by powerful special interest groups who gain by their ability to control the ‘rules of the game’. Public issues, on the other hand, are debated in the context of the whole, or a major segment, of the community and are an important component of democratic society. In accounting, there have often been claims that standards setting has been ‘captured’ by private interests (e.g. Walker, 1987). A second distinction lies in whether the issue in question is perceived to lie within the boundaries of ‘high’ or ‘low’ politics (Pross, 1992). Issues fall within the domain of ‘high’ politics if they are believed to be too important to leave to special interests or government entities. Rather, ‘[t]hey have to be resolved by the political leadership after full dress debate in the media, in Parliament, and often at intergovernmental meetings’ (Pross, 1992, p. 165). Recent events such as the ‘crises’ sparked by the subprime mortgage market and Enron illustrate situations in which solutions are demanded at the level of ‘high’ politics rather than just from agencies such as the Securities and Exchange Commission (SEC) or the FASB.

3. Anecdotal evidence on the agenda decisions of accounting standard setters

Although accounting academics have not extensively explored the agenda process of standards setters, those affected by those decisions (such as financial statement preparers and auditors) ask ‘recurring questions’ about why the standards setters select the projects that they do (Beresford, 1993, p. 70). In the USA, at least, this has been the catalyst for a number of formal statements and papers by the FASB, its Board members, and technical staff that attempt to explain the agenda decision process of that body (Van Riper, 1986; Beresford, 1988, 1989a, 1989b, 1993; Johnson and Swierenga, 1996; Reither, 1997; Miller
et al., 1998; FASB, 2003). There seems to have been little attempt by other accounting standard setting bodies to similarly explain their own agenda decision processes and so the discussion below draws heavily on the FASB experience. Two aspects of this process are now described: (i) the emergence of potential projects; and (ii) the basis on which potential projects are selected for inclusion on the FASB’s agenda.

3.1. Emergence of potential projects at the FASB

Reither (1997, p. 94) has noted that ‘the FASB is mostly reactive rather than proactive in its approach to identifying financial reporting issues’ that might be appropriate for inclusion on its agenda. Similarly, Beresford (1989a, 1993) has observed that other entities have brought nearly all of the potential projects to the FASB and he notes, as an example, that the stock compensation project was proposed by the American Institute of Certified Public Accountants (AICPA). The sources from which potential projects are derived are many and varied and include some formal mechanisms such as the Financial Accounting Standards Advisory Council (FASAC)\(^5\) and topics referred to the FASB from the Emerging Issues Task Force (EITF)\(^6\) as well as many informal sources such as the monitoring of business newspapers and periodicals by FASB technical staff, and the technical inquiries received from financial statement preparers and auditors (Reither, 1997; Miller et al., 1998, p. 68). Professional associations and regulatory bodies such as the AICPA, the Financial Executives Institute, industry organizations, and the SEC\(^7\) also regularly make representations to the

\(^5\) The FASAC consists of over 30 members ‘who are broadly representative of preparers, auditors and users of financial information’ and it has ‘responsibility for consulting with the FASB as to technical issues on the Board’s agenda, project priorities, matters likely to require the attention of the FASB, selection and organization of task forces’ (Financial Accounting Standards Board, 2003, p. 2). In Australia, the AASB has a similar body, the AASB Consultative Group, which typically meets twice a year to comment on the AASB’s work program and to suggest potential topics for inclusion on that work program.

\(^6\) In the past in Australia, the AASB also had topics referred to it by the now defunct Urgent Issues Group (UIG), especially if the UIG was unable to reach a consensus on how a particular issue should be treated. At the international level, Bradford (2007, p. 111) notes that a similarly diverse set of sources of potential topics exist for the International Financial Reporting Interpretations Committee’s (IFRIC) agenda but ‘the primary responsibility rests on the IFRIC members and appointed observers’.

\(^7\) Note, however, the comments of then SEC Chairman, Arthur Levitt, in a letter to members of the US Committee on Commerce on 24 May 2000 regarding the SEC’s involvement in the FASB’s agenda (quoted in Beresford, 2001, p. 82): ‘The Commission [SEC] neither rubber stamps nor dictates the FASB’s agenda or the substance of FASB standards. Rather, the SEC staff evaluates each project and proposed standard to make sure that the FASB’s process is operating in an open, fair, and impartial manner, and that each standard adopted is within an acceptable range of alternatives that serve the public interest and protect investors.’
FASB with regard to adding issues to its agenda (Van Riper, 1986, p. 1; Beresford, 1989b, p. 2; Johnson and Swieringa, 1996, p. 150; Reither, 1997, pp. 95–96; FASB, 2003, p. 3). International developments are another important source of topics, both in terms of identifying new issues and as opportunities for cost sharing on specific projects (Reither, 1997, pp. 96–97; FASB, 2003) and the rapid adoption of International Financial Reporting Standards (IFRS) since 2005 has significantly increased the level of cooperation between the FASB and IASB.

Johnson and Swieringa (1996) provide one of the most comprehensive case studies of how items can be brought to the attention of the FASB and the environmental and political factors that impact upon the debate prior to an agenda decision. In particular, they describe the events surrounding the lead up to the agenda decision for what ultimately became SFAS no. 115, Accounting for Certain Investments in Debt and Equity Securities. Their case study provides a valuable model for other researchers interested in studying how issues emerge as potential agenda projects because of their detailed analysis of the chronology of events, reference to FASB minutes and other relevant documentation, and interviews with key players. However, they do not provide detailed comments on the Board’s actual agenda decision other than for some interesting comments that are pursued further below.

3.2. Admission of potential projects on to the formal agenda of the FASB

3.2.1. New topics

It has been stated that the FASB always has more potential topics than there are resources to devote to them all (Beresford, 1989a, 1989b, 1993). Indeed, Van Riper (1986, p. 1) states that the FASB ‘rejects more proposed topics than it accepts’. From the pool of potential projects we are told that the Board makes ‘its own decisions regarding its technical agenda’ (Beresford, 1989a, p. 27; Reither, 1997, p. 97) and that the decision to add a topic to the formal agenda is made as a ‘collective judgement’ (Van Riper, 1986, p. 1).8

In general terms alternative commentators have suggested that the FASB will add a topic to its formal technical agenda under the following circumstances:

- the topic is viewed as being ‘significant enough’ (Van Riper, 1986, p. 3);
- the topic is ‘most urgent and pervasive and most likely to provide a significant opportunity to improve financial reporting’ (Beresford, 1989b, p. 2);
- the topic is a ‘repair and maintenance’ project (Beresford, 1989b, p. 2); and

---

8 In an attempt to ensure that all technical deliberations occur in public the FASB’s Rules of Procedures prohibit Board members from privately meeting in groups of more than three to discuss technical matters (Van Riper, 1986, p. 6).
the topic possesses the following three characteristics: (i) ‘the problem must be sufficiently significant in terms of its effect on the financial statements and its pervasiveness throughout the economy’; (ii) ‘the alternative solutions to the problem must be sufficiently different to be controversial’; and (iii) there must be a suitably high likelihood that the Board can resolve the issues in a manner that will be acceptable to the constituency’ (Miller et al., 1998, p. 69, emphasis in original).

A common theme among most of these different statements is that, to be considered for inclusion on the agenda, a potential topic must have implications which are far reaching enough and of such material impact that the Board is compelled to act. Beresford (1989a, pp. 26–27) has noted ‘There is not now, and never has been, a project on the Board’s agenda that some substantial portion of our constituency did not believe required action.’ In addition, the statements above imply some political realities in that the topic must matter to at least some significant proportion of the Board’s constituents and there is some a priori anticipation that an ‘acceptable’ solution can be negotiated. Of course, the devil is in the detail and we have no obvious metric for what is ‘enough’, or ‘sufficient’, or ‘significant’ or similar descriptors.

In the interests of public accountability, the FASB has published a set of formal criteria that it claims are used by Board members when making the agenda entrance decision and against which all potential projects are benchmarked. Until recently, this was the only formal statement about the agenda setting decision from any accounting standards setter\(^9\) and so it is appropriate to provide a full quotation of the criteria (FASB, 2003, pp. 3–4):

The Financial Accounting Standards Advisory Council (FASAC) regularly reviews the Board’s agenda priorities and consults on all major projects added to the technical agenda.

After receiving input from the constituency, the Board must make its own decisions regarding its technical agenda. To aid in the decision-making process, the Board has developed a list of factors to which it refers in evaluating proposed topics.

Those factors include consideration of:

\(^9\) In a review of IFRIC’s operations an ex-member of IFRIC (Bradbury, 2007, p. 117) has indicated reasons why potential interpretation topics were rejected for IFRIC’s agenda. The reasons include (from most common to least common): existing guidance was ‘sufficient’, ‘clear’, ‘adequate’ or ‘satisfactory’; the issue was referred to the IASB as part of the consideration of another IASB project; the issue was judged not to be ‘widespread’ or ‘pervasive in practice’ (Bradbury, 2007, p. 118 notes that some issues were not added if they related to issues that were ‘jurisdictional’ specific (e.g. Estonian dividend tax)); the issue was not an interpretation based topic as it was ‘too conceptual’, ‘had limited practical effect’, or was a ‘detailed application rather than principle’; or IFRIC judged that it was unlikely to reach a consensus on the issue.

© The Authors
Journal compilation © 2009 AFAANZ

21
• Pervasiveness of the issue – the extent to which an issue is troublesome to users, preparers, auditors or others; the extent to which there is diversity of practice; and the likely duration of the issue (i.e. whether transitory or likely to persist);
• Alternative solutions – the extent to which one or more alternative solutions that will improve financial reporting in terms of relevance, reliability and comparability are likely to be developed;
• Technical feasibility – the extent to which a technically sound solution can be developed or whether the project under consideration should await completion of other projects;
• Practical consequences – the extent to which an improved accounting solution is likely to be acceptable generally, and the extent to which addressing a particular subject (or not addressing it) might cause others to act, e.g. the SEC or Congress;
• Convergence possibilities – the extent to which there is an opportunity to eliminate significant differences in standards or practices between the U.S. and other countries with a resulting improvement in the quality of U.S. standards; the extent to which it is likely that a common solution can be reached; and the extent to which any significant impediments to convergence can be identified;
• Cooperative opportunities – the extent to which there is international support by one or more other standard setters for undertaking the project jointly or through other cooperative means with the FASB; and
• Resources – the extent to which there are adequate resources and expertise available from the FASB, the IASB or another standard setter to complete the project; and whether the FASB can leverage off the resources of another standard setter in addressing the issue (and perhaps thereby add the project at a relatively low incremental cost).

It is not possible to evaluate the above factors in precisely the same way and to the same extent in every instance, but identification of factors to be considered helps to bring about consistent decisions regarding the Board’s technical agenda.’

The above statement from the FASB is clearly more detailed and captures the more general factors identified in earlier literature. However, as explicitly noted in the last paragraph of the statement, a good deal about the actual operation of these different criteria remains unknown. One matter that is clear is that the criteria allegedly used by FASB members have changed over time. For instance, Van Riper (1986, p. 3), Beresford (1988, p. 1), Johnson and Swieringa (1996), and Reither (1997, p. 97) all indicate that the FASB had previously only used four of the above criteria, namely, pervasiveness of the problem, availability of alternative solutions, technical feasibility, and practical consequences. Over time these four criteria appear to have no longer been adequate for the environment faced by the FASB as, for instance, the global demand for the international harmonization of accounting standards has grown.

3.2.2. Examples of the application of the agenda decision criteria

Some commentators have attempted to indicate how the agenda decision criteria have been applied to particular topics. For instance, Beresford (1988)
specifically sets out, *inter alia*, to demonstrate how the four (as it then was) agenda decision criteria were explicitly applied to admit one topic, accounting for stock compensation, to the FASB agenda while the application of the criteria to another topic, disclosure of risks and uncertainties, meant that it was unlikely to be admitted to the agenda at that time.\(^{10}\) With regard to stock compensation he indicates that this topic was added to the FASB agenda in March 1984 because it explicitly met all four criteria. In the case of pervasiveness, the AICPA, the SEC, and the large accounting firms had presented strong cases to the FASB to reconsider the topic. New techniques had been developed for valuing options suggesting that alternative solutions might be available and that evidence from the AICPA had suggested that the third criterion, technical feasibility, could be achieved. Finally, the ever increasing innovation in stock compensation plans that was being experienced at the time suggested to the Board members that the practical consequences would be that the SEC would intervene (and by implication this was undesirable).\(^ {11}\)

On the other hand, Beresford (1988) suggested that the ‘disclosure of risks and uncertainties’ project being reviewed for inclusion on the FASB’s agenda at that time was unlikely to satisfy the four agenda decision criteria. Although the project had been brought to the attention of the FASB as a result of a report by the AICPA, there was no clear evidence that the majority of the FASB’s constituents felt that this was a significant enough problem.\(^ {12}\) Further, there was apparently considerable difficulty in agreeing on the appropriate scope of such a broadly defined topic that made it more difficult to assess the criterion of technical feasibility. The FASB also had in place FASB Statement no. 5, *Accounting for Contingencies*, which suggested that appropriate disclosure rules already existed and that the problem was more one of ensuring compliance with the rules. Beresford (1988) did not go on to specifically address the fourth criterion, practical consequences, in this case.

As part of an FASB Status Report, Beresford (1989c, p. 2) returns to the FASB’s agenda decision by briefly describing why two projects were added to the FASB’s 1989 agenda, although, in this case, he does not make explicit reference to the four (as they then were) agenda decision criteria. The first of these projects, accounting for interest methods, was added because it had

\(^{10}\) In his article, Beresford (1988) clearly indicates that accounting for stock compensation was admitted to the FASB agenda but he is silent on the ultimate outcome for the disclosure of risks and uncertainties project. His comments suggest that the agenda entrance decision for this latter topic was unresolved at the time of his paper but that he expected that it would not be admitted to the agenda.

\(^{11}\) Despite its admittance to the FASB agenda in 1984, history tells us that this topic remained controversial and that it has since been dropped and later readmitted to the FASB agenda.

\(^{12}\) Indeed, he notes that some were of the view that perhaps this was an issue best dealt with by another organization such as the Financial Executives Institute (Beresford, 1988, p. 3).
been ‘a major controversy . . . for a long time’ and because of a wide diversity of accounting treatments in practice which lacked any cohesive rationale. Similarly, the second topic, impairment of assets, was added to the FASB’s agenda again because of a perceived diversity in practice with respect to how asset write-offs were valued and disclosed and the type of terminology used by different firms in this context. In the case of both of these topics, as described by Beresford (1989c), the criterion of ‘pervasiveness’ would seem to have been the dominant concern of FASB members at that time.

Johnson and Swieringa (1996) in their case study of events surrounding SFAS 115 do not explicitly describe how each of the four criteria (as they then were) were used by Board members to formally admit the marketable securities project on the Board’s technical agenda. However, they do specifically question the ability of the criteria to usefully assist the Board in dealing with what they term a ‘sea change’. This sea change was the major structural and technical changes that had occurred in the finance industry due to wide ranging developments in financial engineering and information technology leading to a transformation in how financial institutions, in particular, used financial instruments. Their experience with SFAS 115 caused them to ask (Johnson and Swieringa, 1996, p. 166):

Do the factors that the Board uses in deciding what to add to its technical agenda work well for sea change issues? Pervasiveness is defined in terms of ‘the extent to which an issue is troublesome,’ but sea change issues are likely to go well beyond troublesome. The factors of alternative solutions and technical feasibility fail to capture the extent to which sea change issues may be ill-defined, information has to be obtained and alternatives have to be fashioned and the factor of practical consequences fails to capture the extent to which sea change issues are perceived as threatening to many of the Board’s constituents. Those constituents may try to ignore the issue, may resist bringing it to the Board’s attention, or may try to convince the Board that the issue should be treated as a limited-scope issue that requires a limited solution – a solution that almost inevitably fits within the current accounting framework. Constituents will rarely suggest that fundamental changes in that framework are required.’

3.2.3. Re-examination of old topics

Beresford (1989b, p. 3) has indicated that the FASB’s Rules of Procedure compel Board members to consider any written requests to review existing accounting pronouncements. In such cases the Board members need to consider whether the arguments presented in the written case were ones which were given adequate consideration in the lead up to the adoption of the pronouncement. In addition, consideration must be given to whether new events have occurred or circumstances have changed to such an extent that a review of the relevant pronouncement would be justified. He notes that the great majority of requests to re-examine existing pronouncements have been denied by the FASB on the grounds that the arguments given by the petitioners have already
been adequately considered or ‘because of cost-benefit or relative priority considerations’ (Beresford, 1989b, p. 3).

3.2.4. Other issues associated with the FASB agenda decision

Three additional issues arise from a review of the anecdotal evidence. These are:

• other factors influencing agenda entrance;
• definition of the scope and method of resolution of an agenda project; and
• projects’ agenda status post agenda entrance.

While describing the ‘frustrations’ of a standard setter, Beresford (1993, p. 71) indicates that ‘polities’ can be viewed as a potential influence on the agenda decision. This can occur in the context of tactics used by lobbying groups who might, for instance, be seeking to have a topic added to the FASB’s agenda as a specific means of delaying any resolution of the topic. As an example he describes the case of accounting for marketable securities in which the AICPA and the Big Six (as they then were) accounting firms urged the FASB to add the topic to its agenda as a response to a call from the SEC for the adoption of mark-to-market accounting. However, when the FASB later issued an exposure draft which contained proposals to adopt mark-to-market accounting on a much more limited basis than originally suggested by the SEC, three of the Big Six firms fervently lobbied the FASB to reject the exposure draft.

Beresford (1993, p. 75) goes on to discuss another political claim which is the allegation that the FASB sometimes adds or deletes projects from its agenda because of ‘political pressure’ from politicians or various regulatory agencies. Although he recognizes the existence of such pressures, Beresford (1993) argues that these pressures are not always as powerful as might be expected. One reason is that different politicians and regulatory agencies are not all sending the same message on the same topic. He also argues that, in his experience, some politicians and regulatory bodies change their lobbying positions over time. However, he does go on to record that sometimes items need to be added to the agenda to instil discipline in financial reporting, even though this might properly be the province of the AICPA or the SEC or other regulators. Such occasions might seem to be exercises in ‘stating the

---

13 Zeff (2006) discusses at length the important role ‘polities’ has played in the promulgation of accounting standards in the USA and other countries.

14 Also see Heath (1990, p. 54) for some examples of how some interest groups seek to delay the standards setting process via manipulation of the FASB’s agenda.

15 Zeff’s (2006) review of lobbying activity in the USA and Europe suggests that political influences (particularly those of governments) might now be more influential and directed than in the past.
obvious’ but they are, nonetheless, important signals that the FASB is serious about compliance (Beresford, 1993, p. 76).\textsuperscript{16}

Some commentators (Van Riper, 1986; Reither, 1997; Miller et al., 1998) note the importance of recognizing that the agenda decision also includes a consideration of what will be the scope or breadth of the proposed topic and what mechanism or vehicle will be used to resolve the problem. In the case of the former issue, Van Riper (1986, p. 3) observes that there is a tendency for proposed topics to broaden in scope as technical staff and Board members review the issues associated with the topic prior to making an agenda decision. Such broadening often occurs as analogous topics and inconsistencies in practice are identified but the scope is always subject to resource and time frame constraints. Reither (1997, footnote 6, p. 97) also notes that the scope of a project can change and that the Board tends to keep an open mind on this matter. However, she indicates that some sort of ‘predefined, preliminary scope’ is used as a benchmark for the agenda decision. Understanding the way in which scope decisions are made is also an important component of the agenda formation process as controversial topics could potentially be ‘scoped in’ or ‘scoped out’ as desired by powerful lobby groups. In addition to the scope issue, Miller et al. (1998) indicate that the Board must also make some decision about what type of pronouncement is to be used to deal with a potential agenda project. In the case of the FASB this might be an accounting standard or an interpretation or a technical bulletin. As these documents all have differing status and therefore influence, this too is another important area of study in the agenda decision process. The case study of SFAS 115 by Johnson and Swieringa (1996) is an excellent example of the importance of who controls the scope of a project. They note how the FASB originally began with a three step plan for a wide-ranging financial instruments project that would first consider disclosures, then recognition and measurement, and finally liabilities and equity. However, ‘almost from the beginning, the original plan for the financial instruments project came under some [external] pressure’ (Johnson and Swieringa, 1996, p. 164) with the result over time that the Board began adding ‘narrowly focused projects on financial instruments’ (Johnson and Swieringa, 1996, p. 163) which ‘significantly altered the overall approach that was planned for the financial instruments project’ (p. 164).

Finally, it is worth noting that the agenda decision is ongoing. Van Riper (1986, p. 3) writes that:

Even after a topic is added to the agenda, the question of whether a standard should be issued continues to be implicit in deliberations at every stage of the project.

\textsuperscript{16} A good example of this type of action by a standard setter is the release in June 1999 of Accounting Interpretation 1, *Amortization of Identifiable Intangible Assets*, by the AASB as a reminder to financial statement preparers and auditors that such assets should be amortised in accordance with the Australian accounting standards that existed at that time.
The time lines for any specific project can be very long. For instance, the description of the SFAS 115 project by Johnson and Swieringa (1996) extends from May 1986 to November 1995 while the time line for SFAS no. 123, *Accounting for Stock-Based Compensation* began in November 1982 and finished\(^{17}\) in March 1995 (Kinney, 1996, p. 181). The importance of a project can be reassessed as circumstances change and it could be dropped (or re-instated) if necessary. As noted in a previous subsection, ‘finished’ projects might reappear for reconsideration in the future, although one might expect considerable resistance from standard setters and others to go over ‘old ground’.

In addition, projects are ranked in importance but we know nothing about how this ranking occurs. Beresford (1989a, p. 27) tantalisingly notes that ‘When several topics suggested to us pass this agenda screening, we must carefully assess the relative priorities of each potential project’ but he is silent on how this is done.

4. Agenda decision criteria at the IASB and the AASB

Until recently there has been virtually nothing written by non-US accounting standards setters about what criteria are used by them to admit potential projects on to their technical agendas. Brief, and not particularly informative, statements can be found on some standards setters’ websites. For instance, in the case of the IASB the following description was offered (IASB, 2003):

‘How does the IASB decide what subjects to add to its agenda?’

Board Members, members of the Standards Advisory Council, National Standard Setters, securities regulators, other organizations and individuals and the IASB staff are encouraged to submit suggestions for new topics which might be dealt with in their accounting standards.

The International Organization of Securities Commissions (IOSCO), which represents securities market regulators around the world, completed a review of IASC Standards in 2000, and their Report contained several areas where their members would like to see improvements in IAS. The IASB Staff are working with IOSCO to determine priorities.

During much of the 1990’s and up to its dissolution in January 2001, the G4 + 1 group of accounting standard setters has been influential in bringing topics to IASC’s work programme. The G4 + 1 includes the Accounting Standards Boards of Canada and the UK, the Australian Accounting Standards Board, the Financial Accounting Standards Board (USA) and the New Zealand Financial Accounting Standards Board. IASC was an official Observer. The G4 + 1 sought to develop common responses to accounting problems around the world. Examples of G4 + 1 activities that resulted in IASB projects were business combinations and reporting financial performance.’

\(^{17}\) Accounting for stock options continued to move in and out of the FASB’s technical agenda after that time.

© The Authors
Journal compilation © 2009 AFAANZ
This description indicates something about where potential topics might come from but it is silent on the process and criteria used by IASB members to formally admit projects to the technical agenda once potential projects have been identified from the sources above.

However, the IASB recently formally signalled the factors that might impact upon its technical agenda in a draft document outlining its consultative arrangements (IASCF, 2006).\textsuperscript{18} Paragraphs 19 to 26 describe agenda setting at the IASB. These paragraphs note that the overarching consideration in making an agenda decision is the needs of the users of financial statements, where the presumption is made that the needs of investors will satisfactorily proxy for the needs of other groups of financial statement users. In the context of assessing user needs, the IASB evaluates the following five factors when deciding whether to add an item to its agenda (IASCF, 2006, para. 21)\textsuperscript{19}:

- ‘the relevance to users of the information involved and the reliability of information that could be provided’ – within this factor consideration is given to changes in the financial reporting and regulatory environment, pervasiveness, urgency, and consequences (IASCF, 2006, para. 54);
- ‘existing guidance available’ – within this factor consideration is given to whether no guidance currently exists, or there is diversity in existing national standards or practice, and whether existing standards are too difficult to apply (IASCF, 2006, para. 55);
- ‘the possibility of increasing convergence’;
- ‘the quality of the standards to be developed’ – within this factor consideration is given to the presence of alternative solutions, the costs and benefits of alternative solutions, and the feasibility of implementing a proposed solution in a timely way (IASCF, 2006, para. 57);
- ‘resource constraints’ – within this factor consideration is given to the presence of expertise external to the IASB, how much additional research effort will be required, and the availability of resources within the IASB (IASCF, 2006, para. 58).

\textsuperscript{18} A similar document exists for IFRIC (IASCF, 2007).

\textsuperscript{19} IFRIC’s due process includes a similar list but it consists of six items (IASCF, 2007, para. 24): ‘(a) The issue is widespread and has practical relevance. (b) The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The IFRIC will not add an item to its agenda if IFRSs are clear . . . (c) Financial reporting would be improved through elimination of the diverse reporting methods. (d) The issue can be resolved efficiently . . . (e) It is probable that the IFRIC will be able to reach a consensus on the issue on a timely basis. (f) If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB’s activities. The IFRIC will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC requires to complete its due process.’ Also see Bradbury (2007) for a discussion of the agenda setting process of IFRIC.

© The Authors
Journal compilation © 2009 AFAANZ
Some parallels can be seen between this list and that described earlier for the FASB. However, like the FASB list, the agenda setting factors offered by the IASB have not been empirically studied and, perhaps more importantly, these IASB factors are contained in a document prepared by the IASC and might not reflect the actual factors used by IASB members in the past or even in the future. In addition, there is no discussion of how the IASB factors interrelate with each other.

The Australian accounting standards setter, the AASB, offers little insight into its agenda setting processes. In 2003 it provided the following details (AASB, 2003):

The AASB monitors its work program on an ongoing basis. Each year the AASB prepares a Business Plan, which includes a work program, for submission to the AASB’s oversight body, the Financial Reporting Council.

The key criteria applied when considering whether to include projects on the AASB’s work program and in making any subsequent modifications are both formal and informal. The criteria are as follows—a project would not have to meet all the criteria to be adopted.

- **International harmonization**—whether a project is likely to help harmonize Australian financial reporting with reporting in other major standard-setting jurisdictions. This includes addressing gaps in the AASB’s Accounting Standards when compared with some other standard-setting jurisdictions. The legislation under which the AASB is constituted establishes international harmonization as a key objective for the Board.
- **Request by constituents**—constituents may ask that the topic be dealt with and justify the need to tackle the issues. The formal channel for constituents to communicate with the AASB is the Board’s Consultative Group.
- **Referral by UIG**—issues may be referred to the AASB by the Urgent Issues Group.\(^{20}\)

Of course, as for some other national accounting standards setters, the decision to adopt IFRS virtually verbatim has significantly impacted upon the control which the AASB has over its technical agenda. With regard to private sector entities, the AASB is primarily reduced to being both a vehicle for the dissemination of IFRS and a lobbyist, like any other, on proposed IFRS. This has meant that the AASB has had to redefine itself more proactively as a standards setter for the public sector and not-for-profit entities.\(^{21}\) In the longer term, there are genuine concerns about the ability of national standards setters, with the exception of

---

\(^{20}\) With the demise of the UIG, the AASB briefly established an ‘Interpretations Agenda Committee’ (IAC) as part of its revised ‘Interpretations Model for Australian Accounting Standards’ (AASB, 2006). This IAC consisted of the AASB Chairman and two AASB members and had the role of making action recommendations to the full board of the AASB about issue proposals, draft IFRIC interpretations, and issued IFRIC interpretations (AASB, 2006, p. 3). Criteria for IAC agenda decisions (AASB, 2006, para. 1(c)) mirrored those of the IFRIC (IASC, 2007). However, a decision to disband the IAC was taken in September 2007 (AASB, 2007, p. 3).

\(^{21}\) Even its autonomy in this domain has been constrained, for example, by the Financial Reporting Council’s direction that the AASB had to undertake a project to converge generally accepted accounting principles and government financial statistics (see FRC, 2002).
regulators in the USA and European Union, to have any significant impact upon the IASB’s agenda as global based standards setting involves more significant disparities in power across potential participants (see Zeff, 2006; Howieson and De Lange, 2007).

5. Conclusions and suggestions for future research

This review of standards setters’ experiences of and policies on technical agenda formation indicates the existence of a rich field of potential research topics. Some influences on the technical agenda clearly occur at the institutional and political level and the studies cited at the beginning of this paper offer some benchmarks against which research can be conducted in those contexts. However, it is also clear that agendas are formed on the basis of decisions made by standards setters as individuals and collectively. Many research projects are possible that explore the agenda decision-making processes of individual or groups of standards setters.

For instance, this paper has described the seven agenda admittance criteria of the FASB (2003) but also noted the apparent flexibility in the way FASB members may use these criteria. Several interesting research questions can be linked to these criteria including:

- Although the criteria used are contained in a formal statement by the FASB, to what extent do individual Board members actually employ these criteria? Are there additional criteria that are used collectively or by individual Board members and are not identified in the FASB’s list? Do members of other accounting standards setting Boards also use these criteria?
- Are the criteria interpreted the same way across all Board members?
- Are the criteria equally weighted in importance and, if not, what weightings are applied?
- Are Board members prepared to make trade-offs between criteria and, if so, on what basis is this done?
- As noted previously, the FASB acknowledges that the application of these criteria may vary across different instances. What factors influence differences in application of the criteria across contexts and in what ways?
- What benchmark metrics are applied either collectively or by individual Board members when making decisions about ‘pervasiveness’, ‘feasibility’, ‘consequences’ and other similar judgements?

Another valuable set of research questions can be linked to understanding how the scope of a potential agenda project is initially defined and how it

---

22 Of course, these questions could equally be asked of the members of any other accounting standards setting body.

© The Authors
Journal compilation © 2009 AFAANZ
might be modified over time. Again, some of the factors affecting a project’s scope will relate to the institutional and political environments but there are also interesting questions to be explored about the role of standards setters’ technical staff in defining and managing technical projects.

Much of the discussion in this paper has related to those regulators who set accounting and auditing standards but, given the interrelationships between such standards setters and other regulators, it would be valuable to learn more about how the members of other regulatory agencies set their agendas. This is particularly true of entities such as the EITF and the IFRIC who can both generate potential agenda items for consideration by their related standards setter or have items referred to them by the standards setter. Such mutual referrals suggest the possibility of interesting political games in defining and shaping agenda items. It might also be interesting to learn if ‘interpretations’ entities use different criteria for agenda entrance to ‘standards setting’ entities, and if so, why that might be the case.

In a related vein, although this paper has stressed the role of individual Board members in the agenda formation process, there is still much work to do at a more macro level, especially given the pre-eminence of the IASB as the global standards setter. As Zeff (2006) notes, the internationalization of standards setting has seen a much more complicated political game being played with a wider range of participants such as politicians, government agencies, and corporate regulators such as the SEC. The involvement of nation states or regional blocs (such as the European Union) potentially makes for a complex clash of cultures and attitudes to accounting regulation that suggest potential research opportunities based, for instance, within the political science literature as to where power resides and how it is exercised (see e.g. De Lange and Howieson, 2006). The existence of such powerful forces suggests an interesting question as to the extent to which even the members of the IASB have autonomy over the IASB’s technical agenda.

Research methods to address these various topics can include detailed chronological case studies like the type conducted by Johnson and Swierenga (1996) and behavioural research methods to help identify, for example, the specific criteria used by standards setters and how those criteria might be weighted. Some of the data for research into standards setters’ decisions will be found in the public domain by way of minutes, memos, and other documentation. For example, since 2002 the agenda decisions of the IFRIC are now made public on the Web (IFRIC, 2007) and offer an opportunity for more insight into the factors driving agenda formation, at least in the context of ‘interpretations’. However, it will also be necessary to go beyond written evidence (which might be susceptible to a ‘sanitation’ process) to interact directly with the members of standards setting entities. If this is to be a mutually fruitful experience, researchers must ensure that their research questions and methods have been sufficiently developed and tested prior to making demands on standards setters’ time.

© The Authors
Journal compilation © 2009 AFAANZ
References


Australian Accounting Standards Board, 2006, Australian Accounting Standards Board Interpretations Model (AASB, Melbourne, Vic.).

Australian Accounting Standards Board, 2007, Action Alert 107 (AASB, Melbourne, Vic.).


Beresford, D. R., 1989b, Notes from the chairman, FASB Status Report 81, 2–3 May.

Beresford, D. R., 1989c, Notes from the chairman, FASB Status Report 82, 2–3 June.


© The Authors
Journal compilation © 2009 AFAANZ


Tandy, P. R., and N. L. Wilburn, 2003, Fortune 500 participation in the FASB’s standard-setting process: a silver anniversary analysis. Paper presented at the American Accounting Association Annual Conference; August 3–6, Honolulu, HI.


© The Authors

Journal compilation © 2009 AFAANZ


CHAPTER THREE
GFC or KFC: How Accounting Standards-Setters Were Battered and Fried
GFC or KFC?: How Standard Setters Were Battered and Fried

Bryan Howieson

The Global Financial Crisis (GFC) has proven to be a theatrical giant to rival Shakespeare’s *Julius Caesar* (1601) for it allowed those opposed to fair values and mark-to-market accounting to “Cry ‘Haroe’ and let slip the dogs of war” upon the International Accounting Standards Board (IASB) and the United States’ (US) Financial Accounting Standards Board (FASB). The assault has been ferocious and wide spread and has, according to the Financial Crisis Advisory Group (FCAG), potentially undermined confidence in the standard setting process and risked the very movement for the global convergence of accounting standards (FCAG 2009: 12). Central to the debate have, *inter alia*, been the issues of the application of fair value measurements in illiquid markets, the use of off-balance sheet entities for securitisations, the recognition of loan losses, and the lack of clarity in relevant accounting standards. These matters have been discussed elsewhere (see, for example, Laux and Leuz 2009). Rather this paper analyses the political pressure applied to the IASB and FASB and evaluates the responses of those entities to that pressure.

The ability of standard setters to appropriately and independently manage and react to such pressures is central to promoting convergence efforts and to maintaining the quality of financial reporting (Dean and Clarke 2010). This paper will show how the existing mechanisms for promoting standard setters’ independence (namely due process and oversight bodies) were overwhelmed in 2008 and 2009 as the standard setting boards were battered by a clash of economic and cultural interests (for example, the European Union (EU) and the US) and then fried in a political oil heated by the self-interests of some elements of the financial sector. The GFC’s impact on regulation is not limited to accounting standard setters as capital market and prudential regulators were also boiled in the political pot. Although in 2010 it would seem that the IASB and FASB have been able to get out of the frying pan, it is still too early to determine whether they have also escaped the fire. This review of the history of standard setting during the GFC may provide insights for the protection of standard setters in future crises.

*Correspondence*

Bryan Howieson, Business School, University of Adelaide, South Australia. Tel: (08) 83034760; fax: (08) 82234782; email: bryan.howieson@adelaide.edu.au

doi: 10.1111/j.1835-2561.2010.00115.x
2008 – The Heat is On

As the contagion of the GFC spread during the first half of 2008, claims emerged that fair value mark-to-market accounting was to blame – some suggested it was the ‘cause’ of the GFC while more moderate critics suggested that it was the ‘pro-cyclical’ consequences of mark-to-market accounting that were at fault. Initially, the media reported that the IASB would not ‘dilute’ its fair value standards (Anon. 2008a). However, by August 2008 the press reports were beginning to show that the independence of the IASB to determine the contents of its standards was at risk (Norris 2008a: 13): ‘The European Union has asserted the right to approve or modify each standard issued by the International Accounting Standards Board and did allow banks to ignore part of one standard. In an effort to deal with that issue, the SEC [Securities and Exchange Commission] has said it would accept filings using international standards only if they complied fully with the standards as issued by the board’.

The EU’s assertion of its sovereignty over accounting standards within its member countries was imposed by an elaborate and cumbersome multi-entity advisory and approval structure including the European Financial Reporting Advisory Group (EFRAG) whose role is to advise the European Commission as to the appropriateness of any IASB standard. EFRAG in turn consists of two entities, a Technical Expert Group and a Supervisory Board as well as other working committees (see Perry and Nöelke (2005) for a more detailed description of the European endorsement process for international accounting standards). This endorsement process slows down approval of IASB standards for use in the EU and also provides many opportunities for lobbying interventions.

Pressure on standard setters (and other capital market regulators) was also growing across the Atlantic. The Bush administration’s Troubled Asset Relief Program (TARP) tackled the economic impacts of the GFC including, on 3 October 2008, the Emergency Economic Stabilization Act. As a result of lobbying by banks and some Republican politicians (Norriss 2008b), section 133 of that Act required the SEC to conduct a study into the effects and impacts of mark-to-market accounting as promulgated in FASB standard FAS 157, Fair Value Measurements. The report was to be completed within 90 days of the enactment of the Act. What may be less known is that section 132 of that Act also gave the SEC the explicit power to: ‘suspend, by rule, regulation, or order, the application of Statement Number 157 of the Financial Accounting Standards Board for any issuer (as such term is defined in section 3(a)(8) of such Act) or with respect to any class or category of transaction if the Commission determines that is necessary or appropriate in the public interest and is consistent with the protection of investors’.

At the same time, the SEC (and FASB staff), allegedly in a move to placate criticism from Republican politicians (Norris 2008b), issued a statement entitled Clarifications of Fair Value Accounting (SEC 2008a). The purpose of the statement was to provide ‘immediate additional guidance’ on a number of practice-related issues on FAS 157. These issues included the use of managements’ internal assumptions, the use of market quotes, and the impact of inactive and illiquid markets on the estimation of fair value measurements. This statement was positively received by the critics of FAS 157 who had argued that ‘There is a serious concern that these accounting rules are worsening the credit crunch, making it difficult for small businesses to stay afloat and squeezing family budgets’ (Republican John McCain’s advisor Douglas Holtz-Eakin quoted in Norris 2008b).

These developments in the US provided the banks and politicians in the EU with additional leverage to pressure the IASB. In early October 2008 it was reported that the chief executive of the British Banking Association had said ‘There’s a view that [the IASB] are moving much slower than their counterparts in the US. They need to get on with making practical changes’ (Seib and Jagger 2008: 43). Similarly, the French President, Nicolas Sarkozy, was reported to have promised that ‘We will ensure that European financial institutions are not disadvantaged vis-à-vis their international competitors in terms of accounting rules and of their interpretation … This issue must be resolved by the end of the month’ (Seib and Jagger 2008: 43).

Despite the assertion in early October by the IASB that the statement issued by the SEC was just a clarification and was ‘consistent with IFRSs’ (IASB 2008a), the IASB bowed to the pressure it received from the banking industry and politicians, and on 13 October 2008 it issued amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures. These amendments permitted reclassifications of some financial instruments under certain ‘rare circumstances’ (IASB 2008b). The state of the financial markets at that time was considered to be an example of such rare circumstances and, it was noted, the amendment would align IASB and US accounting standards on the matter (IASB 2008b).

Notwithstanding its usual cumbersome endorsement procedures, the European Commission moved swiftly to adopt the IASB’s amendment to give ‘European banks the opportunity to present third-quarter results on the basis of the new regulations’ (Anon. 2008b: 36). The positive impact on the financial statements of Europe’s banks was noted in the press. For example, ‘KBC, the Belgian bank which yesterday announced a writedown of 1.6bn ...
collateralised debt obligations (CDOs), indicated that its third-quarter profits could be as much as 500bn higher’ (Anon. 2008b: 36). However, not all commentators perceived the IASB’s change as a positive development. In Canada, two analyses at J P Morgan Chase & Company were quoted as saying (Perkins 2008: B3) “that weak accounting enforcement in EU countries could leave the definition of “rare” circumstances open to abuse. They also argue the new rules reduce transparency, and the hasty change “establishes an unfortunate precedent of political considerations overriding the need for high quality accounting standards, and of suspension of due process”.

At the end of 2008 the SEC released its 259-page report on its study of mark-to-market accounting (SEC 2008b). Perhaps to the disappointment of the critics of fair values, the report concluded that ‘fair value accounting did not appear to play a meaningful role in bank failures occurring during 2008’ (SEC 2008b: 4). Additionally, it also supported the need for the independence of the FASB’s deliberations to be maintained and extended. The study noted that the available evidence suggested that investors found fair values to be relevant to their decision-making. Nevertheless, the SEC’s study did recommend, inter alia, that further guidance was needed for determining fair values in distressed markets and, in particular, standards relating to the impairment of financial assets needed to be readdressed to provide more detailed guidance.

2009 – The Flames Are Fanned

Notwithstanding the findings of the SEC’s study, the movement against fair values (and as a consequence, accounting standard setters) intensified. In the US, Forbes (2009) in an oft quoted opinion piece in The Wall Street Journal, stated that ‘Mark-to-market accounting is the principal reason why our financial system is in meltdown’ and that it was ‘unnecessarily destroying banks’. Allegedly egged on by the banking industry (Norris 2009a), two members of the US Congress, Perlmutter (Democrat – Colorado) and Lucas (Republican – Oklahoma), introduced in early March a bill (HR 1349) to create a ‘Federal Accounting Oversight Board’ to ‘oversee [and approve] the application of Generally Accepted Accounting Principles (GAAP) to the financial markets’ (Perlmutter 2009a). The Board was to have consisted of the chairmen of a range of federal agencies because there is a ‘need for a broader view than the SEC provides in determining how accounting standards apply to the banking sector’ (Perlmutter 2009a). The proposed Board was welcomed by the American Bankers Association whose president was quoted as saying that the Board would address systemic risks that accounting standards can have on the economy’ (Norris 2009a). The board proposed by the congressmen was a direct threat to the independence and authority of both the FASB and SEC and opened the possibility that prudential regulators might be able to overrule accounting regulators.4

March and April 2009 were not good months for the FASB. In addition to the Perlmutter and Lucas bill, the FASB’s chairman, Robert Herz, as well as representatives of the SEC and the Office of the Comptroller of the Currency (OCC), were subject to intense pressure on 12 March from a US House of Representatives Congressional Hearing on Mark-to-Market Accounting: Practices and Implications held by the Sub-Committee on Capital Markets, Insurance, and Government Sponsored Entities. All members of the sub-committee on both sides of politics pressured the FASB and other regulators for urgent action. For example, the Chairman of the Sub-Committee, Paul Kanjorski, commented in his opening remarks (Mark-to-Market Accounting 2009: 2–3): ‘Accounting regulators and standard setters need to offer us an achievable, concrete idea of what they are doing. As I said earlier, they must also tell us precisely when they will act. In my view, we can no longer wait 15 years, 15 months, or even 15 weeks for change. We need action much, much sooner. . . . Emergency situations require expeditious action, not academic treatises. They must act quickly’.

Media reports commented on the ‘grilling’ received by Herz and other regulators, which at times seemed close to bullying. Consider the following exchange between a member of the committee (Mr Ackerman), Mr Herz, and Mr Kroeker (SEC) (Mark-to-Market Accounting 2009: 30):

Mr. ACKERMAN. I think what the chairman said is if you do not act, we will. The timeframe that you are starting out with, thinking you have the luxury of that much space is not acceptable, I do not believe, to the members of this committee on either side of the aisle. If you are going to act, and we have to respond to what you are going to do, you have to get back real quick and let us know. So maybe you want to start the answer again?

Mr. HERZ. Okay. I have heard you. I have heard you very clearly. We will go back, and we will consider exactly how.

Mr. ACKERMAN. Can you do this whole thing in the 3 weeks that was referenced before?

Mr. HERZ. We probably could.

Mr. ACKERMAN. Will you do this within 3 weeks?

Mr. HERZ. I have to talk to the other members of my board.
Mr. ACKERMAN. When will you talk to them?

Mr. HERZ. I will talk to them when I get back tonight.

Mr. ACKERMAN. Tonight?

Mr. HERZ. Yes.

Mr. ACKERMAN. Mr. Kroeker, with the right cooperation between the two of you, can you do this in 3 weeks?

Mr. KROEKER. We can absolutely work with the FASB in that timeframe.

Mr. ACKERMAN. Within that timeframe!

Mr. KROEKER. We expect within in that timeframe and we, as I said in my testimony, we expect action within weeks, not months. The Commission, the staff, my staff stands ready to assist the Commission in any way possible if we do not see that action.

Mr. ACKERMAN. So if the press wanted to report accurately, we could have this fixed in 3 weeks?

Mr. HERZ. We could have the guidance in 3 weeks, whether it would fix things is another question. I hope it will.

Mr. ACKERMAN. I am not talking about the result out in the street, but I am talking about fixing the problem.

Mr. HERZ. Yes.

Mr. ACKERMAN. In terms of what we all have been talking about.

Mr. HERZ. Yes.

Mr. ACKERMAN. That can be done in three—it will be done in 3 weeks, can and will?

Mr. HERZ. Yes.

Mr. ACKERMAN. Can and will?

Mr. KROEKER. Yes.

On 9 April, the FASB issued three Final Staff Positions (FSPs) relating to the determination and disclosures of fair values and the treatment of other than temporary impairments which received some criticism in the press (for example, Cox and Beales (2009) and Norris (2009b)) but were welcomed by some politicians (for example, Perlmutter 2009b). Criticisms included that the FASB had given in to political pressure as a result of the congressional hearing and would allow financial institutions more discretion and this would ultimately confuse investors (Cox and Beales 2009). Most significant was the apparent lack of due process on the part of the FASB: "The board allowed only 15 days for comments and said it would act after taking just a day to review the comments. Those comments arrived by the hundreds", including bitter reactions from investors' (Norris 2009b: 20). The Investors’ Working Group (IWG) established by the Chartered Financial Analyst Institute and the Council of Institutional Investors issued a press release in which it was stated that (CFA Institute 2009):

the current political and special interest pressures placed on the Financial Accounting Standards Board (FASB) to change fair value accounting standards are unacceptable and very troubling. The IWG added that they are concerned and dismayed by the lack of normal due process and the accelerated timeline for commenting on FASB’s proposals on ‘other than temporary impairment’ issues and determining whether a market is distressed.

In order to create high quality accounting standards, it is critical that the process be independent and free from political pressure. This will ensure that such standards are neutral and faithfully represent economic reality. To the extent that these new FASB proposals reduce the free flow of transparent and reliable financial information, they undermine investor interests and weaken their ability to make sound investment decisions. Moreover, when this process is rushed and potentially compromised, it leads to an increase in capital costs, erosion of investor confidence, and ultimately a disruption of markets.

In response to the criticisms, the chairman of the FASB was reported to have said (Stewart 2009: B1) "We went through a full due process . . . It was accelerated and expedited. Not everyone is going to agree."

In Europe, the Group of 20 (G20) issued on 2 April its Declaration on Strengthening the Financial System (G20 2009) which required that 'accounting standard setters should improve standards for the valuation of financial instruments based on their liquidity and investors' holding horizons, while reaffirming the framework of fair value accounting' (G20 2009: 5). The declaration's focus on liquidity and investors' holding horizons can be viewed as code for the G20's desire to move away from the estimation of fair values based on actual market evidence (Gettler 2009). In its response to the G20 declaration, the IASB (IASB 2009) preferred to refer instead to a G20 recommendation that there be significant progress towards a single set of high quality accounting standards. At the same time the IASB commented upon the three FSPs issued by the FASB and played down any differences between the IASB and FASB standards by suggesting such differences had been 'overstated' (IASB 2009). Nevertheless, the IASB did have to acknowledge that the IASB and FASB held
different positions on the impairment of financial assets. For example, ‘the concept of other-than-temporary impairments in US GAAP does not exist in IFRSs’ (IASB 2009: 2).

To help advise them on the financial reporting implications of the GFC, the IASB and the FASB had formed the Financial Crisis Advisory Group (FCAG) consisting of 18 experts from around the globe. The FCAG issued a report at the end of July 2009 in which it set out four principles that it considered essential to support the role of financial reporting in financial markets (FCAG 2009: 1–2):

Effective financial reporting – financial reporting is an important input for investors and requires high quality standards that result in the delivery of unbiased, transparent and relevant information. The requirements of accounting standards should not be subsumed to those of prudential regulatory standards.

Limitations of financial reporting – there needs to be increased awareness that even high quality financial standards have their limitations. For example, financial statements report on a ‘point in time’ basis.

Convergence of accounting standards – there should be one global set of accounting standards.

Standard setter independence and accountability – standard setters must be distanced from undue influence from private and political interests but must also remain accountable for their decisions.

These principles summarised the FCAG’s analysis of the debate associated with financial reporting and financial markets. Notable among the report’s observations was its conclusion regarding the role of fair values in the GFC. Similar to the SEC study (SEC 2008), the FACG (2009: 4) stated, ‘it is unlikely that, on balance, accounting standards led to an understatement of financial assets’. As previously observed, the FCAG also argued that the majority of bank assets in most countries had been valued at historic costs and so were more likely to have been overstated in financial statements during the GFC. This practice was to the detriment of investors. Perhaps more importantly, the report stressed at some length unease about the political pressures placed upon both Boards and the deleterious effects of such pressures (FCAG 2009: 15): ‘during the last several months, we have become increasingly concerned about the excessive pressure placed on the two Boards to make rapid, piecemeal, uncoordinated and prescribed changes to standards outside of their normal due process procedures. While it is appropriate for public authorities to voice their concerns and give input to standard setters, in doing so they should not seek to prescribe specific standard-setting outcomes’.

The FCAG’s concerns resonated with some in the media (for example, Norris 2009c) and by September 2009 the urgency of the GFC had subsided enough to allow the following summary of the impact of the crisis on global accounting standard setting (Norris 2009d: B1):

Both boards have tried to resist, but have been forced by political pressure to back down on some specifics. In the case of FASB, the retreat took a few weeks after Mr. Herz was ordered to act at an extraordinary Congressional hearing. The international board was given a long weekend to retreat, with the European Commission threatening to impose its own rules if the board did not cave in. Both boards tried to reduce the damage by forcing more disclosures, but it is unclear how much good that will do. Neither was willing to defy the politicians. It is unfortunate that there are significant differences between the American and international rules on how to determine fair values of financial assets. That has enabled banks on both sides of the Atlantic to demand that they get the best of both worlds. Pleas for a level playing field have resonated in Washington and Brussels … Efforts to fix those rules are under way. Accounting for loans is likely to be improved. But in the crucial area of fair value accounting, the American and international boards are not moving in tandem. The international board is delaying some issues as it rushes to get a rule out this year that will clarify when banks can ignore fair value. The American group is taking a more unified, and slower, approach. By not moving together, they run the risk of a race to the bottom, with investors the losers.

Ingredients of the Political Pressure

The events described above show that the IASB and FASB, despite their efforts, were unprepared for the level of political fallout that accompanied the GFC. More often than not the two Boards were forced to develop regulatory responses that were not coordinated, which resulted in a ‘tit-for-tat’ series of piecemeal amendments to accounting standards. In turn, this provided ideal opportunities for lobbyists on either side of the Atlantic to leverage pressure on their respective standard setters by pointing to the changes made by its overseas counterpart. Proper consideration and due process of these rule changes was sacrificed as a result. The dangers of this process for standard setting include biased standards that result from a non-transparent decision-making process; potential technical flaws because insufficient consideration is given to the practical implications of the rules; rules that are inconsistent with each other; a loss in public confidence in the accountability of the standard setting process; and a reluctance by countries to continue the process towards global convergence of accounting standards.

© 2011 CPA Australia

Australian Accounting Review 7

41
Why did the independence and the quality of accounting standard setting processes falter? It is perhaps too simple to point just to the economic self-interest of financial institutions for although this was an incentive to lobby, a variety of other factors could be identified. These include a mismatch between standard setters and politicians as to the language and nature of the debate; cultural and sovereignty issues; different definitions of the ‘problem’ with a resulting competition for regulatory space between regulatory agencies; and achieving a balance between standard setters’ independence and accountability.

Mismatch of debate

One reason that standard setters were immediately at a disadvantage in the GFC debate was that their focus is necessarily on the technical issues associated with accounting for financial instruments. However, politicians and the public do not understand these matters. As Mosso (2010: 106) notes ‘Political tampering with current GAAP is easy because nobody understands the intricacies of GAAP except for a few expert accountants and even they cannot prove that one GAAP method is conclusively better than another . . . GAAP is a geek language, decipherable only by an initiated inner circle’. Politicians, on the other hand, focus on the alleged non-technical impacts of accounting standards, typically expressing these in emotive terms. For example, in the Mark-to-Market Congressional hearing there are frequent references to ‘small business’ and ‘job losses’ (Mark-to-Market 2008: 13, testimony of Ron Klein); ‘as many of the members have said today; we are worried about how small businesses and working citizens in our communities cannot get loans. I am worried about them and everyone else is about the people who are losing their jobs because of this’.

These concerns are more likely than technical accounting issues to resonate with the public and as a result swing political power away from standard setters. As Perry and Noëlke (2006: 578) note: ‘technical solutions are never purely technical; they always have a political purpose even if those propagating the solutions are not fully aware of it . . . the social context in which such expert knowledge has been acquired and practised is critical in determining which technical solution of the many possible ones is produced’.

Cultural and sovereignty issues

Although the alleged economic impacts were often portrayed by the protagonists as a major reason for the political pressure, there are cultural and sovereignty issues that are also important and operate at several different levels. At one level, there is a lack of shared cultural identity between Europe and the US, which promotes a desire in both regions not to be dictated to by the other. For example, Dewing and Russell (2004: 293–94) have suggested that the EU’s adoption of the IASB’s standards was more about avoiding harmonisation with US GAAP than about whether IFRS were technically superior. They further observe that (Dewing and Russell 2004: 311) ‘the US, while being an active participant in multilateral institutions, has traditionally acted unilaterally’, a tradition which De Lange and Howieson (2006) have described as consistent with the concept of ‘American Exceptionalism’. These ‘differences’ are used to justify carve outs from IFRS as necessary to satisfy local conditions.

The banking sector, particularly the European banks, is often portrayed as the villain in the GFC drama. As mentioned, economic self-interest may be one of the factors driving banks’ opposition to fair value accounting but Perry and Noëlke (2006) present a political economy-based analysis that suggests some of the antagonism may reflect different ways of regulating business. There are two dimensions to their analysis. First, they argue that, reflecting the growth of financial instruments on firms’ balance sheets, accounting standards have undergone a process of ‘financialisation’ in which the focus has moved from standards related to production activities to standards focused on financial activities. This shift in standards has come about because the private sector-based IASB is heavily influenced by ‘the sheer dominance of a highly organized financial sector which plays an increasingly prominent role in setting the agenda for managing the European (and world) economy’ (Perry and Noëlke 2006: 578). To support this claim, they refer to their earlier empirical study (Perry and Noëlke 2005) in which a network analysis of the membership of the various committees and working groups of the IASB and EFRAG showed that financial sector actors are the best connected and most represented in the standard setting network. Having established the dominance of the financial sector in the standard setting domain, the second element of their analysis is to apply the concept of ‘varieties of capitalism’ of which they describe two forms. The first are the Coordinated Market Economies of which the German model (for example, Germany) is an example within the EU. In Coordinated Market Economies regulation is a public task negotiated at the national level. The alternative variety of capitalism is the Liberal Market Economies of which Anglo-Saxon countries are seen as the examples. In Liberal Market Economies there is a greater focus on private sector-based regulators (for example, the FASB) with regulation being more international in focus and adversarial in nature. The difficulty that Perry and Noëlke (2006) observe from their analysis is that the IASB, as a private sector regulator, is an alien form of regulation for the EU and its financial sector. The adoption of the IASB’s standards thus represents ’a
significant “shift in governance” ... towards the private and transnational level (Perry and Nölke 2006: 576), the cultural implications of which are still to be played out. Their analysis suggests that there may be more to the European banks’ objections to the IASB’s financial instrument standards than blatant self-interest (Perry and Nölke 2006: 579): business actors in the Rhinen model, are traditionally accustomed to articulating and negotiating their interests on a national level with their national government and other interest groups. In the context of transnational private regulation [i.e., the IASB] this can be a severe disadvantage compared to financial actors and coordination service firms ... from the Anglo-Saxon world, which are well-adapted to interest intermediation in the transnational sphere. Somewhat ironically, the EU’s move to assert itself in the battle for global accounting standards has led to a large scale dismantling of dominant accounting regulations within most of the member states, in favour of practices that can be conceived as being part of a US hegemony.

To an outsider, it would seem that the IASB and its trustees are yet to develop an effective mechanism to manage the ‘cultural’ complexities of global standard setting.

Problem definition and competition among regulators

One interesting aspect to the debate was the definition of the ‘problem’. Although for many critics the problem was the requirements of accounting standards, there was an element of the debate that focused upon the capital adequacy requirements of prudential regulators. Although these requirements typically start with accounting numbers, the latter are modified as deemed necessary for fiscal protection by prudential regulators. Particularly in the US debate (see, for example, Mark-to-Market 2008) the view was sometimes expressed that rather than change the accounting standards and disadvantage investors, why not modify prudential regulations instead? These discussions involved some jockeying between accounting and prudential regulators with the latter arguably being more dominant. The economists (through banks and some federal agencies) appeared to have the ear of politicians (for example, Perlmutter and Lucas’s (Perlmutter 2009a) proposed oversight Board was stacked with representatives from prudential rather than accounting agencies). This meant that accounting standard setters were, in part, pressured to change their standards to reflect an objective other than that in their respective conceptual frameworks. One of the recommendations of the FCAG (2009: 7–8) was that it was necessary for accounting and prudential regulators to work more closely together to anticipate and manage conflicts in their requirements.

Independence and accountability

The FCAG and some elements of the media saw the political pressures exerted on the IASB and FASB as a clear threat to the Boards’ independence and the quality of accounting standards. Politicians, on the other hand, demanded that the Boards be accountable and responsive to changing economic conditions. Without doubt, the lack of sufficient due process that was exhibited on occasion throughout 2008 and 2009 does demonstrate that the independence of the Boards was compromised. The existing mechanisms designed to defend that independence such as the oversight trustee entities were powerless. Nonetheless, as regulators, accountability is required, even on highly technical matters. The FCAG (2009: 14) noted that accountability for the Boards came from ensuring proper due process and ‘strong oversight conducted in the public interest’. These mechanisms were difficult to maintain given the seriousness and urgency of the economic impact of the GFC and the Boards were not well prepared for such urgency. The FCAG recognised that there may be occasions when an expedited decision-making process is required but not in the piecemeal and uncoordinated form of 2008 and 2009. Quite properly, the FCAG (2009: 15) recommended that ‘the Boards define in advance the circumstances under which it is appropriate to act on the basis of expedited due process’. Politicians and others should be informed about the acceptable conditions of expedited due process. As an attempt to improve the independence of the IASB, the Trustees of the IASC Foundation7 (IASC Foundation 2009) established in early 2009 a Monitoring Board of public authorities to oversee the activities of the trustees (who in turn oversee the activities of the IASB). The Monitoring Board is composed of the relevant leaders from the Emerging Markets and Technical Committees of the International Organization of Securities Commission (IOSCO), the European Commission, the Japan Financial Services Agency (FSA), and the SEC. The Basel Committee on Banking Supervision also has a formal observer position at the meetings of the Monitoring Board.

2010 and Beyond

The urgency of the GFC has abated somewhat in 2010 but the aftermath of the pressures of the previous two years is yet to unwind. Although the IASB and FASB have had some opportunity to regroup and develop further guidance there are still concerns that they have not reached a fully coordinated response on standards for financial instruments. Even in June 2010 the Economist (Anon. 2010: 84) reported that the two Boards ‘are on very different tracks in their treatment of financial

Investors are still digesting the 214 pages of proposals released by FASB on May 26th. In both America and Europe, instruments held for sale are marked to market, whereas loans intended to be kept on the books are held at cost. Although fair-value adjustments for the latter are already disclosed in banks’ accounts, FASB now wants them to be reflected in income. By contrast, IASB, which unveiled its own proposals last November, wants to spare loans held to maturity by banks from the vagaries of the market. The two also differ on how banks should reserve for deteriorating credit, with FASB again putting forward the more radical proposals. It is hard to see how FASB and IASB will reconcile their differences. FASB could soften its stance during the four-month comment period, but it can hardly have been unaware of outsiders’ arguments when it drew up its proposals. It may be forced to bend by politicians—who mostly dislike the brutal honesty of fair value—just as it did last year when criticised over its stance on toxic securities. European politicians applied intense pressure to IASB when it was drawing up its proposals. Although supervisors can adjust accounting standards to assess regulatory capital, such divergence sits awkwardly with hopes for a global capital standard. Some experts, including Mr Herz, support decoupling accounting standards from bank regulation so that bank assets are presented in two formats to meet investors’ desire for transparency and regulators’ craving for stability. Either way the current mess is a joke.

The ICAG (2009) was rightly concerned that continued divergence between the two Boards could undermine the goal of convergence to one set of high quality accounting standards. Nevertheless, in November 2009 the IASB and FASB reconfirmed their commitment to convergence. The SEC also has reaffirmed in both February and June 2010 that it ‘continues to believe that a single set of high quality globally accepted accounting standards would benefit US investors’ and that the SEC continues to be of the view that it can reach a decision about the applicability of IFRS to the US sometime in 2011 (SEC 2010b). Interestingly, the language of the SEC refers to the ability to ‘incorporate’ IFRS into the US financial reporting system rather than ‘converge’. This may reflect a wish on the part of the SEC to keep its options wide open. In the most recent version of its Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System of U.S. Issuers, the SEC (2010a) continues to signal issues associated, inter alia, with the degree to which IFRS are sufficiently developed and the independence of the IASB. The SEC’s concerns for the independence of the IASB reflect discussions in recent months as to how the IASB is to be funded. One issue is ensuring that the IASB has more stable sources of ongoing funding while another is whether funding will be tied to particular interest groups. It has been reported, for example, that the EU is seeking to fund the IASB for €15 million over a three-year period (Lavi 2010). Given the recent history in which the EU has sought to politically influence the IASB, there is concern that these funding arrangements may be just another political lever. As the IASB’s future funding arrangements are as yet unclear, uncertainty remains as to whether these will ultimately strengthen or threaten the IASB’s independence.

Another threat to the independence of the IASB is its Board membership going forward. By the end of 2011 all of the original Board members of the IASB will have retired. This creates some incentives for key ‘pet’ topics to be completed in a hurry (which potentially may result in poor quality compromises) but more importantly the retirements open the opportunity for appointments to be made, not on the basis of expertise, but rather as representatives of particular interest groups. It is hoped that the Monitoring Board will exercise sufficient oversight of the IFRS Trustees to ensure that future appointments are made on a basis that is unbiased and transparent.

The reader will have noted that much of the debate described here occurred between two economic blocs and two national standard setters. A large portion of the global economy, namely the Asian-Oceania region, was apparently disenfranchised from this discussion yet, in many cases, still subject to the outcomes of lobbying in Europe and the US. At the International Financial Reporting Standards Regional Policy Forum held in Singapore in May 2010, delegates issued a Communiqué stating that ‘for the IFRS to effectively reflect the economic substance and realities of business transactions in the region, it is imperative that stakeholders in the Asian-Oceania jurisdictions play a more proactive role and become a larger voice in the IASB’s quest to develop a robust set of high quality international accounting standards’ (IFRSRPF 2010: 2). The recently formed Asian-Oceania Standard Setters Group (AOSSG), of which Australia and New Zealand are members, offers the promise of a new and alternative voice of sufficient economic power to ensure more representation in future deliberations of the IASB.

Conclusions

The story of accounting standard setting during the GFC demonstrates the susceptibility of standard setters to powerful political forces in a time of crisis. Despite the existence of long-established mechanisms to ensure the independence of standard setters, such as adequate due process and support from investor groups (among others), the ability of the Boards to control their own
standards crumbled under the urgency of the economic situation and the level of political force applied in both Europe and the US. Although it may be tempting to blame self-interested banks and politicians for ‘interference’ in the standard setting process, this would simplistically ignore the need for accountability to be balanced against independence and the complexity of the motivations and environment in which global standard setters operate. In times of crisis, action is demanded by the public who, as a group, have little understanding of or interest in the technicalities of accounting rules. In addition, in a global context, responses to the crisis will differ depending upon respective traditions and institutional structures and it is not clear that the IASB with its emphasis on resolving technical accounting matters has developed explicit strategies for identifying and managing these cultural contexts for its standards and processes. The GFC also demonstrates that the definition of the problem(s) is easily muddied in a crisis, and in this case, confusion remains over whether the problem was really an accounting one or a prudential one.

It is unlikely that any regulator could have emerged unburnt from the GFC given the unusual circumstances of the time. Although the resulting changes to accounting standards led (and may continue to lead) to sub-standard divergences between the IASB and the FASB, the Boards’ need to act quickly was unavoidable. If the aim of one global set of high quality accounting standards is to be achieved, then confidence will have to be re-established for the process (rather than the standard setters) by which international accounting standards are promulgated. Monitoring boards and similar additional levels of bureaucracy are unlikely to make much difference unless their processes are unbiased and transparent. The IASB also needs to engage more meaningfully with the world beyond the US and the EU and the AOSGG is a proactive way of doing this. Ultimately, if we believe in its objectives, then we all have a responsibility to promote and defend the independence and accountability of the IASB (Diplock 2009).

Bryan Howieson is an Associate Professor in the School of Commerce at the University of Adelaide.

Notes

1 Those who, during the GFC, have been critical of accounting practices have not always been clear about the object of their concern. Essentially many criticisms have focused upon the write-downs imposed on financial institutions’ operating profits as a result of the fall in fair values. This concern was compounded by the illiquidity in the markets at the time. However, it is clear that many critics did not necessarily understand how the accounting rules actually worked. For example, in testimony during the US Congressional hearing on mark-to-market accounting, many who criticised mark-to-market accounting through profit or loss appeared to believe that it applied to all financial assets, despite regularly being told by the representatives of the FASB and Securities and Exchange Commission (SEC) that it did not! (Mark-to-Market 2009).

2 Pro-cyclicality refers to the claim that fair value mark-to-market accounting tends to ‘amplify’ the impact of changes in fair values on financial statements; it is argued that this is particularly objectionable if the changes are only ‘temporary’. For example, when fair values are falling, the practice of taking these decreases through profit and loss causes investors and other market participants to panic, thus driving fair values even lower.

3 The SEC has chosen (so far) not to exercise this power. As noted in its study on fair values (SEC 2008b), the suspension of FAS 157 would be a retrograde step because the requirements for fair values occur in other standards and FAS 157 only provides guidance on the application of fair values. A suspension would meanless guidance was available to financial statement preparers.

4 By November 2008, the proposal had been modified so that the proposed board could only make recommendations to the SEC (Perlmuter 2009c).

5 Three hundred submissions were reportedly received (McFarland and Perkins 2009).

6 The ignorance of politicians is often frightening. On occasion, some of the primary critics of the FASB could not even get its name right. For example, Perlmuter (2009b, emphasis added) refers to it as the ‘Fair Accounting Standards Board’ while his fellow critic Lucas (Mark-to-Market 2008: 10, emphasis added) refers to it as the ‘Federal Accounting Standards Board’.

7 The IASC Foundation changed its name to the IFRS Foundation on 1 July 2010.


References


Dewing, J. and Russell, P. O., 2004, Accounting, Auditing and Corporate Governance of European Listed Countries:


International Accounting Standards Board, 2008a, 'IASB Staff Position on SEC-FASB Clarification on Fair Value Accounting', Press Release, 2 October.


Securities and Exchange Commission, 2008b, Report and Recommendations Pursuant to Section 133 of the Emergency


CHAPTER FOUR

The Phoenix Rises: The Australian Accounting Standards Board and IFRS Adoption
The Phoenix Rises: The Australian Accounting Standards Board and IFRS Adoption

By

Bryan Howieson*

DRAFT ONLY – NOT TO BE QUOTED WITHOUT THE AUTHOR’S WRITTEN PERMISSION

December, 2016

* Associate Professor, School of Accounting and Finance, University of Adelaide, Adelaide, South Australia, 5005.
Tel. +61 8 8313 4760
E-mail: bryan.howieson@adelaide.edu.au

Acknowledgements: The author acknowledges his debt to the interviewees in this study who willingly participated and who provided full and frank engagement with the project. The author is also grateful to those who have provided feedback on various drafts of the paper including Paulo Alves, Philip Brown, Carolyn Cordery, Graham Dean, Robert Faff, Sue Newberry, Norman Wong and participants at presentations at the Universities of Adelaide, Auckland, Sydney, Victoria University of Wellington and Western Australia and the 2015 Asian-Pacific Conference on International Accounting Issues. The author also wishes to thank participants at the Joint International Conference of the Journal of International Accounting Research / Accounting, Organizations and Society and three anonymous reviewers from the Journal of International Accounting Research for their valuable feedback and suggestions.
ABSTRACT: The Australian experience of International Financial Reporting Standards (IFRS) is used to explore the impact of IFRS adoption on the sphere of authority (SOA) of a national accounting standard-setter (NASS). Data for the study were gathered from interviews with AASB technical staff and retired IASB members. The study demonstrates how changes in the social order between the IASB and NASSs impact on domestic and international standards and how power is exercised and shared in the IASB/NASSs relationship. We find that a standard-setter’s technical agenda is influenced by its strategic agenda. We show the significant influence of the standard-setting entity’s chairperson on the development and implementation of the strategic agenda. In addition, individual technical staff members help drive this agenda. Knowledge of the behaviour of standard-setting organisations can be considerably deepened by studying the characteristics and motivations of the individuals within those organisations. The findings are useful to NASSs by, for example, demonstrating the importance of employing individuals with both strong technical and political skills. If NASSs wish to have influence at the global level, then they must be proactive in driving change through networks and alliances with other NASSs.

Keywords: National accounting standards-setters; IFRS adoption; sphere of authority
O thou who art to lay thy old age on the pyre and shall take a new birth from what seems to be thy grave, thou who art periodically reborn from thy decline and who extracts youthful strength from thy death, receive a new commencement of life and desert thy withered body; reappear, after thy transformation, renewed!
Claudian, Phoenix, 50-54

I. Introduction

The International Accounting Standards Board (IASB)\(^3\) does not have any formal mechanism that gives it the power to require adoption of International Financial Reporting Standards (IFRS) (McGregor, 2012). Further, the rise of the IASB has not seen the extinction of any national accounting standard-setter (NASS) – even in jurisdictions such as Australia, which has replaced its nationally derived accounting standards with IFRS. This raises the question, what is the role of NASSs in an IASB dominated world? Accordingly, the current paper seeks to deepen our understanding of the impact of IFRS adoption on NASSs by providing insights via a detailed case study of how the sphere of authority (SOA) of Australia’s NASS, the Australian Accounting Standards Board (AASB), changed after the decision was made in 2002 to replace Australian GAAP with IFRS. An innovation is that the paper investigates the impact of this decision directly from the perspective of senior members of the AASB’s technical staff. Interviews are used to gather their perceptions (along with those of two founding Board members of the IASB) of the impact of IFRS adoption on the AASB. The study provides a rare opportunity to open the ‘black box’ and capture the views of ‘insiders’ as to the role of NASSs. It also provides information about how an influential set of actors organize themselves to engage in the development and promotion of IFRS.\(^4\)

To date the literature that has analysed the relationships between accounting standard-setters has primarily done so using the organizations as the unit of analysis (e.g., Walker and Robinson (1994a, 1994b)).\(^5\) Indeed, very few studies have sought to

\(^3\) A glossary explaining the various abbreviations used in this paper is provided in Appendix One.

\(^4\) For example, this paper forms part of a larger project which began as an investigation into how AASB technical staff (as opposed to Board members) influenced the technical agenda of the AASB. However, it became apparent from the interviews that the AASB as an organisation may have more than one agenda (e.g., an agenda for technical issues - i.e., the form and content of the ‘work program’ with some topics in a state of being ‘researched’ and others being formally active as standard-setting subjects - and an agenda for strategic issues).

\(^5\) In these papers the behaviour of accounting standard-setting entities is characterised “as choices made by a single actor” (Wallace, 1990, 1) analogous to those analyses in economics that treat the firm as an actor in markets. Some of these papers view the organizational interactions as competition for dominance over a specified regulatory space.
open the ‘black box’ of accounting standard-setting entities to explore the motivations, attributes and influence of the individual persons (both Board members and technical staff) who work within the organizations. Although the role of individual persons has not been sufficiently investigated, researchers have noted the importance of extending research in this way (e.g., Allen and Ramanna, 2013; Gipper et al., 2013; and Young, 2014). For example, Allen and Ramanna (2013, 67), writing in the context of the United States of America (U.S.), note:

Although the idea that FASB and SEC regulators can matter in standard setting is intuitively appealing, it has not been subject to empirical testing. This is due in part to limited data availability, but also in part to neoclassical economics, which is widely used in accounting research and tends to view “individuals” as “so empirically unimportant as to allow the use of Occam’s razor in positive models” (e.g., Kalt and Zupan, 1984, p. 279). Recently, however, empiricists in finance and accounting have begun exploring the role of individuals on equilibrium outcomes, particularly in the context of individual managers and firm policies (e.g., Bertrand and Schoar, 2003; Bamber et al., 2010; Dyrenge et al., 2010). Moreover, in the regulation literature itself, there is some evidence of regulators’ preferences mattering in outcomes at both the congressional (e.g., Kau and Rubin, 1979) and the bureaucratic agency levels (e.g., Gormley, 1979). Thus, in the context of accounting standard setting, tests of influence of FASB and SEC regulators can help refine our understanding of the political economy of U.S. GAAP.

Similarly, Botzem and Quack (2009), Boström and Hallström (2013) and Young (2014) have noted that the technical staff within standard-setters have been next to invisible within accounting studies but they may be an influential and important part of the regulatory network. One of the rare studies that has explored the individuals within accounting standard-setting organizations is Chantiri-Chaudemanche and Kahloul (e.g., Walker and Robinson 1994a, 1994b). Other papers (e.g., Perry and Nöelke, 2005; Richardson, 2009) have sought to find networks of standard-setters and their constituents for the purpose of identifying alliances of shared values and objectives that give certain groups or philosophies dominance in global accounting standard-setting (e.g., power blocs of developed economies or international accounting firms or Anglo-Saxon models of financial reporting).
(2012) who investigated the shared culture of technical staff in the context of the IASB. However, they did not interview the technical staff directly but rather sought to infer the world views and potential biases of the technical staff from their background characteristics (e.g., prior employment, links to accounting firms, service with NASSs of developed countries).

The contributions of the current study are derived from the fact that, unlike the prior literature, data are gathered through in-depth interviews with key individuals, primarily technical staff, at the AASB and IASB. This approach generates new insights including that the determination of the technical agenda cannot be viewed as occurring in a vacuum but rather must be understood within the context of a broader strategic agenda. Further, the study demonstrates that the objective and implementation of the strategic agenda is a function of the motivations and characteristics of the individuals (particularly the chair) who work within the standard-setting organization. Consequently, the patterns of a standard-setting organization’s behaviour that are observed over time can be better understood by investigating the characteristics of the individuals within them than by trying to model the organizations as if they were ‘persons’. This could potentially benefit researchers, for example, by enabling them to ex ante predict the behaviour of standard-setting organizations (via an analysis of the characteristics of their members) rather than relying on historical ex post analyses of such behaviour.

In the remainder of this paper Section II provides the background and contextual framing of the study, Section III gives an overview of the SOA concept, and Section IV outlines the relevant institutional arrangements. The interviewees and research method are described in Section V followed in Section VI by the analysis of those interviews. A discussion of the implications of the results is contained in Section VII and Section VIII provides the conclusion and suggestions for future research.

II. Background and Contextual Framing

The Role and Existence of the IASB

---

6 This paper was published in the French language.
NASSs represent some important pieces in the jigsaw of transnational governance of financial reporting but, with a few exceptions, they have been largely ignored while accounting researchers have concentrated on the history, legitimacy and influence of the IASB. Although the focus upon the IASB is understandable, a preoccupation with the IASB downplays the strategic and complex political behaviour that plays out over time (Gipper, Lombardi, and Skinner, 2013). As Richardson (2009) has demonstrated in the context of the Canadian NASS, NASSs operate within a complex network of both national and international entities and influences; concentrating only on the IASB risks seriously misunderstanding the process by which IFRS are negotiated and operationalised in cross-border relationships. Writing in the context of international auditing standards Humphrey, Loft, and Woods (2009, 811) argued that “researchers need to be aware of (a) the wide range of institutions (and individual key players within them) with whom the [accounting] profession interacts in the global sphere and (b) the ways in which such bodies and interactions increasingly set the boundaries for both [accounting] practice and the ideas and thought processes that shape practice.” They cite with approval Germain’s (2007, 73) characterisation of global regulation as “the contested interplay between market actors, private authorities and public authorities (state and international) that establishes the rules or boundaries within which global financial resources are mobilised and channelled towards economic, social and political activity”. Kerwer (2005), Richardson (2009) and Humphrey et al. (2009) all commend the need for research which investigates the relationship networks which exist within the global financial regulatory system and Botzem and Dobush (2012) have suggested that extending research across the different levels of standard setting would be productive.

IFRS and Social Ordering
The expansion of IFRS adoption around the world has important implications for NASSs and their relationships with the IASB and other stakeholders because the subrogation of national GAAP for IFRS changes the social ordering associated with standard-setting in...
adopting jurisdictions. Prior to IFRS adoption, a NASS’s SOA (Rosenau, 2007) is well-defined within its jurisdiction and it is locally acknowledged as the legitimate accounting rule-maker within that jurisdiction. However, as Jeppesen (2010) notes, as the IASB’s SOA encroaches on that of a NASS, it is likely that some resistance will be encountered from the NASSs. This is because the movement away from an NASS’s own standards to the IASB’s standards is a movement from one form of social order to another. Jeppesen (2010) adopts an Actor Network Theory (ANT) approach to explore how the IASB can manage this potential resistance. By engaging with NASSs and others, the IASB can create a like-minded community (a ‘social order’) with shared values and objectives.

**Shared Ideology**

Bringing other parties ‘on-board’ is also assisted by the development and maintenance of a shared ideology, part of which is the belief that IFRS are desirable. The importance of creating a common social standard-setter community has been noted by other authors. Maggetti and Gilardi (2011, 832 – 833) have suggested that the development of a standard-setter network:

- produces stable, durable, resourceful arenas, which might promote constructive horizontal interactions among the participating actors. In this framework, actors interact frequently, and the boundaries of the network are clearly specified, favouring a situation wherein information spreads rapidly, and there are more opportunities for ‘diffuse reciprocity’ ...
- In addition, long-term and repeated interactions within small groups encourage, through a socialization process, the development of an ‘esprit de corps’ that is likely to generate co-operative behaviour and problem-solving attitudes ... and thus co-produce higher-quality regulatory outcomes.

Similarly Cooper and Robson (2006, 429) suggest that a crucial objective of this socialisation process is the creation of “spontaneous solidarity” in the form of the building of trust, a sense of community and of ‘belonging’ within the standard-setter network. Consequently, as jurisdictions move towards and adopt IFRS, the dynamic between the IASB and NASSs is complex and contains conflicting incentives for NASSs to maintain their SOA and legitimacy but also pressures for them to co-operate with the
IASB. Successful promotion of IFRS requires that these tensions be managed and resolved and this case study documents how this was done in the case of the AASB.

The Australian Setting

The Australian experience is a valuable case through which the relationship between NASSs and the IASB can be explored. The Financial Reporting Council (FRC) directive in 2002 to adopt IFRS from 2005 had a dramatic effect upon the AASB’s strategic and technical agendas and transformed the SOA of the AASB by directly impacting on its ability to control its own agendas and activities. There are other advantages to investigating the role of NASSs in the context of the AASB. First, as per the Canadian context (Richardson, 2009), Australia has an open economy which exposes it to international influences and trends. Second, the AASB is a mature and world-respected accounting standard-setter (Lonergan, 2003) which had its own extensive set of accounting standards prior to the adoption of IFRS in 2005 and an extensive history of involvement in international accounting standard-setting (Camfferman and Zeff, 2007). Third, the AASB senior technical staff have all had long careers in standard-setting in Australia and internationally and are thus well-informed; and fourth, although the agenda for standards for for-profit entities in Australia is now largely driven by that of the IASB, the AASB still has an active and independent technical agenda for public sector and private not-for-profit sector entities. Fifth, as a respected NASS, the AASB can influence the agenda of the IASB via its own lobbying activities and the technical support it can offer the IASB on specific projects; and sixth, the AASB is influential in the Asia-Pacific region via its involvement in, and leadership role with, the Asian-Oceanian Standard-Setters Group (AOSSG).

Types of NASS and Study Boundaries

Some comments are necessary regarding the boundaries of the present study. Based on arguments and analysis in prior literature, it can be suggested that over the life of the IASB since 2001 the various NASSs can be categorised within one of three groups in terms of their respective relationships with the IASB (Wallace, 1990; Simmons, 2001; Martinez-Diaz, 2005; Botzem and Quack, 2006; Street, 2006; Burland and Colasse, 2011; Danjou and Walton, 2012; Larson and Herz, 2013, Ramanna, 2013). The first of these categories is those NASSs which have been perceived to have an especially privileged
relationship with the IASB, namely, the U.S. Financial Accounting Standards Board (FASB) and the European Financial Reporting Advisory Group (EFRAG).\textsuperscript{9,10} The perceived dominance of the members of this group derives largely from the economic and political power of the country/region they represent.

The second group of NASSs are those who have a long history and respected reputation in the promulgation of accounting standards but which represent countries of lesser economic and political power. Examples of this group of NASSs include Canada, the United Kingdom (U.K.), Australia and New Zealand. The remaining NASSs make up the third category which, as a generalization, is those NASSs within developing countries or those which lack relevant resources and technical expertise or have little, if any, history of active participation in accounting standard-setting.\textsuperscript{11} This study focusses on a member of the second group of NASSs but, as will become apparent, it also explores how members of the second and third category of NASSs can come together to form alliances. Knowledge about such alliances and coalitions is helpful in understanding how standards and policy at the IASB are developed (Ramanna, 2013).

**Historical Setting at the Beginning of the New Millenium**

It is also important to acknowledge the context of this study within a particular period of time (2002 to 2012). Standard-setting arrangements are fluid and can change rapidly and so some of the insights derived from this study may need to be reinterpreted over time as institutional arrangements for transnational accounting standards transform (Humphrey et al., 2009; Richardson and Eberlein, 2011; Botzem and Dobusch, 2012).\textsuperscript{12}

\textsuperscript{9} Technically EFRAG is an endorsement body rather than a NASS but it is an entity of considerable influence in global standard-setting nonetheless.\textsuperscript{10} It is acknowledged that what might constitute a ’privileged’ relationship vis-à-vis the IASB is a contested concept. For example, this paper suggests that the U.S. and the European Union (as represented by their respective accounting standard-setter) enjoy a high level of influence over the IASB that is not available to other NASSs but some authors would arrive at other categorizations; e.g., Burland and Colasse (2011) suggest that the IASB is dominated by Anglo-Saxon countries to the detriment of the European Union but Danjou and Walton (2012) present a critique and counter-view to that suggestion. Rosenau (2007) has suggested that the dominance of the U.S. is greatly exaggerated. In reality, the extent of privileged access between the IASB and various NASSs will fall along a continuum based upon, among other things, a combination of many factors including relative political and economic power, technical expertise, and history of involvement in standard-setting. The position of a NASS on this continuum will change over time. The use of three broad categories here is to provide some boundaries around the scope of this study. The categories adopted here are largely consistent with the empirical evidence of patterns of IASB comment letter participation found by Larson and Herz (2013).\textsuperscript{11} Germany, France, Japan and China are included in this third category on the basis that they have relatively little standard-setting history but it is acknowledged that they do have considerable economic and political power.\textsuperscript{12} For example, at the time of conducting the interviews for this study, proposals had been developed by the IASB to establish the Accounting Standards Advisory Forum (ASAF) but these had not been made public. At least two of the interviewees in this study were clearly aware of these proposals but were not at liberty at that time to discuss the ASAF.
In short this study observes how the SOA of the AASB changed over three key periods of time. In the first period, which is prior to the FRC directive, the AASB enjoyed a considerably broad and influential SOA. However, in the second period, from the time of the FRC directive in 2002 until 2009, the AASB’s SOA was substantially reduced and its international influence was hamstrung. Subsequent attempts to re-establish its international SOA were largely unsuccessful. However, in the third period beginning in 2009, like the mythical Phoenix, a new Chairman was appointed to the AASB who grasped the opportunity to join the AOSSG and thereby to regenerate the AASB such that by 2012 (the end date of this study) the AASB’s SOA had grown to establish leadership in, at least, the Asian-Oceanian region. The study demonstrates that accounting standard-setters have an agenda of technical topics (both formal and informal) and a strategic agenda. Interviewees perceived accounting standard-setting as being fundamentally a change management process rather than primarily a process for rule promulgation. Not surprisingly, the interviewees indicated that the FRC’s 2002 directive that IFRS be adopted in Australia from 2005 significantly transformed both of those agendas for the AASB by effectively impairing its SOA.

With regard to the technical agenda, the AASB essentially became a standards ‘taker’ for standards for for-profit entities and this, in part, contributed to more attention being paid by the AASB to addressing accounting issues associated with the public sector (and to a lesser extent the private not-for-profit sector). Although the AASB already had in place a policy of transaction neutrality in which it sought to promulgate one set of accounting standards applicable to entities in all sectors, setting standards for public sector entities remained open to the AASB as the IASB had declared that its interests lay only with entities in capital markets. The diminished SOA meant that the AASB’s strategic agenda shifted from a perception that the AASB was an important player on the world stage to being an entity of little or no influence with regard to the IASB’s activities. However, as Chairmen at the AASB changed over time and as other regional NASSs also sought to increase their engagement with the IASB, the AASB actively sought to rebuild its influence via the promotion of, and participation in,

---

13 “The AASB has a transaction neutrality policy under which similar transactions and events should be accounted for in a similar manner by all types of entities, whether in the for-profit sector, the not-for-profit private sector, or the public sector – unless there is a sound reason to be different in particular circumstances. The AASB considers the specific needs of not-for-profit entities in the private and public sectors when preparing new and revised IFRSs for adoption in Australia.” (AASB, 2016) For more information see paragraphs 39 – 42 of AASB Policies and Processes (AASB, 2011).
the AOSSG. At the time of the interviews, the strategic agenda of the AASB included acting as an advocate for the adoption of IFRS in the Asian-Oceanian region and the promotion of interest in public sector accounting issues among members of the AOSSG. The technical and strategic agendas are interrelated. This is particularly the case for the IASB where interviewees suggested that the IASB has used the promise of admission of a specific jurisdiction’s “pet” technical problems to the IASB’s technical agenda as a lure to encourage that jurisdiction to adopt IFRS. Matters relating to the development and implementation of a standard-setter’s strategic agenda are restricted to the most senior technical staff and the characteristics and motivation of a standard-setter’s Chairman are pivotal to both the amount and success of the entity’s strategic activity. Willingness to conduct research jointly with other NASSs into technical issues and active involvement in the informal communications between the technical staff of different NASS’s are important mechanisms by which a particular NASS (such as the AASB) can generate sufficient respect from the IASB and other NASS’s and so build and maintain its international influence and ‘voice’.

III. Literature Review

Spheres of Authority

The process of globalization of many aspects of commerce (and other aspects of life) where transactions occur beyond the boundaries of any given nation state has created challenges for how governance of globalised business is to be achieved. Rosenau (2007) has suggested that in this context there are a variety of entities (such as the IASB) which operate within “spheres of authority” (SOA) where the “term ‘sphere’ indicates a particular realm or locus” (Rosenau, 2007, 89). The range of an entity’s SOA is dependent upon the extent to which the entity can get those entities within the SOA to comply with its wishes (Rosenau, 2007). A standard-setter’s SOA “is surrounded in an environment, by other organized complexes and other activities with different goals and interests. Unfolding in their own ways, they can disturb its form and destroy it. This creates a problem for the agency – the problem of how to survive and, therefore, the

---

14 Two bodies of literature are covered as a pre-cursor to the case study and its analysis. The first body of literature outlined here describes the SOA concept. The second body of literature concerns statements issued by the IASB and NASSs about their relationships and respective roles. Some of the sources are individuals who are or have been standard-setters or individuals representing a standard-setter (e.g., Hague, Jones, Milburn, and Walsh, 2006; Hague, 2007; Lion, 2012; Stevenson, 2012; McGregor, 2012) and others are more formal statements about policy and practice, or aspirational documents (e.g., IFRS Foundation, 2013a; IFRS Foundation, 2013b; IASB, 2014; AASB, 2014).
problem of how to maintain its viability in the face of varied environmental influence and pressures” (Gorelik, 1994, 95). SOAs can be highly contested as actors “from different backgrounds enter the game with specific interests, perceptions, strategies, resources and goals” (Botzem and Quack, 2006, 267). Consequently, a standard-setter needs to be an “adaptive system” (Durocher and Fortin, 2010, 478) with sufficient “organizational plasticity” (Gorelik, 1994, 97) to be able to transfigure itself effectively for new conditions. Adopting a strategic approach to managing legitimacy within an SOA is an important component of organizational plasticity (Botzem and Dobusch, 2012). For example, it has been argued that early in its life, the IASB sought to carve out its SOA by basing its legitimacy on a claim to specialised technical knowledge but as criticisms developed about the lack of diversity in its membership, the IASB and IFRS Foundation had to change the basis of its legitimacy by drawing upon geographic diversity, rather than just expertise, as a basis of inclusion in the IASB’s activities and policies (Botzem and Dobusch, 2012). Similarly in the case of Australia, as described in section VI of this paper, once the FRC had imposed the adoption of IFRS for for-profit entities, the AASB had to go through a process of redefining and re-establishing its own SOA.

**Statements by Standard-Setters**

The IASB has stated that it considers NASSs to be “both stakeholders in IFRS and an essential part of the IFRS network” (IASB, 2014, para. 8). As the IASB cannot force any country or entity to adopt IFRS, NASSs perform, *inter alia*, an important part of the process by which the IASB gains acceptance of its standards (Lion, 2012; McGregor, 2012). Street (2006) and McGregor (2012), for example, have noted how the relationship between NASSs and the IASB (and its predecessor body, the International Accounting Standards Committee (IASC)) has on occasion been subject to serious tensions. Stevenson (2012) has documented how an initial strategy by the IASB to engage with certain ‘partner’ standard-setters was overtaken by political forces in Europe and economic crises, particularly the Global Financial Crisis (GFC). These and other factors have forced the IASB to reconfigure its relationships with NASSs. He notes that “there has been some recognition that IFRS is a means through which all standard setters, preparers and users can hope to leverage the experiences of the
world to solve common problems and improve financial reporting as a discipline” (Stevenson, 2012, 241).

To this end, the IASB has sought over time to manage its relationship with NASSs via two vehicles. The first of these is the International Forum of Accounting Standard-Setters (IFASS) which is a gathering of NASSs from around the globe which occurs twice a year. The purpose of the IFASS is to allow NASSs to “share IFRS convergence, adoption, implementation and application experiences; be consulted on the IASB’s agenda; be updated on developments in International Financial Reporting Standards (IFRSs); [and] provide feedback to the IASB and its staff on active IASB agenda projects.” 15 These purposes, combined with a large number of participants, suggest that the IFASS is likely to be inefficient as a means of the IASB engaging in a dialogue with many NASSs. The second vehicle by which the IASB formally engages with some NASSs is the Accounting Standards Advisory Forum (ASAF) which has a 12 person16 membership representing NASSs and ‘regional bodies’ (although as noted in footnote 12 the ASAF did not exist during the period covered by this study). Membership of the ASAF is based primarily on technical expertise, although certain quotas are imposed across membership from geographical regions to ensure that the ASAF has an “overall geographical balance” (IFRS Foundation, 2013b, para.2.2.5). The purpose of the ASAF is stated in paragraph 1.2 of its Terms of Reference (IFRS Foundation, 2013b):

The objective of the ASAF is to provide an advisory forum where members can constructively contribute towards the achievement of the IASB’s goal of developing globally accepted high-quality accounting standards. More particularly ASAF is established to:


\[16\] The ASAF Terms of Reference make it clear that individuals represent NASS or regional bodies and that the appointments are not in any personal capacity (IFRS Foundation, 2013b, para. 2.2.2). The Memorandum of Understanding that underlies the ASAF was signed by representatives of the IFRS Foundation, the Accounting Standards Committee of Germany, the South African Financial Reporting Standards Council, the UK Financial Reporting Council, the Group of Latin American Standard Setters, the Instituto de Contabilidad y Auditoria de Cuentas, the Asian-Oceanian Standard-Setters Group, the Accounting Standards Board of Japan, the European Financial Reporting Advisory Group, the Financial Accounting Standards Board, the Accounting Standards Board of Canada, the Australian Accounting Standards Board, and the Chinese Accounting Standards Committee.
• support the Foundation in its objectives, and contribute towards the development, in the public interest, of a single set of high quality understandable, enforceable and globally accepted financial reporting standards to serve investors and other market participants in making informed resource allocations and other economic decisions; formalise and streamline the IASB’s collective engagement with the global community of [NASSs] and regional bodies in its standard setting process to ensure that a broad range of national and regional input on major technical issues related to the IASB’s standard setting activities are discussed and considered; and facilitate effective technical discussions on standard setting issues, primarily on the IASB’s work plan but which may include other issues that have major implications for the IASB’s work, in sufficient depth, with representatives at a high level of professional capability and with a good knowledge of their jurisdictions/regions.

Given this paragraph, the ASAF would appear to be a more direct and ‘two-way’ vehicle than the IFASS by which the IASB can engage with the global NASSs community (albeit as a sub-set of that community).

In April 2014, the IASB and the IFASS agreed on a new Charter that sets out the principles by which the relationship between the IASB and the NASSs would be governed (IASB, 2014). Paragraph 3 notes that “This Charter has been developed on the premise that it is essential that the IASB and other accounting standard-setters work together in a spirit of openness and close co-operation.” Paragraph 20 of the Charter sets out key overarching principles in the IASB/NASSs relationship including respect for each party’s independence, the need for transparency and openness, mutual trust and respect and a shared sense of seeking to act in the public interest. Of particular interest to this study is recognition in the Charter of a separate, ‘aspirational’ document entitled A Model for National Standard-Setters that was developed by the AASB (AASB, 2014) and endorsed by the IFASS as a “useful, though not mandatory, guidance for [NASSs] and bodies that oversee them” (IASB, 2014, footnote, 5). Paragraph 1.11 of the Model (AASB, 2014) provides an especially useful and convenient summary of the various roles of the NASSs as perceived by the NASSs and the IASB:
A NASS forms a key part of the financial reporting regulatory framework within its jurisdiction. Irrespective of the stage of IFRS adoption that a jurisdiction has reached, a NASS’s activities, together with the IASB’s activities where relevant, might include:

(a) undertaking research that is of interest to a range of jurisdictions;
(b) seeking input from local or regional stakeholders (including users, preparers, auditors and regulators) and ascertaining their needs, and communicating the findings to the IASB;
(c) facilitating IASB outreach activities in a jurisdiction or region;
(d) disseminating information from the IASB to local or regional constituents and providing feedback to the IASB;
(e) translating IFRSs into a local language;
(f) educating constituents on matters relating to financial reporting;
(g) incorporating IFRS, or advising on or endorsing the incorporation of IFRS, into the local regulatory framework;
(h) promoting the rigorous application of IFRS in a jurisdiction or region;
(i) identifying implementation issues from a range of stakeholders’ perspectives, and providing feedback to the IASB if necessary, or producing local guidance if the issues are jurisdiction-specific;
(j) undertaking effect analyses and post-implementation reviews;
(k) developing and maintaining relationships with local regulators: and
(l) setting accounting standards for entities within the NASS’s jurisdiction before IFRS is adopted or for entities outside the scope of IFRS once it is adopted.

These roles have the potential to enhance the quality of accounting standards and therefore financial reporting. Many of these, and other, roles are discussed in the remaining sections of this Model.

This paragraph demonstrates how the relationship between the IASB and NASSs is conceived as a means of enabling the IASB to achieve its mission. NASSs not only assist the IASB in the technical development of IFRS but also act as one means by which the IASB can manage the political processes associated with the promulgation and acceptance of IFRS in different countries and regions. As, presumably, willing adherents
to the Charter, NASSs and the IASB have arrived at an arrangement that, at least in principle, offers the opportunity for both the IASB and the NASSs to have a voice and to be listened to. However, given the structural differences between the IFASS and the ASAF, it is an empirical question as to whether the realities of participation accord with the principle. As all NASSs are not equally endowed with technical and other resources, the ASAF represents a compromise between participation and standard-setting efficiency. To the extent that the ASAF represents diverse geographic regions, questions of equitable participation may be less worrying than they have been in the past.

The Charter and the Model are recent documents that were under development but not publicly available at the time the interviews for this study were undertaken (mid-2012). However, the types of role specified for NASSs in paragraph 1.11 of the Model do not seem to be an especially new set of expectations on the part of NASSs or the IASB (Lion, 2012). The majority of the roles outlined above had previously been identified, for example, by Canadian accounting standard-setters (Hague et al., 2006; Hague, 2007), although the Canadians had also stated that an additional and important role for NASSs was to act as nurseries to grow and train future accounting standard-setting talent.

IV. INSTITUTIONAL BACKGROUND TO THE AASB AND ACCOUNTING-STANDARD SETTING IN AUSTRALIA\textsuperscript{17}

The analysis of the interviews that occurs later in this paper must be understood within the particular context in which the interviewees have experienced accounting standard-setting. Consequently, this section of the paper provides a condensed history of standard-setting arrangements in Australia, a description of those arrangements as they existed at the time of the interviews (2012), and a short overview of Australia’s involvement in international accounting standard-setting.

A Concise History of Accounting Standard-Setting in Australia

Australia has enjoyed a long and distinguished history of accounting standard-setting. The first institutionalised agency to set accounting standards in the country was

\textsuperscript{17} This section describes the standard-setting arrangements in Australia as they have developed up to 2012. A review of scholarly papers on Australian standard-setting arrangements is beyond the scope of this section but the AASB and its predecessor bodies have been the subject of research. Some agenda setting examples of such research include Walker and Robinson (1994a, 1994b), Gordon and Morris (1996), Ryan (1998) and Kent (2003).
the Australian Accounting Research Foundation (AARF), which was established in 1966 by the Australian Society of CPAs and the Institute of Chartered Accountants in Australia which jointly funded its operations (Burrows, 1996). The AARF supported the work of two standard-setting boards: the Accounting Standards Board (AcSB) which was responsible for promulgating standards for private sector entities, and the Public Sector Accounting Standards Board (PSASB). Compliance with the standards produced by these boards was required by the ethical standards of the two professional bodies but this extended only to the members of these professional bodies rather than to other entities such as corporations. In an effort to direct enforcement at directors and others who are legally responsible for applying accounting standards, the then Ministerial Council for Companies and Securities established a separate Accounting Standards Review Board (ASRB) which was charged with reviewing accounting standards presented to it for approval to receive legal backing via the Commonwealth’s Companies Act 1981. Subsequently, the ASRB and the AcSB were merged in 1988 and three years later the merged entity was reconstituted as the Australian Accounting Standards Board (AASB), which continued to receive technical support from AARF.

A major restructuring of Australian accounting standard-setting occurred in 2000 as a result of the Commonwealth government’s CLERP 1 reform program. The AASB was merged with the PSASB (but kept the AASB name) and the new entity was separated from AARF and had its own technical staff (although many of the technical staff from AARF continued with the new AASB). Standards issued by the AASB have the force of law via the Corporations Act 2001. One very important feature of the CLERP 1 reforms was the establishment of the FRC which has the function of providing broad oversight of the accounting and auditing standards-setting process in Australia. The FRC’s oversight of the AASB includes appointing all members of the AASB (except for the Chair), advising the AASB on its budget, business plans and staffing, and determining the broad strategic direction of the AASB. As noted in Appendix Two, the tasks of the FRC including monitoring and promoting the adoption on one set of global accounting standards. Significantly, although the FRC does not have the power to direct the AASB’s

---

18 The AARF also supported an auditing standards board and a legislation review board but these boards are outside the scope of this paper.
19 The AASB is constituted under the Australian Securities and Investments Commission Act 2001.
20 The legislated tasks of the FRC and the AASB are described in Appendix Two to this paper.
technical agenda, the FRC has issued two ‘directives’ that nonetheless have effectively impacted upon the AASB’s work program. The first, in 2002, required the AASB to adopt IFRS for implementation by 1 January 2005. In its Bulletin 2002/4 the FRC (2002, 1) claimed that its decision to make the direction was “in line with statements made recently by the Parliamentary Secretary to the Treasurer” and the choice of 1 January 2005 was to align Australia with the European Union’s adoption of IFRS for listed companies. Although the AASB had long had an objective of converging Australian GAAP and IFRS (AARF, 1996), the FRC’s directive was “a surprise” to the AASB (Bradbury and van Zijl, 2006, 88)\textsuperscript{21} and effectively meant that the AASB no longer had direct control over its technical agenda for accounting standards for for-profit sector entities. The second significant directive followed shortly after, in 2003, in the context of financial reporting in the public sector by requiring the AASB to harmonise Government Finance Statistics (GFS, as used in public sector budget reporting) with Australian GAAP.

**Accounting Standard-Setting Arrangements in 2012**

The AASB is an entity of the government of the Commonwealth of Australia. The institutional arrangements for accounting standard-setting, as they were in 2012 when the interviews were conducted, are displayed in Figure 1.

**FIGURE 1 ABOUT HERE**

The AASB consisted of 13 members including a Chair who was appointed by the Commonwealth’s Minister for Superannuation and Corporate Law. The other members of the AASB were appointed by the FRC. The Chair of the AASB was also a member of the FRC and was the only member of the AASB who was appointed on a full-time basis. The members of the AASB were supported by the technical and administrative staff of the Office of the AASB, the CEO of which was the AASB Chair. In addition to the Chair/CEO and the administrative staff, the technical staff of the Office of the AASB at that time consisted of a director of research, a technical director, six senior project managers, six project managers, two graduate interns and the Board Secretary.

\textsuperscript{21} As noted in Section VI, interviewee EE also reported that the first FRC directive was unexpected by the AASB.
On its website, the AASB provided an overview of its standard-setting process as of 2012 which is shown in Figure 2.

FIGURE 2 ABOUT HERE

Figure 2 indicates that technical issues for potential standards were identified as emerging either in the international or domestic context. Given the FRC’s 2002 directive to adopt IFRS, matters that arose on the IASB’s or International Financial Reporting Interpretations Committee’s (IFRIC) work program also appeared on the AASB’s work program. However, as the AASB also had responsibility for accounting standards in the public and private not-for-profit sectors, extra issues emerged from the work of the International Public Sector Accounting Standards Board (IPSASB) and from Australian constituents.\(^{22}\)

**Australia and International Accounting Standard-Setting**

Despite being a relatively small country in terms of population and Gross Domestic Product (GDP), Australia has been a significant player on the world stage of international accounting standards. It was a founding member of the IASC, the forerunner to the IASB (Camfferman and Zeff, 2007, 48 - 49), and a member of the influential G4+1 group of accounting standard setters (Camfferman and Zeff, 2007, 14).\(^{23}\) Australians have served the IASB with AASB technical staff sometimes seconded to the IASB and with one individual in the role of Technical Director and another as a founding Board member of the IASB. Since 2009, the AASB has become an active participant in the AOSSG\(^ {24}\) with the Chair of the AASB appointed as Chair of the AOSSG in late 2011. The objectives of the AOSSG include (AOSSG, 2012):

(a) Promote the adoption of, and convergence with, IFRSs by jurisdictions in the region,

(b) Promote consistent application of IFRSs by jurisdictions in the region,

(c) Coordinate input from the region to the technical activities of the

\(^{22}\) As mentioned in footnote 11, the AASB has a general policy of transaction neutrality which means that separate accounting standards are not generally promulgated for the for-profit and public/private not-for-profit sectors.

\(^{23}\) The G4+1 consisted of the standard setting bodies of the United Kingdom, United States, Australia and Canada with the IASC and New Zealand “allowed to attend” the group’s meetings (Camfferman and Zeff, 2007, 14).

\(^{24}\) As at 2016, 26 countries are represented on the AOSSG; see http://www.aossg.org/index.php?option=com_content&view=article&id=2&Itemid=3.
International Accounting Standards Board (IASB), and
(d) Cooperate with governments and regulators and other regional and international organisations to improve the quality of financial reporting in the region.

In summary, Australian accounting standard-setting technical staff have a rich history and experience in the promulgation of accounting standards both nationally and internationally. As will become apparent in the analysis of the interviews, key features that have affected the SOA and agenda of the AASB include the creation of the FRC and its directives and the creation of the AOSSG as a regional voice in international accounting standards setting.

V. RESEARCH METHOD AND INTERVIEWEES

Six interviewees who were either current or past Chairs or technical staff of the AASB were approached to participate in the interviews and all agreed to do so.25 Two of these interviewees were Chairs – one had been Chair at the time of the first FRC directive which required Australia adopt IFRSs and the other was the Chair at the time of the interviews. The latter had also been the Director of Technical Activities and Chairman of IFRIC at the IASB. The remaining four interviewees were current technical staff members of the AASB—the director of research, the technical director, and two senior project managers. All of these interviewees were chosen because they were the most senior and the most experienced staff associated with accounting standard-setting in Australia. In addition to these interviewees a further two persons were approached and agreed to participate. Both of these were founding members of the IASB (including the former Chair of the IASB). These two interviewees were chosen to provide insights external to the AASB as to how the IASB interacts with national standard-setters. One of the IASB related interviewees had also been the executive director of AARF in the 1990s and so was able to provide comments grounded in a particularly unique set of experiences. In the interests of anonymity, throughout the analysis of the interviews the eight interviewees are identified by letters ranging from ‘AA’ through to ‘HH’. Interviewees GG and HH were the former IASB members. Although the eight

25 Ethics approval was obtained to conduct the interviews for this paper.
interviewees were people who were readily available to be interviewed, five of them constituted all of the senior staff at the AASB who had experienced the events from 2002 – 2012. It became apparent during the interviews that saturation was reached with regards to the key themes and that the then current Chair and two Technical Directors were the members of the AASB who had engaged most in the events covered over the 2002 – 2012 period.

This group of interviewees provided an extremely rich set of experiences as all of them had had extensive experience with national and international accounting standard-setting. Some had worked at the IASB and others had been seconded to other national standard-setters such as the U.S. FASB and the U.K. Accounting Standards Board. Collectively, the interviewees had approximately 193 years of experience in accounting standard-setting (with the average experience being 24.1 years and the median being 25 years). All but one of the interviewees was previously known to the researcher who has interacted with the AARF and AASB in various ways since 1991. This familiarity between the interviewer and interviewees was helpful in allowing the use of a conversational style of interviewing similar to that described as “ordinary language interviewing” by Schaffer (2006). The advantage of this style of interview is that it encourages ‘laddering’ of the questions to obtain richer and deeper insights and understandings. On the other hand, there is a risk that the interviewer may lose objectivity in the conduct of the interview.

To guide the open-ended interview conversation, a set of ‘base’ questions was developed.26 These questions were derived from (i) Howieson’s (2009) review of prior literature regarding different components of the agenda formation process and (ii) preliminary discussions with some of the AASB’s technical staff. All the base questions were repeated with each interviewee but were supplemented by additional questions and clarifications as the interviews unfolded. Interviewees were offered the opportunity to provide any other observations at the end of their interview. The shortest interview lasted one hour and six minutes and the longest was one hour and forty-four minutes. The interviews were recorded and transcribed verbatim and the interviewees were

---

26 Appendix Three provides a list of the ‘base’ interview questions.
provided with and, in all cases but one, took the opportunity to review the transcribed interviews in case they wished to clarify any of their comments. No major clarifications were required.

The method adopted for analysing the interviews follows the inductive thematic approach advocated by Hayes (2000) and Braun and Clarke (2006). The interviews were analysed with the assistance of the NVivo 10 software. First, each interview was read and re-read to understand the context of, and broad issues within, each interviewee’s comments. Second, each interview was then carefully read again to identify units of text which dealt with specific issues. These related units of text were grouped together and assigned tentative labels (themes) and definitions. Units of text could be assigned across more than one grouping if their content had meaning for different issues. Each grouping of text was then studied in turn to assess whether the content within each group was consistent with the theme attached to that group and whether the material within the group should be reassigned to alternative themes. This process of reviewing each theme and its content was repeated to refine the nature and understanding of themes relevant to the research question. Sixty-nine themes and sub-themes were identified. Themes were analysed to understand their interrelationships (where appropriate) and this resulted in clustering into four major themes.

VI. THE CASE FINDINGS

The four major themes that were identified in the analysis of the interviews are discussed in this section. The initial theme explores what standard-setters understand by the term ‘agenda’ and how this extends beyond the ‘technical agenda’ which is commonly the focus of academic literature. The second theme explores how the FRC directive impacted upon the AASB and how the AASB sought to respond. In exploring the relationship between the IASB and the AASB a third theme emerged around the power relationship between the IASB and NASSs. This theme has eight sub-themes which explore the various mechanisms by which an accounting standard-setter may seek to promote its own relative power and influence with other accounting standard-setters.

27 Throughout this description, it should be remembered that the comments are set in the context of standard-setting arrangements as of mid- to late-2012.
setters. The fourth theme outlines how influence may occur through informal networks of standard-setting staff. Each of these themes is now addressed.

**What are the Agendas of the AASB?**

In much of the prior literature (see, for example, Howieson (2009)) the 'agenda' of an accounting standard-setter has primarily been perceived as the list of financial reporting topics that the standard-setter is formally addressing by way of the promulgation of a proposed accounting standard or other authoritative document. The interviews, however, suggest that a standard-setter’s agenda may be more complex and broader and can consist of more than one type of agenda. For example, it was noted by some of the interviewees that at the AASB there was both an agenda for financial reporting technical matters and a 'broader' or strategic agenda.

Technical matters are "[a]nything that involves defining, identifying, recognising, measuring, disclosing information about financial [statement] elements" (CC) and are set out in the AASB’s 'work program' which consists of two parts:

- topics that have been approved where people would expect the Standard to finalise and ... topics that are under consideration. And so the technical agenda, I think is a work program, but certain topics are, have been approved and the expectation is they’ll become standards. And other ones haven’t reached that stage yet. (EE)

- Topics that have been formally admitted to the technical agenda for promulgating a standard are viewed as within the province of the Board members while topics that are under consideration for potential entrance as formal projects are the province of the technical staff:

  I think that’s ... important to distinguish between what the agenda is of the Board, being approved projects ... and ... the technical agenda of the staff. Which I think would be wider than that. (EE)

The strategic agenda is about change management and is related to the technical agenda in that the content of the latter can be used to further the objectives of the strategic agenda:

- I think the technical agenda would comprise all of the steps that you’re taking to develop general purpose financial reporting ... so that in a sense, that’s not just the technical standards projects that you’re doing, ... I think standard-setting is a
change management model where you’re trying to constantly challenge the status quo and improve things. So ... for me, the technical agenda is achieving change, what do you do to achieve change? (FF)

As a vehicle of change management, the focus of the strategic agenda was about "improving financial reporting" (GG). Interviewees differed in their views as to the extent to which the technical agenda (in particular, setting standards) was useful in driving change. FF suggested "that putting a particular topic on an agenda is a limited strategy" while GG suggested "the main weapon that you have for doing that is, is the rules or the standards that you produce, because they are the things that ... are authoritative and you have some control over as a standard-setter". FF emphasised the agenda of the standard-setter as being a matter of "issue management":

there’s a host of issues, some of them have to do with getting a particular topic on an agenda, and some of them have to do with ... the pace of change or the width of the change or the receptivity of the audience and all of that. But it’s more like that than topical to me.

For the AASB, at least one objective of this strategic agenda was advocacy for regional adoption of IFRS:

at that meeting, we really set down a Memorandum of Understanding and that this group (i.e., AOSSG) was all about contributing to IFRS, it was all about getting IFRS adopted through the region and through the world. And we were putting the pressure on ourselves to build capacity in the region ... And so, I think that is about, that’s a broader agenda, it’s a more strategic agenda. (DD)

As one of the few jurisdictions in the world that is committed to 'transaction neutrality' in the promulgation of accounting standards for both the private and public sectors, the strategic agenda of the AASB included the promotion of standard-setting for public sector entities. However, it was difficult to get traction for this strategy. One reason for this was the lack of engagement with the issue among regional standard-setters:

I was talking earlier about getting the public sector involved, that group [i.e., the AOSSG] is not at all interested in that. We are and New Zealand are the lone voice in there, but I think they think of us as the same thing sometimes [laughter]. So we only count as one voice. So we’re working on that strategy, I think. (DD)
In addition, change at the IPSASB has meant that the AASB has had to engage in a cost/benefit analysis with regard to its ability to influence that entity:

I think the IPSASB became less influenceable and therefore ... it's just not worth putting as much effort into it because the return's not there. Also you'd have to say that the IPSASB, of course their objective is to start with IFRS’s as well, it's just that they're amending things in IFRS that we would say don't need amending. (DD)

The use of the technical agenda as a tool in implementing the strategic agenda is not, of course, limited to a NASS like the AASB. Interviewees signalled how the IASB uses the promise of adding a pressing national issue to the IASB's technical agenda as bait "to hook the fish" (GG), that is, to influence jurisdictions to adopt IFRS. DD provided an example:

I'll tell you what the main driver of new projects is for [the IASB] and that is, getting for example the Canadians on board. Okay we need to get Canada on board, okay what are the die in the ditch issues for Canada? Oh rate regulation and investment companies. Alright we'll do those. They've got nothing to do with those [formally publicised agenda entrance] criteria.

**Impact of the FRC Directive**

The FRC's July 2002 directive to the AASB to adopt IFRS in Australia had major impacts upon the strategic agenda of the AASB. The directive transformed the AASB, both in terms of its standard-setting priorities and its relationship with the IASB. All interviewees indicated that prior to the FRC directive, the AASB already had in place a well-established policy of 'harmonisation' with the standards of the IASB and its predecessor, the IASC (as set out in Policy Statement PS4, *International Convergence and Harmonisation Policy* (AASB 2002) which had been reissued in April 2002). FF and DD noted that the AASB had adopted this policy in 1996 and that it remained in place until overtaken by the directive in 2002. EE emphasised that the "original decision for harmonisation came from the [AASB] itself" but two of the interviewees stated that the rate of harmonisation was too slow for representatives of the Australian Stock Exchange (ASX)\(^28\) and the then Chairman of the IASC, Mr Michael Sharpe, who sought to lobby the Australian government to adopt the IASC's standards. GG suggested that the timing of the IASC and ASX proposal was "not the right time" because the IASC's standards were

---

\(^28\) In 2006 the Australian Stock Exchange merged with the Sydney Futures Exchange and became known as the Australian Securities Exchange. On 1 August 2010, after a group restructuring, the name changed to the ASX Group.
not viewed to be "of sufficiently high quality" and that there were concerns about the independence of the IASC and whether it had sufficient resources. GG indicated that a coalition of the chairs from the G4+1 (which included, interestingly, individuals who would later be members of the IASB) lobbied the Australian government and others that the time was not yet right for the adoption of IASC standards. This lobbying proved successful and the proposal fell by the wayside.

However, as EE reported, in 2002 "the FRC suddenly made this decision which I’d say was out of the blue ... we’re not going to harmonise, we’re going to adopt the international accounting standards." FF believed that the adoption of IFRS would have happened anyway but was critical of the way the FRC rushed the change: "suddenly pushing people over the edge into where they were going anyway really just says you haven’t respected their judgement about the pace of change." DD went further and stated that he still believed the FRC’s strategy was wrong because it significantly damaged the bargaining power of the AASB:

The FRC rushed it, we got into the tent, lost a lot of influence with the IASB. In other words they didn’t have the fight to get us on board, and the IASB believe me, once you’re on board, they tend to ignore you.

From the IASB’s perspective, HH reported that "we were quite surprised when it happened" but acknowledged that the adoption of IFRS by Australia which had "a great reputation in standards-setting" was a valuable strategic tool in influencing other jurisdictions to similarly adopt IFRS and added legitimacy to the IASB:

So that was good for us too because it made us [the] standard-setters instead of Australasia ... So we could say to Europe ‘you’re not the only ones’. (HH)

EE was of the view that prior to the FRC directive those at the AASB "thought we were the king pin and we could have some influence" and DD commented that "we [i.e., the AASB] were one of the staunchest supporters of the then IASC." However, after the FRC directive, and consistent with DD’s observations, Despite formally remaining a ‘partner’ standard-setter to the IASB, EE’s view was that "Australia's influence at the IASB was reasonably limited. So we were no longer a liaison standard-setter going to meetings and we suddenly found things changed, not believing we could be men of great influence."
The immediate aftermath of the FRC directive was perceived by EE to be "almost overwhelming" in terms of its impact on the AASB's standard-setting priorities as "we got consumed by adopting international standards" for the for-profit sector and standard-setting for the public and not-for-profit sectors were low priorities and were "shoved ... to the background" (EE). Before this change, the AASB was "much more controlling [of its technical] agenda" (EE) and the Board's response "took some time to evolve" (EE). The new regime, however, was not entirely perceived as having negative consequences for the technical agenda. For some controversial topics which were difficult to resolve, such as accounting for goodwill, "adoption of IASB [standards] just forced a solution" [EE] and so effectively put an end to the debate. EE believed that sometime during the period 2003 to 2008 there was a realisation at the AASB that Australia's loss of influence at the IASB led to a change in priorities such that the AASB would "put time into things we can influence and the public sector took a much higher ... priority." A new Chair of the AASB in 2009 led to a strategy to reinvigorate the international voice of the AASB by joining other NASSs in the AOSSG. Nevertheless, at the time of the interviews, it was perceived that the AASB's for-profit technical agenda was "driven by what happens internationally ... the reality is ... we're takers largely" (CC) and "anything that goes on the IASB agenda is automatically on [the AASB's technical agenda]” (DD). AA observed that "I don't think the Board has any flexibility in respect of for-profit private sector standard-setting really". A further casualty was the Urgent Issues Group (UIG) when “the Board then became concerned that well here's the UIG still wanting to issue interpretations that won’t have an international equivalent so that really became the catalyst for the Board to in fact, you know, disband the UIG and take on the interpretation role itself” (AA).

Two of the interviewees expressed the view that the FRC was unlikely to again issue directives of such dramatic impact on the AASB. The FRC's 2002 directive was perceived to have resulted from a failure in communications and negative ‘personalities’ and that the FRC/AASB relationship was now positive and beneficial:

I would characterise the relationship between the board and the FRC as being a much more open relationship now than it initially was and I put that partly down to personalities, but just as each body is learning how to work with the other, they learn how to work better. I think there’s far greater communication.
between the Chair of FRC and our Chair – either way, whoever might initiate it – and so there’s that greater communication. I think they’ve probably kind of agreed, whether explicitly or not, that if it came to the FRC issuing another directive to the AASB that perhaps implies that there’s been a breakdown in communication ... I think we are now seeing more and more we’re trying to use the diverse membership of the FRC, who represent diverse bodies, to try and use that as a way of receiving information. (CC)

Power to Influence

The previous section detailed how the FRC directive to adopt IFRS for for-profit sector entities was perceived to have significantly curtailed the AASB’s SOA, including its influence at the IASB. In some respects, this change turned the AASB from being a lobbied entity to being a lobbyist. It was noted that after a change in Chairmanship in 2009 the AASB sought to emerge from this somewhat emasculated position after countries such as China, Japan and South Korea engaged with the AASB to explore the possibility of Australian involvement in the AOSSG (EE). This allowed the new Chair to develop a strategy that would both promote the adoption of IFRS in the Asian-Oceanian region and increase the ability of the AASB and its fellow regional NASSs to effectively have a significant voice at the global accounting standard-setting table. DD explained why such a strategy was crucial to the AASB, especially given the consequences of the FRC directive:

I think it’s in Australia’s interests, in the AASB’s interests that having adopted these IFRS, they’re getting everybody else on board. The whole point of adopting these things was that it was going to be a global standard. Well if we’ve, and what really annoys me about the IASB is, I think 10 years ago they were running round telling people 100 countries adopted their standards or used them in some way and ‘use’ is a very loose term. That was rubbish then and it’s rubbish today. Any meaningful use of the standards is probably still confined to, at the maximum I would have said about 20 countries and I’m including Europe in that. So if this doesn’t actually really get a bit more momentum towards worldwide adoption, the whole thing’s going to fall in a heap eventually. The U.S. obviously is a lost cause.

This section of the paper explores the interviewees’ observations on the power relationship between the IASB and NASSs, particularly with respect to the issue of the ability of NASSs to influence the IASB’s technical agenda. As the IASB is the recipient of, and in some cases the impulse for, NASSs’ engagement activities, some of the following material explores these issues from the perspective of the interviewees’ perceptions of the IASB as well as those of an NASS. The issues explored here include the IASB’s ‘bait’
strategy, identification of various methods for exerting influence, attributes of an NASS that empower its ability to exert influence, perceived risks faced by an NASS to its power to influence the IASB, and a recognition of the limits on any one player to dominate the IASB.

**IASB’s ‘Bait’ Strategy**

Mention has previously been made of the impact of the IASB’s objective to promote global adoption of IFRS. As noted, it was perceived that in its enthusiasm to entice a country to adopt IFRS as its national accounting standards, the IASB would often actively seek to admit onto its technical agenda accounting topics that were of special interest to that country even if the topic was not actively being considered by the IASB. Such occasions gave the relevant NASS a brief period of influence on the IASB as noted by GG:

> the NASSs, from my experience at the IASB, are extremely influential in terms of setting the agenda ... And if you think about the politics of international standard setting you’re trying to get the countries and the regions on, and whenever any country looks at moving onto IFRS there will be issues that it has to deal with because it will, it’s never been the case that that country ... has had its national rules aligned with IFRS ... So that, that process of moving those national jurisdictions onto IFRS led to a lot of items coming under the IASB’s technical agenda that weren’t originally planned to come on the agenda.

DD suggested, for example, that Canada’s concerns regarding rate-regulated industries and consolidation of investment companies resulted in those topics being added to the IASB’s technical agenda but, as noted above, once a country was signed up as an IFRS adopter the willingness of the IASB to respond to its pet issues rapidly fell away as it moved on to the next target jurisdiction. One dramatic example of the ability of a party to exert this sort of influence on the IASB is the U.S. through the FASB and the Securities and Exchange Commission (SEC). HH noted that the need to get the U.S. to adopt IFRS “massively impacted on the agenda” and DD observed “[n]ow of course you’ve seen what [the IASB] do with the U.S., forever on tenterhooks. And the U.S. knows it, so they’ll just play that one for the next century you know.” However, both HH and DD acknowledged that the IASB’s willingness to dance to the U.S.’s tune may be waning.
In addition to losing leverage once a country is an IFRS adopter, interviewees noted other reasons why a NASS might have little or no influence on the IASB. Both AA and DD suggested that the ability of the AASB on its own to influence the IASB was very limited because Australia is a small country (in terms of GDP) or, as also noted by EE, the AASB might be a lone voice on a particular issue, “other countries had already done what Australia said they didn’t want to do” (EE). DD described how the AASB’s efforts to volunteer to assist the IASB were ineffectual in the three years after the FRC directive:

You might know that we’d been burned by the IASB back … around 2002 to 2005 where we put our hand up for a number of projects only to do a whole lot of work and then be completely ignored, rather brutally. No one was even terribly nice about it. And so that taught us a bit of a lesson that, and we always knew that if you’re working for the IASB, it’s totally their call. If you serve up some information, they can ignore it or they can tell you it’s crap and go and do it again. So you’re at their mercy, but I guess we thought we would achieve more.

**Exerting Influence – Forming Coalitions**

The inability of most NASSs acting as individuals to exert influence at the IASB has encouraged the development of regional coalitions of NASSs of which the AOSSG is an example. Although not a creation of Australia, it was previously noted that the AASB has played a leading role in that organisation with, for example, the Chair of the AASB being the AOSSG Chair from 2012 – 2013. Membership of a regional group such as the AOSSG brings strength in numbers:

AOSSG means that if we’ve got a view and we can articulate that in a convincing way within AOSSG, then … the AOSSG will be expressing a view … [a]nd that will therefore carry more weight. (BB)

In addition, as HH noted, a group like the AOSSG assists less influential NASSs to benefit from the global or political power of stronger members:

And that one’s [i.e., the AOSSG] going to be a powerful one because China set it up because it wanted the region to discuss and so on. Well, if that region comes forward and says, “We think X”, there’s some … big countries in there and that is going to have a major impact.

Similarly, the growth of regional coalitions of NASSs has been a response to the perceived dominance of Europe and the U.S. on the IASB’s activities and deliberations. In particular, the growing perception that the IASB was losing patience with the U.S. was seen as one important catalyst for the rise of regional NASS coalitions:
I think one of the reasons the AOSSG sort of came about and people were like-minded about creating it, was that we could see that there was tension between the U.S. and the Europeans and in a sense that was a healthy tension 'cause it meant the Europeans couldn't get their way. The Americans couldn't necessarily get their way. But, if the IASB does get pissed off with the Americans, they're left with the Europeans and ... someone else has to step in, and sort of say, well hey we’re here and balance it out and I think that’s galvanised South America who were always pretty well organised with [the Group of Latin American Accounting Standard-Setters or GLASS]. (DD)

The advantages of such coalitions, however, do depend on their members working co-operatively and productively. Alternative views within the coalition need to be managed and resolved, a challenge that DD noted faced the European Financial Reporting Advisory Group (EFRAG). Successful coalitions require members to possess and demonstrate technical expertise which they can do, for example, via their involvement in research activities (see below) while management of alternate views depends, in part, on the political skills of the coalition’s Chair (see further below).

*Exerting Influence – Conducting Research*

Although initial attempts to engage with the IASB via research projects appear to have been less than successful for the AASB, by 2012 an alternative approach to research activities was emerging at the AASB. In part a stimulus for this was increased interest in evidence-based standard-setting at the IASB and the FASB but the AASB also recognised that research benefitted its own strategic agenda. Research could be used to establish and maintain the AASB’s credibility and legitimacy which meant that the AASB was more likely to be “consulted on issues”:

the idea is that we appear as a leader in various ways and research is one way in which you can appear as a leader to your constituency and your fellow standard-setters in the IASB ... some kudos essentially. Hey look at us, we’re really good. But you know you can argue that all of this is about placing yourself so that you are consulted on issues. And if you retain a reputation, then you will always be consulted hopefully, and therefore be able in our view, to improve what’s happening. (DD)

Further, co-ordinating joint research projects within a NASS’s regional coalition could be used to build engagement with a NASS’s fellow standard-setters and develop technical capacity within the NASS coalition. For instance, four of the interviewees noted a joint research project on developing principles for determining discounted cash
flows that had been initiated around 2012 between the AASB and its Hong Kong counterpart. In addition, as noted by BB “the research agenda is generally less concerned with current issues” but this allows a regional group like the AOSSG to have a solution ready in advance of the relevant topic being considered by the IASB. For example:

[the] project ... relating to discounting [arose] because of concern that across the IASB standards, there are inconsistencies with what the discount rate is on future cash flows and where you reflect the risk and all that sort of stuff. That’s being done jointly with Hong Kong. Now that’s a research project, many of our constituents probably don’t care too much about the research we’re doing because it’s not going to affect their reporting in the next twelve months, but that work will continue on and eventually, presumably, it might affect hopefully the IASB’s agenda which will affect the Australian agenda. (CC)

Similarly, the AOSSG had established an Islamic Finance Working Group so that it could be prepared to influence the IASB’s deliberations when the IASB eventually addresses the application of its standards in jurisdictions that adopt the principles of Sharia law. This is likely to place the AOSSG in an advantageous position because, as HH acknowledged, “[Islamic Finance] certainly is being explored [at the IASB] but what we’ve said is, ‘This is a bit specialised, so we need a specialist group to work at it and not just one country’ ... So I think it’s a long project but it’ll be done.”

**Exerting Influence – Delaying Tactics**

HH noted that one way in which various lobbyists (not only NASS) might seek to influence the IASB was via various delaying tactics. This could include trying to modify the scope of an IASB project “or they’d want more field testing ... or another exposure draft, anything to slow the ... thing down. No, you got a lot of that and you just had to put your head down and go right through it.” Such delaying tactics are not restricted to just the IASB. In the case of the FASB, Beresford (1993) has noted how some lobbyists have attempted to get topics on to the FASB’s technical agenda in the hope that a long due process will act as a means of slowing the resolution of the topic.

**Exerting Influence – Appealing to Politicians**

It has previously been noted how EE and GG described early attempts by lobbyists to persuade the Australian government to adopt the IASC’s standards and how
standard-setters similarly lobbied politicians to thwart that proposal. The attempts by various lobbyists to employ politicians as a weapon against accounting standard-setters has been documented before in various contexts (see, for example, Whittington (2005), Howieson (2011)). HH complained of how the IASB was regularly subject to pressures from politicians at the behest of various jurisdictions:

And then they run to the politicians, which is what they did in Europe again and again and again. And especially the French, I mean, the French presidents got involved all the time.

**Attributes that Promote a NASS’s Influence**

In addition to the various strategies and tactics discussed above, interviewees identified other characteristics and attributes that were important in promoting a NASS’s ability to exert influence at the IASB. HH, for example, noted the significance of economic power and technical expertise:

When you look at the big economies you’ve got number two and three here and India will be coming up. Whereas, we mentioned earlier, Australia hasn’t got the GDP clout, it’s got the clout in its head. It’s got the experience.

The quality and experience of a NASS’s technical staff were singled out. DD, for instance, noted that there was considerable stability in the long-term tenure of the technical staff in Australia and Malaysia but in some other jurisdictions “it’s like a ... revolving door ... Every month you seem to be talking to a different person.” Stability in the technical staff brought expertise, experience, and a corporate memory that could be valuable to a NASS’s Board members who typically had much shorter terms than technical staff.

One factor that was viewed by all interviewees as highly important in determining the influence of a NASS was the quality of its Chair. The Chair “matters because you get a weak chairman, he kills his board. The board can be as bright as hell. If a guy doesn’t sell the ideas, you know, he’s lost it. So I think as long as you keep getting a good chairman, and not dinosaurs, then you’ll have a big clout” (HH). Important attributes of the Chair’s character and skill set include the ability to “sell ideas”, the possession of drive and energy, possession of a vision in relation to a country’s
“commitment to IFRS” (GG) and the individual is politically savvy. HH’s summary of the key skills of a good NASS Chair was:

Persuasion, they have to persuade and you can be feisty, as feisty when you need to be and also a diplomat in the sense of knowing what are the buttons to press, which is part of the persuasion game ... what are people really sensitive about?

**Risks to Maintaining the Ability to Exert Influence**

Two interviewees identified potential threats to the ability of a NASS to exert influence either within its regional coalition or more broadly. In the case of the AASB, continued adequate financial resourcing from the government is a matter of concern. Should, for example, the budget for international travel be significantly impaired, using alternative methods for the AASB to engage with its international partners such as telephone or video conferencing were likely to be detrimental to the AASB’s ability to influence others:

every now and then you’ve got to show up somewhere to the AOSSG and if it ever gets to the point where we can’t go to those meetings, we’re in a lot of trouble I think. (DD)

A second potential threat relates to the need for a NASS and jurisdiction to continually grow and maintain home grown expertise and skills. As HH emphasised, “But you must keep these guys coming up.”

**Limits on Any One Party’s Ability to Dominate IASB**

Some commentators have expressed concerns that the IASB was in some way or other dominated by Europe or the U.S. and that this meant that other jurisdictions and interests were excluded from engagement or influence with the IASB (see, for example, Simmons, 2001; Cooper and Robson, 2006; Burland and Colasse, 2011; Chantiri-Chaudemanche and Kahloul, 2012; Ramanna, 2013). As noted here, some interviewees saw the growth of groups like the AOSSG and the GLASS as counter-forces to the potential dominance of Europe and the U.S. DD provided particularly insightful comments about the limits that a global sphere of authority imposes on any player in that sphere:

It involves so many different parties, this is what I was saying to you earlier, that I don’t believe there’s any way of controlling the outcome. Not now that standard-setting’s global. Once you set the thing going, it’s a juggernaut, and could go anywhere. Well not anywhere, but it’s hard to pick the outcome and I
don’t think any one party let alone the staff of the AASB could control the outcome ... I think a lot of people in standard-setting do conspire to try and achieve outcomes, I think the likelihood of any of them succeeding is extremely remote because the whole thing’s global and that’s the beauty of opening up things globally. Conspiracies just don’t work. Someone says the emperor’s got no clothes on. Look, the Europeans I think have managed to con the IASB into doing certain things. And if it was just Europe’s plaything it’d probably do it, but the whole world’s involved and I think one of the reasons the AOSSG sort of came about and people were like minded about creating it, was that we could see that there was tension between the US and the Europeans and in a sense that was a healthy tension ’cause it meant the Europeans couldn’t get their way. The Americans couldn’t necessarily get their way.

DD suggested that this balance across interested stakeholders arose naturally, “I think world standard-setting has happened unconsciously ... it’s just happened.”

**Informal Networks**

The interviews provide insights into the informal institutions that underlie standard-setting and which are often difficult for outsiders to observe. These informal institutions include the presence of (i) informal networks such as those amongst standard-setters’ staff and those amongst the technical partners of international accounting firms and (ii) the growth in an ‘informal’ set of Generally Accepted Accounting Principles (GAAP) developed by accounting practitioners as they seek to interpret and apply the ‘principles-based’ formal GAAP (i.e., IFRS).

Such informal institutions were not new. For example, EE reminisced about the standard-setters’ networks prior to the FRC directive: “the staff in those days attended a lot of international meetings. The IASC meetings and the International Public Sector meetings.” In addition, personal contacts were important. Again, EE remembered that “when I was Chairman, I knew the Chairman of the ... FASB ... ‘cause he was an ex Arthur Andersen guy, and I actually contacted him on a number of occasions and asked him, well how do you guys do this or that, you know, and he was pretty helpful.” The technical staff of the Australian and New Zealand accounting standard-setters also had traditionally worked closely together (BB). Prior to the creation of the IASB, the network of accounting standard-setters was small but powerful (GG):
the other strategy that we employed was to ... work ... through the G4+1 which had become a very powerful lobbying body in a way. It was ... ostensibly a think tank, a technical think tank, but it was a powerful lobbying body within the world of standard-setting.

However, with the increasingly wide acceptance of IFRS, the role of informal networks has become considerably more important for at least three reasons. The first is due to the commonality of IFRS across many jurisdictions; in other words, NASSs are now all talking about the same subject matter rather than trying to reconcile across diverse sets of standards. As FF observed, “because the topics are so inter-related and you’re learning over time, it’s sort of like a big connected blanket, that’s moving on you, and you touch one part and it’s going to affect the rest.”

Second, as previously noted, one response of NASSs has been to form regional groupings such as the AOSSG. The need for close communications between the members of these groupings is necessary to ensure that contradictory viewpoints within the group are identified and managed: “well then we have to be very careful, we’ve got to make sure that [a proposed position is] not completely contradicting what [Country X] are just putting in the revenue submission that we all look at” (DD). In addition, close interaction between the standard-setters is needed to manage the challenges brought about from institutional differences across jurisdictions. Within the AOSSG, for instance, it is necessary for members to engage on how to address differences driven by the principles of Islamic Finance:

Now a lot of products coming out of an Islamic Finance regime are just trying to mimic what I’ll call Western style products for want of a better word. But then again, I think it’s unfair just to look at it always as them mimicking the Western products. The fact that they were built up in this other regime that’s got different rigidities from our rigidities is sort of neither here nor there. (DD)

A third reason for the growth in informal networks, within both NASSs and international accounting firms, has been the perceived emphasis in IFRS on ‘principles’ over ‘rules’. The use of principles as a basis for writing standards has increased the need for networking to aid in the interpretation and practical application of the principles-
based standards. Both FF and HH noted this trend, particularly in the context of international accounting firms whose technical staff are part of the development of a body of ‘informal GAAP’. FF observed:

And that’s one reason why I say to the countries that are dilly dallying about adoption dates you know, GAAP, there’s formal GAAP and … informal GAAP, as it’s practised. Every day you wait, that [informal] GAAP gets bigger and bigger and bigger, and your access to it is denied … it’s enormous … we’ve got a real issue here … the informal GAAP … the day you start off with a new IFRS, there’s a new IFRS in 2005 it’s all written. A day later it’s a bit bigger. These days it’s this enormous onion of multiple layers and the formal GAAP has grown, but not proportionately. And I’ve said to David Tweedie, you know, you always argued for a return to professional judgement and principles, you have no idea how successful you’ve made it. You have no idea.

Amongst standard-setting entities, informal communications appear to be predominately (but likely not exclusively\(^29\)) among the technical staff (including the Chair). One reason for this lies in the different roles played by technical staff and Board members. Some interviewees noted that the primary role of Board members is as decision makers. Technical staff, on the other hand, generate information about the relevant technical issue,\(^30\) present the case for each alternative treatment and may even make recommendations as to what is the appropriate ‘solution’ but acknowledge “that it was the Board’s decision ultimately to decide which way they … dealt with it, how they resolved the issue” (GG). This demarcation in the roles of technical staff members and Board members appears to be common across standard-setting entities (EE, FF, GG, and HH) but is more pronounced when Board members are part-time rather than full-time (DD). As a result Board members are not so actively engaged in the researching of a technical issue. Consequently, the background work, scanning the environment and generation of research projects is “all done at a staff level” but often includes “the Chairs of their Boards” (DD). By way of illustration, BB referred to the conceptual framework project “where staff got together, a number of staff, and sought to identify cross-cutting issues that may impact the framework.”

---

\(^{29}\) Informal networks may well exist amongst Board members of standard-setting entities but the interviewees did not identify such networks.

\(^{30}\) Chantiri-Chaudemanche and Kahloul (2012) had a similar observation about the role of the technical staff of the IASB.
The level of informal communications between technical staff across standard-setting entities (including the IASB) is extensive. FF emphasised:

the dialogue now between individual project managers here and there .. it’s just phenomenal ... So the interchange is all the time.

When prompted with the suggestion that this constant interaction had led to a “community of standard setters”, FF responded that “It really is ... and it’s becoming more and more so.” The informal communications (including as previously discussed, the generation of joint research projects) within regional groups are an important means of developing shared understandings and objectives among technical staff members. Within the context of the AOSSG, for example, DD observed:

I think in most cases, and it’s certainly our case, it’s the Chair, not the whole Board, the Chair, and the staff driving what’s going on in those meetings ... the group is remarkably like minded, I must say, it’s just incredible really how like-minded people are in those meetings.

VII. DISCUSSION

The interviews explore the SOA (in terms of its role and international presence) of the AASB as it changed over the period 2002 to 2012. Three different phases are associated with the AASB over this period. In 2002, just prior to the FRC’s directive, the AASB was an independent accounting standard-setter with control over its domestic technical agenda. It was also an influential entity on the international scene being a member of the G4+1 group of standard-setters and an enthusiastic supporter of the work of the IASC and the IASB. The AASB’s SOA at this time was very broad. However, in the second phase, with the imposition of the FRC’s directive, the AASB lost control of its domestic agenda (at least with regard to standards for for-profit private sector entities) and its SOA was considerably reduced as it quickly lost international influence because the IASB no longer had to court the AASB to adopt IFRS. The AASB’s role was largely redefined to that of essentially accepting IFRS as Australian standards for the for-profit sector, and given its policy of transaction neutrality, the AASB moved more of its attention to public sector issues (with limited attention to not-for-profit private sector issues). The third phase was associated with a change in the Chair of the AASB in 2009.
which resulted in a pro-active strategy by the AASB to rebuild a wider SOA. This was achieved by the AASB’s active engagement with, and leadership in, the AOSSG. A key strategic objective of this phase was the desire of the AASB to promote IFRS adoption across the Asian-Oceanian region driven, at least in part, by the need to ensure that Australia’s precipitous adoption of IFRS was not to be ‘a lemon’. As such the AASB became a more vocal advocate for the IASB seeking to persuade other regional jurisdictions to embrace IFRS. The AASB’s position in the AOSSG allowed it to increase its international voice by leveraging off the economic significance of some of the AOSSG’s members (e.g., China). The AASB was also able to use its technical expertise, long serving technical staff, and joint research projects to mentor the staff of other AOSSG members and build a community of like-minded standard-setters.

Although limited to only one NASS, this case study offers some valuable insights regarding accounting standard-setters. First, the case demonstrates that the relationship between standard-setting entities is complex and dynamic. For example, prior researchers who were interested in how standard-setters (and regulators) interact have tended to adopt models that view these interactions as being competitive and antagonistic as one standard-setter seeks to gain dominance over a specified ‘regulatory space’ or SOA (see, for instance, Walker and Robinson 1994a, 1994b). However, in the case of the AASB the relationship between it and the IASB has clearly changed over time. Although there may have been some antagonism and disappointment, especially in the first two to three years after the FRC directive, the relationship since 2009 has become considerably more co-operative and balanced as the AASB pursued its revitalised strategic agenda and increased its regional influence. There are likely to be many reasons for this of which only some have been canvassed in this case study. For example, it is in the interest of the AASB, at least in part, to promote IFRS in the region to ensure that Australia’s decision to adopt IFRS in the region to ensure that Australia’s decision to adopt IFRS in the region to ensure that Australia’s decision to adopt IFRS is productive. In addition, there may be other wider political factors (not pursued in this study) that are forcing the IASB to be more conciliatory with NASSs. The power of the IASB may again be in a process of transition as it becomes obvious that the U.S. is not going to adopt IFRS for domestic purposes and as the formal convergence projects with the FASB come to an end. In addition, with well over 100 countries having ‘adopted’ IFRS in some form or other, the growth phase of getting more countries on board may be nearly over and the IASB will
consequently need to redefine its relationships with NASSs (particularly those it has ‘ignored’ once they had become IFRS adopters). The adoption of the *Charter* between the IASB and NASSs that was described in Section III of this paper may be one response to these changing relationships.

A second set of insights from this case study relate to the concept of legitimacy in the context of global accounting standard-setting. The case demonstrates that the perceived international and domestic legitimacy of both the IASB and NASSs is closely intertwined. Indeed, interactions between the IASB and NASSs can assist in growing and maintaining the legitimacy of all standard-setters. In the case of the AASB, the FRC’s direction stripped the AASB of much of its international legitimacy and the AASB’s response after a period of readjustment was to redefine its SOA within public sector financial reporting. During 2008 countries such as China, Japan and South Korea had approached the AASB to explore Australian involvement in the AOSSB. A new Chair in 2009 led to a conscious choice by the AASB to again redefine and rebuild its SOA beyond domestic public sector issues through this opportunity to be a part of the AOSSG. In particular, the AASB has promoted the legitimacy of the IASB in the Asian-Oceanian region by acting as a missionary to gain acceptance of IFRS in the region. In pursuing this strategic agenda in this way, the AASB has assisted the IASB to establish its ‘input’ and ‘throughput’ forms of legitimacy\(^{31}\) (Mayntz, 2010; Richardson and Eberlein, 2011; Botzem and Dobusch, 2012) as an active AOSSG provides the opportunity for NASSs in the region that would otherwise be unrepresented at the IASB to be heard. By its leadership in AOSSG, the AASB has regained recognition and status with the IASB which in turn helps bolster the AASB’s legitimacy with its own constituents (including other NASSs) and supporters (such as the Australian government), increasing its SOA. As DD noted:

> I mean, like the Government funds this place. I’m not sure that they really care, know what they’re buying first of all, or sort of care how many standards are produced or any of that sort of stuff. One thing they may care about is our reputation. And if ever we do talk to the Minister ... I mean we never bother telling them about any technical things much, because they’re clearly not interested. Our emphasis is always about our activities in Asia and our influence

\(^{31}\) Input legitimacy refers to the scope and quality of the participation by stakeholders in the standard-setting process. Throughput legitimacy is concerned with the fairness of the process by which standards are set.
with the IASB and our international reputation and that’s really all they’re interested in.

A third insight of the case relates to the presence of informal networks across the technical staff of accounting standard-setters. These networks are active and extensive but are under-represented in prior academic studies. Not only do they provide an opportunity for technical staff to share ideas, they also develop social relationships and share values and objectives. The AASB’s active involvement and leadership in the AOSSG has occurred primarily at the level of senior technical staff and the Chair who interact with similar technical staff and Chairs of other members within the AOSSG. FF also indicated that these interactions occur with the IASB’s technical staff and those of other NASSs. The interviews suggested that the AASB’s involvement in these informal networks has included the desire to “build capacity” and work with “like minded” people suggesting that the AOSSG is a form of “epistemic community” (Haas, 1992) (perhaps even a sub-part of a bigger global epistemic community of accounting standard-setters). By using vehicles such as joint research projects within the AOSSG, the AASB is able encourage other members of the AOSSG to share its vision of global IFRS adoption. The idea that the network of standard-setters is an epistemic community has been recognised previously by Martinez-Diaz (2005), Porter (2005) and Richardson (2009). The presence of an epistemic community of accounting standard-setters in a context where there is no nation state based legitimacy and governance represents a form of ‘networked governance’ which has not been sufficiently explored within the accounting literature (Richardson, 2009). The concept of networked governance (Richardson, 2009, 574) “also emphasizes the increasing importance of social controls (norms and conventions, for example) compared with formal law and centralized

---

32 In their study of the technical staff of the IASB Chantiri-Chaudemanche and Kahloul (2012) have similarly suggested that the technical staff have some characteristics of an epistemic community but this is inferred on the basis of the prior employment and affiliations of the technical staff rather than being more directly observed.

33 An epistemic community is defined as “a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity - that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise - that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence” (Haas, 1992, 3).
regulation ... the exploration of the diversity of actors who participate in governance ... and the development of “social capital” in the links between actors.” Networked governance among standard-setting communities is largely unexplored at present but further investigation into such communities may provide greater understanding of factors that inhibit or promote IFRS adoption across jurisdictions.

The AOSSG is an example of a standard-setting epistemic community that enables efficient and effective engagement with the broader global standard-setting epistemic community. Recently, Lall (2015) has employed Technical Elite Theory to argue that the success of the IASB has been driven by its ability to engage such communities of technical expertise (both standard-setters and accounting firms) to promote and establish the acceptance of the accounting rules embodied in IFRS.

A fourth important insight is the discovery of how closely the standard-setter’s technical agenda is driven by the standard-setter’s strategic agenda; that is, the technical agenda is one tool for implementing the strategic agenda. Prior research has recognised that standard-setting is a political process but has viewed this primarily through the lens of parties external to the standard-setter who lobby to influence the outcome of a proposed accounting pronouncement. This study shows that the standard-setter has its own political agenda tied to the desire to improve the quality of financial reporting and that the Chair and other key technical staff play a role in negotiating the political landscape. Howieson’s (2009) review of standard-setters’ statements about agenda entrance noted that the IASB and many other NASSs have produced formal sets of criteria that they claim are used for deciding whether topics are to be admitted to the technical agenda. Howieson (2009) suggested that future research might explore whether these criteria are actually used and, if so, whether they are equally weighted in a technical agenda decision. This study has revealed that during the period of this case, the IASB’s technical agenda was significantly driven by its ‘bait strategy’ of identifying technical topics that would entice countries to sign up to IFRS adoption. Not only did this strategy impact upon the IASB’s technical agenda, it also had consequences for the relevant NASSs. In the somewhat extreme case of full-scale IFRS adoption in Australia, the AASB effectively lost control of its technical agenda for for-profit entities. The evidence here about the IASB’s ‘bait strategy’ would suggest that
the formal technical agenda entrance criteria published by the IASB (and those of IFRS adopting NASSs) are unimportant but it does not necessarily follow that this has always been the case, nor that it will be in the future. For example, this paper has noted that the IASB may be coming to the end of its growth phase as it is running out of countries to recruit to IFRS adoption. In the future, the IASB may be faced with other priorities that demand the use of a new or modified set of technical agenda entrance criteria. In addition, given that this paper describes how NASSs have started to develop a collective voice within their geographical region, the ranking of potential technical agenda topics is more likely to become a collective decision of the relevant accounting standard-setting epistemic community. Understanding how these collective standard-setting decisions are made would be a fascinating research topic. Thus, the question of how topics gain entrance to the technical agenda remains open for further research.

A fifth key insight from the case study is the importance of understanding the behaviour of individuals rather than just organisations within the standard-setting context. All interviewees stressed the importance, for example, of a standard-setter’s Chair in determining the strategic success or otherwise of that standard-setter. Further, as noted above, much of the development of the epistemic standard-setting community and technical work occurs via networks of technical staff.

There are several implications associated with this recognition of the importance of individuals. Some implications lie at the theoretical level. Prior studies that have examined the behaviour of accounting standard-setters have nearly all done so only at the level of interactions between standard-setting organisations, not at the level of the component parts of those organisations.34 In other words, the standard-setters have been viewed as a ‘black box’. Jensen (1983) has observed in the context of understanding accounting policy choice that although such black box models of organisations may be useful for certain types of questions related to the operations of markets, they are only of limited help for building a theory of organisations. Similarly, it

34 Two exceptions can be identified. Botzem (2012, Chapter 6) analyses the nationality, prior employment and affiliation characteristics of IASB Board members and trustees in an attempt to identify any biases within the IASB (e.g., whether there is Anglo-American or large accounting firm dominance of the IASB). Chantiri-Chaudemanche and Kahloul (2012) perform a similar analysis but also include the technical staff of the IASB. However, both of these studies do not investigate the behavioural consequences of the individuals’ characteristics, nor do they explore any psychological or personality characteristics.
is suggested here that treating standard-setter organizations as a black box may be helpful for assisting in building theories of regulation or agenda setting but is of limited help for building theories about the behaviour of standard-setters. The case study suggests that building a theory about the components (that is, the individuals and internal processes) that make up a standard-setting organization has promise for developing our understanding of the behaviour of these organisations. If we wish to understand the pattern of relations between standard-setters, it will be necessary to explore the processes within them as well as the processes between them. For example, it would be helpful to develop a theory that explains how the characteristics of Chairpersons (e.g., their personality profile and experience) impact on their willingness to promote IFRS. Such individual characteristics need not be viewed as serendipitous. The interviewees in this case have already identified several characteristics that they believe are necessary for a ‘successful’ Chair. In addition, other disciplines may offer models that could be applied in an accounting context (see, for example, Hermann’s (1980) study of how political leaders’ personal characteristics can be used to explain their behaviour with regard to foreign policy or Morley’s (2016) analysis of the social psychology of standard-setters at the IASB). A theory of the behaviour of standard-setters may be used to explain questions such as why some NASSs politically engage with IFRS and why some do not, and why this level of engagement might change over time. For example, are the motivations of the Chair important in the NASS’s behaviour? A person who views their appointment to the Chair as the last step towards retirement may be significantly less motivated for political engagement.

A limited amount of published work and some working papers (most notably Ryan (1999)) have employed Kingdon’s (2011) ‘multiple streams framework’ to study agenda setting by policy makers. The ‘multiple streams framework’ employs the concept of ‘policy entrepreneurs’ to identify key individuals who “push for one kind of problem definition rather than another” and who “soften up the mass public, specialised publics and the policy community itself”’ (Kingdon, 2011, p. 205). In particular, the policy entrepreneur brings the three streams of problems, policy and politics together so that ‘their pet proposals or their concerns about problems [are] ready … push[ing] them at the propitious moments” (Kingdon 2011, p. 205). The concept of policy entrepreneur bears some parallels to the role of the NASS Chair described in this paper.
However, although the Chair performs some roles similar to those of the policy entrepreneur, these roles are not limited to one particular policy issue but are ongoing and require the Chair to engage in complex discourse with many entities and individuals. The concept of the policy entrepreneur also remains rather poorly specified at present and it is not always clear what distinguishes those who are merely influential from those who really matter. Coupling the concept of the policy entrepreneur with an investigation of the ‘discursive strategies’ that they adopt to progress their strategic agenda may be a productive line of research for the future. Although there is yet little published work in this regard in the accounting literature, a study by Palmer (2015) provides a helpful model.

The case study findings are also potentially useful to NASSs and other standard-setting bodies that operate in an international context. Understanding more about the characteristics of ‘successful’ Chairs and quality technical staff, may be useful to NASSs when they make choices about who to appoint to these important roles. Additionally, the study has demonstrated some of the strategies that can be adopted by NASSs and other standard-setters to improve the likelihood that they will have a voice on the global stage.

Finally the case study illustrates the point made by Walker and Robinson (1993) among others that our understanding of accounting regulation and standard-setting should not be limited by confining studies to researching only data that are readily observable (for example, comment letters to exposure drafts). The case has used interviews with ‘insiders’ to shed more light on the complexity of accounting standard-setting. This complexity occurs in many informal ways which cannot be captured by only observing archival data in the public domain. This is not to imply that standard-setters are necessarily secretive about their behaviour but is a call for researchers to be prepared to adopt more challenging research methods if they wish to provide more significant advances in our understanding of accounting regulation and standard-setting.
VIII. CONCLUSIONS

This case has explored how the SOA (and its attendant roles and agendas) of one particular NASS, the AASB, has changed over time in response to Australia’s adoption of IFRS. Fears of an IASB hegemony are likely to be overstated. Although the AASB was consigned to the flames of international irrelevance for approximately six years after IFRS adoption, the SOA of the AASB was, like the Phoenix, regenerated again, albeit in 2012 in a different form and with arguably less direct influence on the IASB. The case has demonstrated that the relationships between the IASB and NASSs are dynamic and complex and often occur via informal networks among technical staff. Standard-setters are not necessarily antagonistic to each other in their desire to be part of an SOA and, indeed, may actively work to develop epistemic communities of standard-setters that share an SOA. Similarly, the perceived legitimacy of the IASB or of NASSs cannot be explored sufficiently without giving due consideration to the interactions and interdependencies between these organisations and their claims for legitimacy. The case has demonstrated that our understanding of the behaviour of accounting standard-setters will be advanced if researchers go beyond the interaction of organisations and explore the characteristics of the key individuals who work within, and the internal processes of, those organisations.

This study is subject to some limitations. Clearly its findings are to some extent bounded by its particular context. The findings are a function of the time, place, personalities, and institutional arrangements specific to the experiences of the AASB and the individuals who were interviewed. As mentioned elsewhere in the paper, we would expect to see some differences in the experiences across NASSs and across time. For example, it was signalled in the previous section that the ability of the IASB to persist with a bait strategy is declining as more and more jurisdictions adopt, in some form, IFRS. Other potential limitations could relate to the interviews in that interviewees may have been reluctant to share everything and/or the established familiarity that the interviewer enjoyed with most of the interviewees may have led to a lack of objectivity. Although it is difficult to control for such factors, the quotes from interviewees used throughout the paper adopt a language and tone which is frank and informative which suggests that the interviewees sought to report their experiences honestly and as fully as the passage of time would allow.
Notwithstanding these limitations, the findings of the case generate a fertile set of further research possibilities. They include an investigation into standard-setting epistemic communities such as the AOSSG. For instance, how has the AOSSG evolved and what are its internal processes? How are differences in values and objectives managed within the AOSSG? What are the personal characteristics of key individuals within a standard-setter and how do these characteristics impact on the behaviour of that organisation? These questions and others could be considered in standard-setting contexts outside of accounting standard-setters in respect of bodies like the SEC or the ASIC.
## Appendix One

**Glossary of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>AcSB</td>
<td>Accounting Standards Board (Australia)</td>
</tr>
<tr>
<td>AGAAP</td>
<td>Australian Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>ANT</td>
<td>Actor Network Theory</td>
</tr>
<tr>
<td>AOSSG</td>
<td>Asian-Oceanian Standard Setters Group</td>
</tr>
<tr>
<td>ASAF</td>
<td>Accounting Standards Advisory Forum</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
</tr>
<tr>
<td>ASRB</td>
<td>Accounting Standards Review Board</td>
</tr>
<tr>
<td>EFRAG</td>
<td>European Financial Reporting Advisory Group</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Reporting Council</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
</tr>
<tr>
<td>GFS</td>
<td>Government Finance Statistics</td>
</tr>
<tr>
<td>GLASS</td>
<td>Group of Latin American Accounting Standard-Setters</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IASC</td>
<td>International Accounting Standards Committee</td>
</tr>
<tr>
<td>IFASS</td>
<td>International Forum of Accounting Standards-Setters</td>
</tr>
<tr>
<td>IFRIC</td>
<td>International Financial Reporting Interpretations Committee</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
</tr>
<tr>
<td>IPSASB</td>
<td>International Public Sector Accounting Standards Board</td>
</tr>
<tr>
<td>NASS</td>
<td>National Accounting Standards-Setter</td>
</tr>
<tr>
<td>PSASB</td>
<td>Public Sector Accounting Standards Board</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SOA</td>
<td>Sphere of Authority</td>
</tr>
<tr>
<td>UIG</td>
<td>Urgent Issues Group</td>
</tr>
</tbody>
</table>
Appendix Two

Legislated Tasks of the Australian Financial Reporting Council and Australian Accounting Standards Board

Sections 225(2) and 2A of the Australian Securities and Investments Commission Act 2001 specify that the FRC’s tasks include:

- appointing the members of the AASB and AUASB (other than the Chairs, who are appointed by the Minister) (paragraphs 225(2)(a) and (2B)(a));
- giving the AASB and AUASB advice or feedback on their priorities, business plans and procedures (paragraphs 225(2)(b) and (2A)(b));
- giving the Offices of the AASB and AUASB advice or feedback on their budgets and staffing arrangements (including level, structure and composition of staffing) (paragraphs 225(2)(ba) and (2A)(ba));
- determining the AASB’s and AUASB’s broad strategic directions (paragraphs 225(2)(c) and (2A)(c));
- monitoring the development of international accounting and auditing standards and the accounting and auditing standards that apply in major international financial centres (paragraphs 225(2)(e) and (2A)(e));
- furthering the development of single sets of accounting and auditing standards for world-wide use with appropriate regard to international developments (paragraphs 225(2)(f) and (2A)(f));
- promoting the continued adoption of international best practice in the Australian accounting and auditing standard setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy (paragraphs 225(2)(g) and (2A)(g)); and
- monitoring: the operation of accounting and auditing standards to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and the effectiveness of the consultative arrangements used by the AASB and AUASB (paragraphs 225(2)(h) and (2A)(h)). (FRC, 2011, Appendix D).

Section 227 of the Australian Securities and Investments Commission Act 2001 specifies that the AASB’s functions include

- to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- to make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions);
- to formulate accounting standards for other purposes;
- to participate in and contribute to the development of a single set of accounting standards for world-wide use; and
- to advance and promote the main objects of this part of the Act.

35 The Assurance and Auditing Standards Board (AUASB).
The AASB has power:

- to establish committees, advisory panels and consultative groups.
- to make or formulate an accounting standard by issuing the text of an international accounting standard. The text of the international accounting standard may be modified to the extent necessary to take account of the Australian legal or institutional environment and, in particular, to ensure that any disclosure and transparency provisions in the standard are appropriate to the Australian legal or institutional environment.
- to distribute the text of a draft international accounting standard (whether or not modified to take account of the Australian legal or institutional environment) for the purposes of consultation.
Appendix Three

Interview Guide

• Thank you for agreeing to be interviewed. As a starting point, could I ask you to please summarise your experience in accounting standard setting to date?

• Based on your experience, what do you think is meant by the term the “technical agenda” of an accounting standard setter? Do you think the form of the technical agenda differs between the AASB and other accounting standard setters (particularly the IASB)?
  o What parts of your description would you say represent the ‘formal’ activities of the Board and which are ‘informal’?

• What is the relationship between the Board and the technical staff in the determination of the technical agenda process that you’ve described?

• In your experience, how do technical matters come to the attention of the AASB? What is the process by which these issues are evaluated for potential attention of the Board? Who is involved in this process?

• Some accounting standards setters have published sets of criteria that they say they use to evaluate whether potential topics should be admitted to the formal technical agenda? Are there any such criteria explicitly used by the AASB either formally or informally?
  o If so, what are those criteria? How are they used (e.g., is there a criterion that is more important than the others in determining admittance to the formal agenda)?

• Why do ‘old topics’ sometimes get readmitted to the agenda? For what reasons might an old topic not be readmitted?

• What is the influence, if any, of parties external to the Board or the technical staff in the formation of the AASB’s technical agenda?
  o To what extent does your experience suggest that the Board’s agenda is influenced by ‘politics’?

• Based on the accounting topics that you have been associated with in your role with the AASB, how does the scope of a technical issue get defined and by whom? Does the scope of a project change over the time it is being considered? Why/why not?

• Under what conditions is a technical issue withdrawn from the Board’s formal agenda? If a technical issue was withdrawn before the issue of a standard, why and how did this happen? Can you provide an example?
• We have focussed our attention on how things work at the AASB. In your experience, do you think any of your prior observations would be different at other standards setters (in particular, the IASB)? If so, why? If not, why?

• Do you have any other comments that you wish to make?
REFERENCES


FIGURE 1
Arrangements for Accounting Standard-Setting in Australia in 2012.
(Source AASB, 2012a)
FIGURE 2
The AASB Standard-Setting Process in 2012
(Source: AASB, 2012b)
CHAPTER FIVE

Conclusions

5.1 Introduction

The three related papers that form the body of this thesis have extended our understanding of the agenda formation processes of accounting standard-setters. This chapter summarises the main contributions of these papers and suggests some opportunities for future research that are prompted by the work in this thesis. One particular strength of the thesis is that, especially in Chapters Two and Four, efforts have been made to gather data about agenda formation from those closest to the relevant processes; that is, the thesis draws upon the experience of ‘insiders’ either through their public statements in journals and other documentation (Chapter Two) or through private interviews (Chapter Four). There are at least two advantages to this approach. First, sourcing data directly from standard-setters and their staff helps make the unobservable observable and second, the thesis accesses data from key players who are central to the development and management of standard-setting entities’ agendas. In other words, the thesis can access data that is as close as a researcher can get to the relevant processes without actually being a participant in those processes. Some limitations of this approach could include that the public statements of standard-setting individuals (as in Chapter Two) may be ‘sanitised’ rather than providing a ‘warts and all’ description and the interviewees (as in Chapter Four) may have been reluctant to reveal all or may have sought to persuade the interviewer to adopt a positive interpretation of their behaviour and motives (especially as the interviewer had known the majority of the interviewees for some years). While acknowledging the potential for such limitations, the frankness and content of the interviews conducted for the paper in Chapter Four suggests that the interviewees sought to present what they perceived as both the ‘good and the bad’ of their experiences of accounting standard-setting. As noted in Chapter One, the transcripts contain examples in which the interviewees are prepared to express contrary views to those of the researcher.
Chapter One identified three key sets of research questions that were the focus of the thesis:

1. To what extent do accounting standard-setters have a politico-strategic agenda and what, if anything, is the inter-relationship between the politico-strategic agenda and the agenda of technical accounting topics? To what extent do accounting standard-setters (both national accounting standards-setters and the International Accounting Standards Board (IASB)) have autonomy over their technical agenda, especially given the significant rise in the acceptance across many jurisdictions of International Financial Reporting Standards (IFRS)?

2. What is the political nature of the relationship between the IASB and NASSs and how does this impact upon the agendas of accounting standards-setters? What strategies do these entities adopt to maintain and expand their own political influence?

3. Accounting standard-setting entities consist of small numbers of technically elite rule makers and support staff who play specially defined roles in a jurisdiction’s financial reporting regulation. Given this context, what is the role of individuals within those entities in determining those entities’ agendas?

Each of these research questions is discussed below.

5.2 Accounting Standard-Setters’ Agendas

Much of the prior research in accounting standard-setting has focussed upon the formation of the ‘technical’ agenda of accounting standard-setters rather than exploring whether a standard-setter may have other forms of agenda. This literature has recognised the political nature of the agenda setting process but has primarily examined this matter from the point of view of non-standard-setting entities such as corporations and audit firms. There has been an interest in whether accounting standard-setters are responsive to the positions espoused by lobbyists and whether the technical agenda or contents of proposed accounting standards are modified accordingly. Even the public statements of standard-setters, as reviewed in Chapter Two, could be interpreted as suggesting that items are added to the technical agenda
after a careful deliberative evaluation of proposed topics against pre-specified criteria.\textsuperscript{36} From these perspectives, accounting standard-setters are implicitly assumed to focus only on a work-program that is technical in nature and standard-setters are reactive to political influences rather than proactive.

In the case of the impact of the GFC, as discussed in Chapter Three, it is apparent that the IASB and FASB can lose control of their technical agenda in times of intense crisis. Reliance on the application of a set of agenda entrance criteria fell by the wayside as the standard-setters struggled to respond to vigorous political pressure by hastily adding projects to the technical agenda. Indeed, Chapter Two documents criticisms of the IASB and FASB for their failure to follow their own ‘due process’ procedures with regard to agenda entrance and the truncated exposure periods provided for proposed changes to existing standards.

For the first time in the literature, Chapter Four provides insights from insiders that an accounting standard-setter can possess more than one agenda. That chapter documents the presence of a politico-strategic agenda in addition to, if not always as observable as, the technical agenda. Some of the interviewees in that study signalled that the politico-strategic agenda drives, at least in part, the contents of the technical agenda as the latter is viewed as a means towards achieving a change management process that has the objective of improving the quality of financial reporting. In the case of the AASB, the strategic objectives of its operations over the period 2009 to 2012 were (1) to promote the adoption and understanding of IFRS in the Asia-Oceania region and (2) encourage other regional accounting standard-setters to put in place accounting standards for the not-for-profit sector. Importantly, the study shows that the AASB was proactive in propelling this politico-strategic agenda as a result of the motivations and expertise of key individuals such as the Chair and senior technical staff. The first objective in particular was operationalised via the energetic engagement by these individuals with the AOSSG who sought to promote the AASB as a leader in a regional epistemic community of NASSs. Tactics employed to progress this strategy included the AASB Chair becoming the AOSSG Chair, interaction between

\textsuperscript{36} For example, Chapter Two (Howieson, 2009, p. 586; Thesis, p. 20) described six different criteria used by the FASB for determining whether a potential topic would be added to the FASB’s technical agenda.
AOSSG technical staff to grow understanding and expertise in IFRS, and the initiation of joint research projects that were designed to anticipate the future needs of the IASB and place the AOSSG (and especially the AASB) as an entity that had a voice that would be respected internationally.

Chapter Four also revealed that, for the 2002 to 2012 period covered by the study, the IASB had put aside its formal technical agenda entrance criteria (described in Chapter Two) in pursuit of its strategy of having IFRS adopted as the single global set of accounting standards. In particular, the IASB was perceived to have adopted a ‘bait’ approach in which it identified technical topics that were important to target countries that it was seeking to get to adopt IFRS. Promises were made to add these topics to the IASB’s technical agenda if the target country agreed to adopt, in some form, IFRS as its domestic standards. Once a country adopted IFRS, it lost influence with the IASB which then moved on to the next target country. Consequently, the topics that had been identified for addition to the IASB’s technical agenda, often were not actually adopted by the IASB as active projects.

The thesis demonstrates that the formation and contents of an accounting standard-setter’s technical agenda cannot be viewed in isolation by researchers. Rather, the technical agenda must be placed within its political, social and chronological context. If we wish to understand the technical agenda, then we must do so by reference to the socio-political agenda of the standard-setter. As discussed in section 5.4, the socio-political agenda of an accounting standard-setting entity cannot be easily observed without getting inside the organisation to determine the motivations, skills and experiences of key individuals within the standard-setter.

5.3 The Relationship Between the IASB and NASSs

It is no great surprise that the thesis documents that the nature of the relationship between the IASB and NASSs is complex and changes over time. However, unlike prior research, the study contained in Chapter Four provides insights about that relationship from individuals who have directly participated in it. Over the period addressed in Chapter Four, 2002 to 2012, the IASB pursued an aggressive strategy of enticing
jurisdictions around the world to adopt IFRS as their national standards. The IASB adopted a ‘bait’ strategy in which it used the promise of admitting a jurisdiction’s high priority issues onto the IASB’s technical agenda as an inducement for that jurisdiction to adopt IFRS. However, once committed to IFRS adoption, the IASB tended not progress these technical topics and it would then be largely unresponsive to the needs of the NASS concerned. It would move on to the next target jurisdiction with similar (unfulfilled) promises. This strategy appears to have been a successful one for the IASB in terms of having a majority of jurisdictions adopt IFRS in some form or other. One notable exception is the U.S. where a long process of trying to harmonise accounting standards between the IASB and the FASB has not resulted in domestic adoption of IFRS.

The interviews described in Chapter Four suggest that a NASS must possess a minimum of three characteristics before it is likely to have any material influence upon the deliberations of the IASB. These characteristics are internationally acknowledged economic power, internationally acknowledged political power, and significant accounting standard-setting expertise. An absence of any one of these characteristics will render a NASS largely impotent at the IASB. The FASB and EFRAG are powerful voices at the IASB because they possess all three characteristics whereas, for example, China is not influential because it possesses the first two characteristics but not the third. In similar vein, Australia, on its own, does not possess the first two characteristics but is strong on the third. Chapter Four demonstrates how, as a result, NASSs that are not endowed with all three characteristics have started to band together in regional coalitions such as GLASS and AOSSG with the purpose of providing centres of counter-vailing power to the U.S. and Europe at the IASB. Not only do these regional coalitions give the associated NASSs influence at the IASB, but they also provide an environment in which a shared set of values and expertise can be developed. These ‘epistemic communities’ of standard-setters (especially in terms of the networks of technical staff) can be beneficial to promoting the global adoption of IFRS because the objective of having influence at the IASB entails a shared commitment to IFRS.
In addition to coalescing their economic, political and technical power, these coalitions of NASSs also seek to increase their relevance to the IASB by anticipating future technical issues (e.g., inconsistencies across standards with regard to choice of discount rates when calculating present values) and preparing ‘solutions’ that can be readily deployed at some relevant time in the future.

Although the case of the AASB indicates that the IASB has sought to extend its SOA at the expense of NASSs, the relationship is not always antagonistic. Both the IASB and NASSs can benefit from co-operative behaviour which mutually enhances their legitimacy. Further, as the IASB comes towards a saturation point in terms of IFRS adoption, its ‘bait strategy’ will become an increasingly irrelevant influence over its technical agenda and the IASB will need to reformulate its technical agenda setting processes.

5.4 The Role of Individuals

The paper in Chapter Four demonstrates how interview based research can be used to investigate the roles of individuals within standard-setting organisations and so complement research which treats those organisations as the agent of interest. Gipper et al. (2013, p. 543) support the analysis of individuals within standard-setting bodies:

“In general, it also seems useful to ask about the role and influence of individual standard-setters in the production of accounting standards. This is potentially important because of the relatively small size of the boards (the FASB has seven board members) and the long times that individuals can serve (terms are five years, and individuals can serve two terms). If individual board members tend to have strong “world views” that influence how they (and their colleagues) think about capital markets and the role of financial reporting, individual beliefs could have an important effect on standard-setting”.

Studying the attributes and motivations of individuals within standard-setting organisations would allow researchers to extend their understanding beyond descriptions of how these organisations behave to why they behave in the way they do. Such research might also assist in identifying individuals who are influential and the means by which they achieve influence. There has been very little research of this type to date with the exceptions of Botzem (2012), Chantiri-Chaudemanche and Kahloul (2012) and Morely (2016). The first two of these papers are limited by the fact
that they seek only to infer certain predispositions and alliances among standard-setting board members and their staff based on nationality, work experience and similar characteristics. Morely (2016) goes further by seeking to observe internal lobbying between the IASB members. This thesis gathers evidence from key influencers within the AASB and IASB including technical staff.

The study in Chapter Four reveals that the nature and vitality of the AASB’s strategic agenda was very dependent upon the Chair. If the Chair was not motivated to promote the SOA of the AASB, the entity was languid and of limited influence. As noted by interviewee HH, the Chair “matters because [if] you get a weak chairman, he kills his board.” In addition, in the case of the AASB it was clear from the interviews that only a very small number of people were associated with the setting of the strategic agenda; namely, the Chair and the two technical directors. Although not directly addressed in the interviews, it was not clear that even the Board members of the AASB were actively involved in setting the strategic agenda. One might imagine that the Board members were at least informed and consulted but this is a speculation given that the interviews are largely silent on the role of the Board (beyond its role as the decision maker on the contents of accounting standards). The potential limited involvement of the Board in the determination of the strategic agenda may be a function of the fact that its members (with the exception of the Chair) are all part-time.

The Botzem (2012) and Chantiri-Chaudemanche and Kahloul (2012) studies sought to identify characteristics of individuals by which their preferred ‘world view’ (e.g., pro-Anglo-Saxon models of accounting) could be inferred. This thesis, however, sought to elicit from interviewees the personal attributes and characteristics that a “good” Chair needed to possess. Unlike the studies mentioned at the start of the paragraph, these attributes were grounded in the personality, character and motivations of the individual such as their ability to “sell” ideas, possession of drive and energy, competence in navigating political challenges, and assertiveness. Future research would benefit from an analysis of persons in terms of both their personal characteristics and affiliations/prior experience. For instance, although it was not directly mentioned by the interviewees in the study in Chapter Four, it is highly likely
that the Chair who took office in 2009 and who successfully extended the SOA of the AASB was able to do so because of both his personal attributes and his prior employment with the IASB.

5.5 Future Research

The papers contained in Chapters Two to Four have each made a number of suggestions for future research efforts. These will not be reiterated in detail here but the following suggestions are provided as a summary:

- One area of future research that is prompted by the paper in Chapter 2 is to explore Johnson and Swieringa’s (1996) notion of how ‘sea change’ events in the environment drive standard-setters’ agendas. The paper in Chapter 3 described the crisis invoked by the GFC but other sea change events may be less dramatic yet nonetheless influential. For instance, changes in aircraft technology that emerged post-World War 2 had a major impact on the use of leases by airlines which in turn may have driven debates about how leases should be treated in financial statements. Other historically based studies might extend the findings of Chapter 3 by investigating whether the traditions of financial reporting within financial institutions made them vulnerable to the external shock associated with the GFC.37

- The study in Chapter Four sought to capture the experience of one important NASS, the AASB. However, it would be beneficial for comparative purposes for similar studies to be conducted on the relationship between the IASB and other NASSs. Such research would help to advance our theoretical understanding of accounting standard-setting by identifying commonalities in the IASB/NASSs relationship while also identifying sources of difference that might arise from differences in institutional arrangements and the characteristics of key individuals within each NASS;

- Future research might explore how the strategic agenda of the IASB has changed over time and what factors have influenced that change. Research of this type could contribute by explaining how the IASB expands (or is inhibited from expanding) its SOA. Similar studies could be conducted for NASSs;

37 I am grateful to Geoff Burrows for these suggestions.
• The role, structure and internal dynamics of coalitions of NASSs such as GLASS or the AOSSG is another potentially fruitful field for research. It would be helpful to understand more about how these coalitions are formed, what forces and attributes keep them cohesive, and what means are available to them for managing their SOA;

• Research is needed to shine light upon the epistemic communities of accounting standard-setting staff (and the network of shared technical expertise in international accounting firms). A deeper understanding could be obtained of the processes by which solutions are developed for technical accounting issues and how shared commitment might be generated for global adoption (or otherwise) of IFRS; and

• The study in Chapter Four demonstrates a significant need for research which opens the ‘black box’ of standard-setting organisations to investigate how the attributes, motivations, and experience of individual standard-setting staff and board members impact on the behaviour of those organisations and the content of the standards they produce. Recent work by Morely (2016) is an example of such research but her paper is only a starting point for this field of investigation. One interesting question for future research, for example, would be to see the impact that part-time versus full-time status has on the role and influence of Board members.

REFERENCES


