Legitimation of transnational standard setting: the case of the IASB

Prof Louise Crawford PhD CA
Professor of Accountancy
Department of Accounting & Finance
Aberdeen Business School
Robert Gordon University
Aberdeen, Scotland

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Objective:

- To illustrate how the IASB operates to steer global accountability practice;

- To demonstrate that control over accounting standards is a dynamic and political process;

- To illustrate the critique that globalisation gives rise to discussion and debate that potentially enables an alternative ideology to influence global corporate governance structures.
The International Accounting Standards Board (IASB)

Mission (IFRS website as at April 2016)

• To produce IFRS that bring transparency, accountability and efficiency to financial markets around the world

• To serve the public interest by fostering trust, growth and long-term financial stability in the global economy

• Enable investors and other market participants to make informed economic decisions, helping them to identify opportunities and risks across the world

So, the IASB is steering accountability to serve the needs of globalisation, on the belief that this will serve the public interest
The International Accounting Standards Board (IASB) legitimacy?

The IASB is a private, non-governmental organisation responsible for setting IFRSs to be applied by reporting entities operating across the globe.

As a result, it relies on support from diverse audiences to legitimise its behaviour; that it is

“operating [actions] in a desirable, proper and appropriate manner” and that the IASB, as an organisation, “is desirable, proper and appropriate in itself [its essence]” (Suchman, 1995, p583).
Organisational Legitimacy (Suchman, 1995; O’Dwyer et al., 2011; Reast, 2011)

- Legitimacy is a generalised perception [evaluation] or assumption [taken-for-granted] that the actions of an entity [IASB] are desirable, proper or appropriate within some socially constructed system of norms, values and beliefs (Suchman, 1995, p574)

- Seeking legitimacy [by who, for what?] for the IASB, this would be acceptance of ideology and practice in pursuit of globalisation?

Legitimacy challenges
- Gain legitimacy — acceptance for a new activity; integrate a new activity within a pre-existing accepted organisation
- Maintain legitimacy — embed routine/due process; resist and repair fluctuations to legitimacy
- Repair legitimacy — in response to unforeseen crisis of legitimacy
Legitimacy sought for what?

- Types of legitimacy sought from interested audiences
  - Pragmatic: audience evaluation from a self-interest perspective
  - Moral: audience evaluation from a normative/public-interest perspective
  - Cognitive: no evaluation; taken-for-granted acceptance

- Dynamics of legitimacy
  - Legitimacy for the Actions of the entity (for pronouncing accounting practice)
  - Legitimacy for the Essence of the entity itself (structure, plausible, permanence)

- Temporal context of legitimacy
  - Episodic: transitory legitimacy
  - Continual: long-lasting legitimacy
There is evidence that the IASB’s “essence” (p583) is widely perceived as legitimate based on the support that it receives from several supranational organisations, for example,

- the International Monetary Fund (IMF), the World Bank (WB) and the Basel Committee (IFRS Foundation, 2015).
- In addition, at the national level, the fact that many countries either require (116) or allow (24) IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions) (IFRS Foundation, 2015).
- Indeed, the Financial Stability Board (FSB) specifies IFRS as one of its “Key Standards for Sound Financial Systems” for stable and well-functioning financial systems.

Notable exceptions: for example USA; Japan; India; China
IASB-FASB Convergence agenda

Â In 2002, the IASB and the FASB signed the Norwalk agreement to work together towards converging accounting practices.

Â As part of this agreement, the two standard setters agreed a short-term convergence project, identifying a number of standards that could be harmonised without major re-writes.


Â ……Questions were raised amongst commentators about the legitimacy of this standard
IASB Due Process

Adoption of IFRS8 in 2006

Normally, due process would start with research leading to issuing Discussion Paper for public consultation, however this did not happen for IFRS8 because it was part of the for convergence project.

What did happen with IFRS8:

• Exposure Draft was published for public consultation;

• The IASB analysed the Comment Letters received;

• Publication and adoption of IFRS with Basis for Conclusions as of 2007; each new IFRS or major amendment be subject to a PIR
The case of IFRS8

- A disclosure standard so what's the fuss???

- The core principle of IFRS 8 requires an entity to “disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates”

- Mandates - the management approach to defining and reporting segments “on the basis of internal reports that are regularly reviewed by the entity’s chief operating decision maker in order to allocate resources to the segment and assess its performance” and “the amounts reported for each operating segment item to be the measure reported [internally]”
Controversy - IFRS 8 is the first IASB standard:

- to ‘copy’ a US standard [SFAS131] so comprehensively
- to adopt the management approach to identifying, measuring and communicating financial statement information;
- to be subject to the new comitology process of the EP;
- not to be endorsed by the EP at the first EC recommendation
- to be subject to a post-implementation review by the IASB.

Did IFRS8 precipitate an unforeseen crisis to the IASB as a legitimate steering organisation for global accountability practice?
Concerns at Adoption

**Outcome**
- Use non-IFRS 8 measures;
- Identity of the CODM;
- Geographic information;
- Lack of comparability;
- Reduction of disaggregated information;

**Process**:
- ‘Convergence’;
- Few users participated IASB;
- Excluded 79 PWYP;
- 102 comment letters analysed, only 6 from users, 47 from preparers.
IASB Post-implementation review (PIR)

• Public consultation through Request for Information
  • 62 respondents, 33 from Europe
  • Mainly preparers, accounting firms/bodies and standard setters

• Outreach programme
  • Over 60 events, mainly in Europe, to gather process and outcome evidence
  • 17 events with investor/user groups

• A review of existing literature and academic research
  • First time academic research has explicitly been on the IASB agenda for debate

• PIR was on IFRS 8 issues and also PIR process development
Research project:

- Semi structured interviews

- Documentary evidence
  - IASB due process; IASB staff papers
  - IFRS 8 Basis for Conclusions
  - EU endorsement
  - Post-implementation review
  - Stakeholder letters to the IASB

To gather useful background knowledge for subsequent data gathering and analysis, to gain a rich understanding of the chain of events (Bengtsson, 2011, p568)
Findings:

- EU reservation (EP Resolution, 2007) - Regrets that
  the convergence of accounting rules is not a one-sided process
  where one party simply copies the financial reporting standards of the
  other party”

- European regulator, pre-IFRS 8 implementation:
  ře a few Americans and a few Europeans decide all these accounting
  rules é we have passed this responsibility over to this [IASB] self
  appointed quango!ò

- Comment letters
  “We are of the opinion that convergence should not be the principle
  motivation … IAS 14 provides far more relevant, reliable and useful
  reporting requirements than what is proposed” (CL 63 Preparer)

…… crisis of legitimacy for the IASB as a standard setter!!!!
Results ï Is the IASB a legitimate transnational standard setter

The controversy over IFRS8 illustrated a struggle for power over who sets accounting standards for global corporate activity:

Â between the European Parliament and the IASB ï the EU intervened and implemented a new comitology process; akin to reclaiming some state control over accounting standard setting

Â between civil society (PWYP) and the IASB ï the PWYP coalition entered into alliance with jurisdiction-specific organisations to pursue their objective of accounting for the 'local' rather than the 'global' stakeholder.

Â Within the IASB ï the IASB amended its due process to include a post-implementation review where it actively sought new 'voices' about the impact of their actions over adopting IFRS8
Results: Is the IASB a legitimate transnational standard setter

Arguably, the episode surrounding the controversial adoption of IFRS8 precipitated a legitimacy threat from selected audiences to the actions of the IASB, leading to more voices being heard in global standard setting.

... Good for corporate governance????

... Globalisation gives rise to discussion and debate that potentially enables an alternative ideology to influence global corporate governance structures.

Remember from Lecture 1: Corporate governance will depend on the legal, regulatory, institutional and ethical environment of the community.

In Lecture 3 we shall expand this further and see how globalisation and corporate governance structures interact with national frameworks and existing social/organisational structures.
Readings
