Lobbying and the International Accounting Standards Committee

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ABSTRACT

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Systems theory and agency theory were employed as the theoretical bases for a study of lobbying and the International Accounting Standards Committee (IASC) during the years of the Core Standards Programme, 1993-98. External parties made use of formal and informal channels to lobby the IASC. The IASC itself lobbied external parties in efforts to gain support for its activities and proposed standards. Thus, lobbying was multidirectional. The IASC has collaborated with both international and national organisations, such as the International Organisation of Securities Commissions (IOSCO), the Accounting Standards Board (ASB), the Canadian Institute of Chartered Accountants (CICA), and the Financial Accounting Standards Board (FASB), in the development of international accounting standards that can be utilised in cross-border offerings and listings of securities. Thus, a principal / agent model appears too simplistic. Rather, a mutual agency model of collaborative behavior and action appears appropriate.

Introduction

In 1973, sixteen professional accounting bodies from nine countries – Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland, and the United States – established the International Accounting Standards Committee (IASC). The objectives of the IASC were:

(a) to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

(b) to promote the use and rigorous application of those standards; and

(c) to bring about convergence of national accounting standards and International Accounting Standards to high quality solutions. (*IASC Constitution*, Part A)

From its establishment in 1973 to the end of 1998, the IASC went through three distinct standard setting phases. The first phase resulted in Standards that permitted various accounting treatments for like transactions and events, a benchmark treatment and one or more alternative treatments. At this point in its history, the IASC was developing its initial standards; it was interested in getting them accepted and used. As accounting standards vary from nation to nation, to make its Standards attractive the IASC permitted more than one acceptable treatment in individual Standards.

The second phase was the comparability and improvements phase. In January 1989, in an effort to gain further acceptance of International Accounting Standards (IASs), the IASC issued an exposure draft, E32, *Comparability of Financial Statements*, which dealt with twenty-nine issues. As noted, then current IASs permitted a free choice of accounting treatments for similar transactions and events. The improvements project was launched in June 1990 to implement revisions to the IASs as outlined in IASC's *Statement of Intent on the Comparability of Financial Statements*. In November 1993, the IASC approved ten revised IASs, effective 1 January 1995. In November 1994, the IASC approved reformatted versions of eighteen IASs not revised in the comparability and improvements project. (For an in depth discussion of these two phases, see Cairns, 1999: Chapter 4.)

The Core Standards Programme dominated the third phase. Following a series of earlier preparatory discussions, on 9 July 1995, the Board of the IASC and the Technical Committee of the International Organisation of Securities Commissions (IOSCO) issued a joint press release to announce:

> ...The Board has developed a work plan that the Technical Committee agrees will result, upon successful completion, in IAS (International Accounting Standards) comprising a comprehensive core set of standards. Completion of comprehensive core standards that are acceptable to the Technical Committee will allow the Technical Committee to recommend endorsement of IAS for cross-border capital raising and listing purposes in all global markets....

The IASC completed its work on the Core Standards with its Board's approval, on 16 December 1998, of IAS 39, *Financial Instruments: Recognition and Measurement*.

In a 17 May 2000 press release, IOSCO announced the completion of its assessment of the IASC's core standards. It recommended that its members 'allow multinational issuers to use 30 IASC standards, as supplemented by reconciliation, disclosure and interpretation where necessary to address outstanding substantive issues at a national or regional level'. Presently, IOSCO member country national securities commissions, such as the U. S. Securities and Exchange Commission, are conducting their own assessments of the IASC Core Standards. On 13 June 2000, the European Commission announced that it would come forward with proposals that would require all European Union (EU) companies listed on a regulated market to prepare their consolidated accounts according to International Accounting Standards not later than 2005 onwards[1].

In the years since its establishment, the IASC had evolved. As a consequence, it had restructured itself four times, most recently in 2000-01[9]; it had issued anew, or revised, its constitution at least four times; and it had expanded and enhanced its due process. Through 1998, its Board meetings were closed. The March 1999 Board meeting was its first open one.

<u>IASC's Due Process and Opportunities for Lobbying</u>. The development of each International Accounting Standard involved a number of due process steps:

- a decision to add a work programme project based upon a staff prepared project proposal;
- the appointment of a steering committee to handle the project;
- IASC staff or consultant initial topic research;
- the development, approval and publication of a draft statement of principles (DSOP) (since 1987);
- the approval of the statement of principles (SOP) as the basis for the exposure draft of the proposed Standard;
- the development, approval, and publication of an exposure draft (E);
- the occasional issuance of a second exposure draft; and
- the approval and publication of the Standard. (Cairns, 1999: 35-45)

At each step, the IASC actively sought worldwide the views of the consultative group, professional accounting and standard setting bodies, companies and other interested groups and individuals. It evaluated the comments received, and made modifications based upon them, before approving and issuing the final Standard[3]. Thus, there were many opportunities along the way for lobbying to occur each way, i. e., for external parties to lobby the IASC, and for the IASC to lobby key external parties in order to gain support for its proposed standards and perhaps even its continued existence.

The Random House Dictionary of the English Language: The Unabridged Edition defines lobby as:

> --n. 1. A corridor, vestibule, or entrance hall, as in a public building, often serving as an anteroom; foyer. 2. A group of persons who conduct a campaign to influence members of a legislature to vote according to the group's special interest. –v. i. 3. To frequent the lobby of a legislative chamber to influence the members. 4. To solicit or try to influence the votes of members of a legislative body. –v. t. 5. To influence (legislators), or urge or procure the passage of (a bill), by lobbying.

This definition implies that lobbying occurs in a one-way direction, that is, lobbyists direct activities toward members of legislative, or standard setting, bodies in an effort to influence the actions of those bodies. In dealing with national legislatures, or standard setting bodies, perhaps that implication is valid[4].

In this paper, lobbying is regarded as multidirectional. External parties may lobby the standard setter; the standard setter may lobby external parties. Lobbying activity may employ either formal or informal channels, or both. Thus, external parties, as part of the standard setter's due process, may formally communicate, in writing, their positions on proposed standards. Or, they may simply informally pick up the telephone, send an unsolicited e-mail message, or buttonhole a member of the staff in the hall or the lift. Likewise, the standard setter may advocate formally, in writing, its position with external parties, or its staff may engage in informal discussions at meetings, conventions, and the like. There are in addition other more indirect ways in which participants to the process may try to exert influence. The U. K. Accounting Standards Board developed an alternative approach to IAS 12 *Income Taxes* method of providing for deferred income taxes in order to influence the IASC. The Board stated that ' by developing and implementing a credible alternative' it would encourage the International Accounting

Standards Committee to 'think again' (Brown, 2001). The recently published Convergence Handbook seeks to do the same where U. K. requirements are thought to be of a higher standard.

The IASC was not a national standard setter; it was an international one. Thus, in the context of the IASC, one may legitimately question whether a unidirectional definition of lobbying is appropriate. There is evidence that not only was the IASC lobbied, but also that it itself engaged in lobbying[10]. This paper examines lobbying and the IASC during the third standard setting phase identified above, the Core Standards Programme phase.

Literature Review

There are many theories of lobbying developed in a number of academic fields, many of which tend to share a common perspective, that certain economic groups control a disproportionate amount of the political resources that influence regulatory decisions. These studies are summarised in the following section, but have informed much of the practical research carried out. A limited number of studies have explored lobbying efforts by corporate management to influence national accounting standards. Watts and Zimmerman (1978) explored those factors influencing management's attitudes towards proposed Financial Accounting Standards Board (FASB) standards that are likely to affect corporate lobbying on them. They examined corporate submissions to the FASB's discussion memorandum on general price level adjustments. They discovered that large firms expecting reduced earnings due to the changed accounting standard favoured the change. If the additional bookkeeping costs justified the cost of lobbying, all other firms opposed it.

In a follow-up study, Dhaliwal (1981) examined a representative sample of the 120 position papers submitted in response to the FASB discussion memorandum on accounting for interest costs. He found that, due to the protective covenants that usually are found in loan agreements, firms with higher leverage (i. e., gearing) oppose an accounting standard that would increase their reported income or equity, or increase the volatility of reported earnings.

Kirsch, Evans and Doupnik (1990) examined corporate submissions on the original exposure draft and the revised exposure draft dealing with foreign currency translation that became SFAS 52, and the data obtained by Evans and Doupnik (1986) in their FASB sponsored study of foreign exchange risk management policies and practices. They categorised firms as pursuing either primarily economic or primarily accounting based objectives. Their results suggest there is a relationship between a firm's basic objective and its propensity to lobby FASB.

Certain U. K. studies have tended to focus on the participants, either noting the size and type of firms involved in the process (Day, 1997) and often discovering that not only was there usually a dearth of users within the lobbyists (Nobes, 1992a), but also that producers of information, often disguised themselves as users (Beresford, 1993; Sutton, 1984). One of the most comprehensive studies carried out was that of Tonkin (1983), who concluded that certain groups were more likely to be systematic winners insofar as their proposals within new accounting standards were concerned. A major U. K. study (Robson, 1988) examined the role of government in its interaction with standard setters and noted many incidences of political interference. In the U. S. A., this theme has also been commented on by Beresford (1995) who had first hand knowledge, as a member of

FASB, of the political processes involved in the proposed accounting standard for stock options.

These studies consider lobbying in a one-nation context. Stakeholder lobbying of the national standard setter is examined. Lobbying efforts are perceived as unidirectional, the stakeholders lobby the standard setting organisation. There is one government, one standard setter, perhaps a separate regulatory agency which has enforcement powers, and numerous, other domestic stakeholders, consisting mainly of corporate and auditing lobbyists. Another of the limitations of these is the fact that, as Lindhahl (1987) points out, comment letters are a low cost form of lobbying and are unlikely to capture the full extent of the total lobbying. Fogarty, Hussein and Ketz (1994: 40-1) go even further by stating that the research carried out to date in '…conducting primitive counts and classifications, raises more questions than it answers and has not even exhausted the capabilities of what must be the first step in content analysis'. The theoretical framework described in the following section attempts to overcome certain of these criticisms.

Theoretical Framework

Accounting standard setting, whether national or supranational, involves a process whereby the standard-setting body produces a rule or set of rules which are effectively binding on its constituents. As these rules alter the status quo (see Gellein, 1978), through both behavioral and distributional consequences, all those whose wealth patterns are likely to be affected, have every incentive to lobby. Such lobbying efforts form a substantial element of the arena in which the terms of the final standard will be formulated. It has been argued elsewhere in the political economy model of regulation ‘that regulations respond primarily to the most powerful constituencies in the regulatory context’ (Miles and Bhambri, 1983). The extreme version of this is the agency capture theory (see Lemak, 1985), whereby it is suggested that regulatory agencies are populated by those being regulated. The alternative ‘public interest’ model, assumes in contrast to this that regulators represent and advance the interests of the public (Posner, 1974; Stigler, 1971).

In a regulatory context, public interest can be jointly defined with reference to producers (preparers) and consumers (users). There are two ways in which public interest can be achieved. The first of these is by ensuring that the outcome of regulation is in accordance with some agreed definition. The second way is process based and consists either of the regulators being representative of all interests or alternatively through the regulators allowing inputs to the process and weighing the merits of all these. As accounting standard setting bodies never define public interest, the second way is what tends to happen and as the regulators are rarely representative, the inputs (i. e., lobbying) become important in the context of public interest (Day 2000).

Accounting regulation takes place under the above theories, and studies have attempted to show these inputs to the process and the effect of lobbying on outcomes. Those studies mentioned in the literature review also look at the characteristics and motivation of those parties involved.

Systems theory is a useful construct for examining and explaining the processes in the regulatory arena. Such a theory has as its aim ‘…to study this interaction [man and his environment] from multiple perspectives, holistically’ (Skyttner, 1996: 3; brackets added). From its origins in the natural sciences (von Bertalanffy, 1956), general systems theory naturally evolved into the social sciences; its use in the context of accounting and its regulation is of particular relevance because of the social nature of accounting (as an activity which does not exist in isolation from the rest of society).

Kenneth Boulding (1956) defines systems theory as ‘The skeleton of science in the sense that it provides a framework or structure of systems on which to hang the flesh and blood of particular disciplines and particular subject matters in an orderly and coherent corpus of knowledge’. The framework used in this paper aims to capture the actors, processes and actions identified in one part of the IASC’s Core Standards Project. The results of this Project fall within the definition of a system given by Skyttner (1996: 35) as a ‘…set of interacting units or elements that form an integrated whole intended to perform some function’. Instead of concentrating on a single element, the systems theory approach in this paper attempts to incorporate all those identifiable actions, influences and relationships to describe the process whereby the two accounting standards studied in this paper, emerged.

The relationships described in this paper are complex and often the processes involved are invisible. Systems theory may not capture all of these relationships, but nevertheless should be seen as a useful tool for promoting understanding and identification of both the actors and their actions by attempting to approach international accounting standard setting in a holistic if not complete manner. The limitations are perhaps best summed up in the words of Kenneth Boulding:

> A system is a big black box
> Of which we can’t unlock the locks
> And all we can find out about
> Is what goes in and what comes out.

In the systems context, International Accounting Standards constitute policy interventions (inputs) into the international business environment. National regulators, standard setters, and governments, and regional and multinational agencies, accounting firms, and corporations may anticipate such standards and attempt to influence them (lobbying), react to them once promulgated, or both. The manner in which organisations react to a proposed international accounting standard, as well as to an existing standard, may generate feedback externally that will ultimately influence the international accounting standard setting authority, i. e., the IASC.

Systems theory provides a framework in which to examine the international accounting standard processes from an extra-organisational perspective. Since systems theory does not provide insight into the internal decision-making processes within the organisation, agency theory is reviewed for its theoretical contribution to understanding intra-organisational behavior.

In agency theory, the organisation is regarded as a “set of contracts” between principals(s) and agent(s) (Fama, 1980). The principals engage the agent(s) to perform some service on their behalf which requires the delegation of some decision making authority to the agent(s) (Jensen and Meckling, 1976). In the principal/agent relationship, the agents are perceived as serving the principals through self-interested activity. In the context of international accounting standard setting, the IASC acted as agents of external principals interested in the development and employment of viable financial reporting and disclosure standards to facilitate cross-border offerings of securities.

Methodology

The lead author visited the IASC's Fleet Street office in London, U. K., in March, 1999, and November, 2000. He was permitted to examine the minutes of the IASC Board from 1988 to March 2000. In addition, he interviewed Dr. Paul Pacter in March 1999, and he and his co-author interviewed Mr. James Saloman in November 2000[6]. Based upon these interviews, examination of the Board minutes, and content analysis of relevant documents, the authors have pieced together a picture of lobbying and the IASC.

The authors content analysed closely (1) E51, *Reporting Financial Information by Segment*, and E62, *Financial Instruments: Recognition and Measurement*; (2) comment letters on these exposure drafts directed to the IASC; (3) correspondence between IOSCO's Technical Committee, its individual members, and others, and the IASC; and (4) IAS 14 (revised 1997) *Segment Reporting*, and IAS 39 *Financial Instruments: Recognition and Measurement.* The purpose of this content analysis was to uncover evidence of the effectiveness of commentators to influence the language of the final Standards.

Findings

The international standard setting environment is more complex than a national one. The international standard setter, the IASC, dealt with many national governments, many national standard setters and regulators, and many corporate and auditing lobbyists. In addition, the IASC dealt with a number of other international organisations, such as IOSCO, and regional organisations, such as the European Union. Further complicating matters was the fact that the IASC had no enforcement power of its own; it relied upon the voluntary agreement of international, regional and national regulatory agencies for enforcement of its Standards, and voluntary compliance by corporations that use its standards for financial reporting and disclosure[7]. The comparability and improvements phase of the IASC had already looked at the reduction in choice within standards which arose primarily because of this need for voluntary compliance. As Bromwich (1992) points out: 'Without sufficient enforcement power, it is difficult to see how a private sector standards body can avoid tempering its suggested standards so that they achieve acceptance by those influential sections of the community, who, by being non-co-operative for any length of time, could put the future of the standard setting body in doubt'. The IOSCO/IASC agreement was the way in which enforcement powers over rigorous standards could be achieved in the face of these 'influential sections'. In such an area of competing interests, the conditions for lobbying were ripe.

The IASC found itself in the position not only of being lobbied, but also of lobbying its many constituencies for recognition of its legitimacy, and acceptance of the positions it sought to endorse in its Standards. To further its ends, the IASC Board and staff members engaged in various liaison activities with international, regional and national organisations, such as IOSCO, the U. S. Securities and Exchange Commission, the U K Accounting Standards Board, and the like, both to consult about specific projects and to advocate (that is, lobby for) the IASC's points of view. In turn, such international, regional and national agencies lobbied the IASC about its projects and to advocate their own often disparate points of view. The IASC had to weave its way between what it believed belonged, what it sought consultative advice upon, and what others wanted to see in a particular Standard.

The IASC/IOSCO Agreement. During the comparability and improvements phase, the IASC sought IOSCO endorsement of its Standards. There was division within IOSCO as to whether to grant endorsement to all International Accounting Standards, or to only some of them; whether to wait until the IASC had completed its comparability and improvements projects, or to grant endorsement by stages (Cairns, 1997: 337-46).

In June 1993, the IOSCO Working Party No. 1 on Disclosures and Accounting met in Amsterdam with its Accounting and Auditing Subcommittee to discuss the necessary components of a reasonably complete set of core standards, comprising a comprehensive body of principles, for cross-border securities offerings and listings. On 16 August 1993, IOSCO sent a letter to IASC Chairman, Eiichi Shiratori, in which the Working Party listed the necessary components of a core set of standards. IOSCO indicated it thought the list 'would be helpful' for IASC's planning purposes. At a minimum, the core standards should comprise general guidance on disclosure and changes of accounting policies, and financial statement disclosures; income statement revenues and costs and expenses; balance sheet assets and liabilities; cash flow; and other standards. (See Table 1.)

{Insert Table 1 about here.}

The Working Party indicated further that it was 'in the process of evaluating existing and proposed IASC accounting standards to determine their suitability as components of the core standards'. This was one of the three prongs of the Plan of

Work, approved by the Technical Committee, that the Working Party attached to this the first Shiratori letter (dated 22 April 1993). Two others were to follow on 17 June 1994.

Minutes of the Meeting of the Board of IASC Held in London, 30 June-2 July 1993, suggest that the IASC was well informed[8]. The minutes note that the IOSCO Working Party 'had considered (and, possibly, agreed)' a list of core standards to form comprehensive accounting principles for cross border offerings; 'had possibly already endorsed' IAS 7 *Cash Flow Statements*; and would consider whether to require benchmark treatments, or reconciliation to them, for IASC Standards permitting alternatives. Following a lengthy discussion, the Board agreed that it should consider adopting possible strategies to meet various targets (including certain approvals anticipated from IOSCO in October 1993), and that it should identify the right contact people within IOSCO to deal with.

Over the next several months, the IASC developed a strategy that was to form the basis of its response to IOSCO. Former Secretary General David Cairns (1997) has outlined the key elements of that strategy:

- a revised work programme which took into account IOSCO's comments and which aimed to complete virtually all the core standards by 1998;
- further efforts to persuade IOSCO to endorse the process of setting International Accounting Standards rather than the review of each Standard in detail; and
- as an interim step, pending endorsement of the process, the endorsement by IOSCO of those Standards which it accepts and those which had recently been revised through an extensive due process in which IOSCO had been involved.

The IOSCO Working Party No. 1 sent two letters, dated 17 June 1994, to Eiichi Shiratori, the second and third Shiratori letters. In the second Shiratori letter, the Working Party indicated it had 'reviewed the standards recently revised in the E32 Comparability /

Improvements Project'. Specific analysis and suspense issues were set forth in attached Appendix I[9].

The Working Party viewed 'as acceptable', subject to the noted suspense issues, the following Standards:

1. IAS 2, Inventories.
2. IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.
3. IAS 11, Construction Contracts.
4. IAS 16, Property Plant and Equipment.
5. IAS 18, Revenue.
6. IAS 21, The Effects of Changes in Foreign Exchange Rates.
7. IAS 22, Business Combinations.
8. IAS 23, Borrowing Costs.

The Working Party noted that final endorsement of these Standards 'is dependent on IOSCO's assessment of the total package of core standards'.

By separate letter accompanying the second Shiratori letter, the Working Party expressed its views regarding IASC Standards that were not revised as part of the Comparability and Improvements projects. The Working Party attached Appendices 1 and 2. Appendix 1 dealt with essential issues that it believed IASC should review in the near-term since their consideration was deemed critical to some countries' recommending acceptance of IASC standards. The Working Party concluded that IAS 24 *Related Party Disclosures*, and IAS 29 *Financial Reporting in Hyperinflationary Economies* were 'sufficiently complete for use'. It identified no essential issues for IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, or IAS 28 *Accounting for Investments in Associates*. Regarding IAS 27 it reserved the prerogative to make recommendations concerning evidential matter and a presumption 'when a majority of voting shares is not owned, if the IASC does not provide further guidance'.

Regarding IAS 28, it might make a recommendation for application of the 20% presumptive test. It identified no essential items for IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance,* and IAS 31 *Financial Reporting of Interests in Joint Ventures*. For IAS 20, the Working Party might recommend acceptance of an alternative treatment for long-term development grants, i. e., treatment as an increase in equity. In Appendix 2, the Working Party discussed suspense issues, other issues and long term potential projects. Consideration of certain suspense issues, often dependent upon circumstances and encountered infrequently, 'would delay unduly the development of a set of core standards'.

The Minutes of the Meeting of the Board of IASC Held in Budapest, 1-4 November 1994, indicate that the Board decided it should agree during 1995 the action to take in respect of the essential issues identified in the IOSCO letters, specifically IAS 9 *Research and Development Costs,* IAS 10 *Contingencies and Events Occurring After the Balance Sheet Date*, and IAS 17 *Leases*. Also, as a matter of policy, to commit itself to consideration of the IOSCO suspense issues, other issues and long-term potential projects during review of the appropriate existing Standards, or development of new Standards. Thus, these Board meeting minutes clearly reflect the impact of the Shiratori letters upon the IASC, and its Board's recommendations of action in response to them.

<u>The Core Standards Programmeme and IOSCO Endorsement</u>. The Minutes of the Meeting of the Board of IASC Held in Amsterdam, 8-10 May 1995, indicate discussions with IOSCO were continuing for the purpose of agreeing a work programme to meet IOSCO's core standards requirements. It was further noted that IOSCO and IASC hoped to issue a joint press release later that year (See above). Thus, the working relationship

between IASC and IOSCO was developing and an agreement on the Core Standards Programme was evolving. Contacts between the parties, in the form of face-to-face meetings, and active correspondence had begun. In this burgeoning relationship between the IASC and IOSCO, it is often difficult for the observer to determine which body was the principal, which the agent. Each was working with the other, each for its own purposes, to achieve a common objective, the development, endorsement and international use of generally accepted International Accounting Standards in cross-border listings and offerings of securities. Each lobbied the other in support of its respective position(s). Following receipt of the 1994 Shiratori letters, Cairns gave a rather frank indication that the IASC had attempted to persuade (i. e., lobbied) IOSCO with specific intentions. Later he wrote 'The IASC hoped to persuade IOSCO to change its mind on two standards which it had found unacceptable' – IAS 9 *Research and Development Costs*, and IAS 10 *Contingencies and Events Occurring After the Balance Sheet Date*. 'The IASC also hoped to persuade IOSCO that the core standard of interim reporting should be dealt with separately from other topics' (1997).

The Minutes of various IASC Board meetings attest to the Board's continuing interest in obtaining IOSCO's endorsement of the Core Standards upon their completion. For example, for the March 1993 meeting of the Board in Tokyo, Mr. Eiichi Shiratori's first as Board Chairman, even before the IASC/IOSCO joint press release was issued, the Minutes report remarks emphasising the need to obtain IOSCO endorsement as quickly as possible. IASC needed to be proactive in its approach to IOSCO. Further Board discussion included observations to the effect that the IASC must not focus solely on IOSCO since IOSCO itself has no regulatory powers but instead relies on its own national member organisations. And it questioned how the IASC would react if IOSCO insisted on the removal of all alternative accounting treatments from IASs.

In the Board meeting of 1-4 November 1995, in Sydney, the Minutes report that the 'key importance' of the IASC/IOSCO agreement was discussed. While the agreement involved a 'tough work programme', and that the IASC would have to work diligently to complete it on time, the IASC must make progress upon it in the confidence that IOSCO would endorse the output if the IASC 'produced a good quality result'. There was further discussion of the nature of the IOSCO commitment. While there could be no guarantee of IOSCO endorsement, and recognising that national securities regulators would have to observe national due process, the Board noted the strength of IOSCO's commitment to the press release published, and the support expressed by IOSCO people in public. Thus, despite the lack of certainty regarding future IOSCO endorsement of its work, the IASC forged ahead with the project.

While the IASC wanted IOSCO endorsement of its core standards output, it did not wish to be perceived as IOSCO's pawn; it insisted on maintaining its independence as the international accounting standard setter. Thus, for the 6-10 July 1998 Niagara-on-the-Lake Board meeting, the Minutes report remarks indicating that IASC Board 'should take very careful note of' IOSCO colleagues' views and arguments, weighing them in the context of its own due process. However, it was also noted: 'If it (the Board) were always to adopt IOSCO's views, regardless of other views, IOSCO would become the effective standard setter'.

The IASC was confronted by increasingly strong external pressure for International Accounting Standards that international companies could use for reporting purposes in future additional stock offerings. Encouraged by IOSCO members, including the European members, the Canadian members, and the U. S. SEC, in a 3 April 1996 press release, the IASC announced the acceleration of its work programme. March 1998 became its new target date for completion of the core set of standards covered by its agreement with IOSCO. The Minutes of the IASC Board Meeting, Brussels, 27-30 March 1996, discuss the steps the IASC might take to successfully accelerate its Work Programme. The Board resolved to extend IOSCO an invitation to become an observer member. It saw this as a way to build upon its good relationship with IOSCO, and of ensuring timely awareness of potential difficulties IOSCO might have with proposed IASC standards. IOSCO sent five observers, for the first time, to the 11-14 June 1996 Board meeting in Stockholm; James Saloman was one of them. Initially, the IOSCO observers tended to say little at the Board meetings. The Board Meeting Minutes, London, 6-9 January 1997, contain an explanation for their initial reticence. IOSCO's Working Party had agreed to speak only to voice a consensus view; often it had difficulty establishing what it could say. Considering the importance it attached to knowing IOSCO's views, the IASC gave encouragement to the Working Party members to express them, even if that required special meetings, or written comments on discussion papers and exposure drafts.

Subsequently, the Minutes of various IASC Board meetings give evidence of a number of situations in which IOSCO observers made suggestions regarding aspects of exposure drafts of individual international standards only to witness the Board, following discussion, vote to uphold a position opposite to that advocated by the IOSCO observers.

Examples occurred during Board discussions of Impairment (April 1997), Intangible Assets (July 1997), and Employee Benefits (November 1997).

Nevertheless, the working relationship between the IASC and IOSCO grew closer over time. In the Board meeting of 9-13 November 1998, in Zurich, the Minutes contain a report to the Board to that effect. The reporter expressed his belief that IOSCO's members, including the U. S. Securities and Exchange Commission, 'would carefully evaluate the core standards when considering to endorse them'. At this point, the IASC was nearing the completion of its Core Standards Programme. In the following month, the Board met to approve IAS 39 *Financial Instruments: Measurement and Reporting*, the last of the core standards. Thus, it was important for the Board to have a measure of assurance that its work would meet ultimately with success.

IOSCO itself, through its Working Party No. 1, kept close watch upon the labors of the IASC. In the documents in the Public Reference Room of the U. S. SEC is an interesting exchange of letters between Mr. Paul A. Leder, Chair, IOSCO Working Party No. 1, and Sir Bryan Carsberg, IASC Secretary-General. In a letter dated 6 July 1998, Paul Leder wrote Sir Bryan the following:

> …The Working Party notes that in recent correspondence and reports…the IASC staff has characterized the "Investment Properties" component of IAS 25 (*Accounting for Investments*) as being outside the core. The Working Party…believes that both the IASC and IOSCO always intended that "Investment Properties" would be addressed as part of the core standards work program….previous IOSCO and IASC documents defining the "core" (e.g., the July 1995 joint IOSCO/IASC press release and the IASC's 1997 Annual Report) include IAS 25 as a whole, including "Investment Properties".
>
> …the Working Party encourages the IASC to develop an exposure draft on "Investment Properties" as soon as possible….

Sir Bryan, in a letter dated 24 July 1998, responded, in pertinent part, to "Dear Paul" as follows:

> …we at IASC are perhaps guilty of having taken too much for granted on this element of our standards.… I had originally intended that our Steering Committee on Financial Instruments would deal with investment properties as a related issue but the Committee preferred not to do that because it was fully absorbed with the challenges of financial instruments themselves. We supposed that IOSCO would not have difficulty, given the relatively specialized nature of investment properties, if we were to retain our existing provisions in IAS 25 for these items.

Sir Bryan stated further that making progress with Investment Properties was ' still a high priority for IASC'. Anticipating the completion of IAS 39 at the extra Board meeting scheduled for December, he wrote:

> …IOSCO would be able to proceed with consideration of the core…standards, if the set we hand over to you…has a footnote saying that IAS 25 continues to contain provisions relating to investment properties and that IASC is working urgently on the revision of those provisions; I hope we could also refer to a published Exposure Draft. That would certainly be a very helpful way of dealing with the matter.

This exchange of letters demonstrates the tensions, frustrations and disagreements that sometimes arose between these two partners to the core standards development. According to a former member of the IOSCO Working Party No. 1, at times, IOSCO wondered if anyone at the IASC was listening to what IOSCO had to say. The Leder/Carsberg exchange of letters is a publicly available example of IASC's attempt at independent action that met with stiff IOSCO resistance.

Effectiveness of Lobbying Efforts. While the lobbying efforts of the IASC can be inferred from the Board meeting Minutes, it is not easy to gauge their effectiveness. If there are any recordings of such discussions, the authors did not have access to them or transcripts of them. Repeatedly, as one reads Minutes of the Board's meetings, one finds reference to 'liaison activities' with international bodies, such as IOSCO, and with national standard setters, such as the U. S. Securities and Exchange Commission. Such liaison activities often involved persons at the highest level within IASC, including various Board Chairmen, Secretaries-General, and Board members, as well as staff personnel. In addition, various Project Managers, as well as the Technical Director, visited various national standard-setting bodies and attended meetings whose agenda indicated discussion of the Project Manager's project(s). These liaison activities not only gave the IASC opportunities to learn the positions and points of view of others, but they gave the IASC itself platforms in which to explain and advocate its own positions, i. e., to lobby.

Interviews with Dr. Paul Pacter and Mr. James Saloman confirm that the IASC itself is lobbied and subjected to pressures to put items on its agenda. In a discussion of the pressures to which the IASC is exposed, Dr. Pacter differentiated between good pressures and bad pressures. Good pressures were those that encouraged the IASC to do what it needed to do; bad pressures were those that advocated the IASC take positions with undesirable consequences. As an example of the latter, he mentioned that during the financial instruments project, banks wanted to keep derivatives at cost. It was in their own self interest to do so. The Board did not want to agree to that. He pointed out that the IASC Board, made up of very senior people, was quite capable of resisting bad pressure. As an example of good pressure, he noted that during the course of the Core Standards Programme, IOSCO had suggested a number of projects. Since IOSCO is 'on the firing line', if it suggested a project, such as Discounting, the IASC was inclined to listen.

E51 and E62.There is also ample textual evidence that lobbying has occurred, and has had an impact on the final standards. As indicated above, the IASC's standard setting due process involved a number of steps. While a potential standard progresses through these steps, there were ample opportunities for outside parties to lobby for their positions, and to suggest language changes. To gauge the effectiveness of such efforts, the authors have examined the comment letters upon E51 *Reporting Financial Information by Segment*, which led to revised IAS 14 (1997), and E62 *Financial Instruments: Recognition and Measurement,* which led to IAS 39. The following table provides an analysis of the comment letters received classified according to the IASC comment letter files.

{Insert Table 2 about here.}

The original IAS 14 was approved in 1981. In March 1992, the IASC decided to revise it as its scope was of great interest to securities regulators, including IOSCO. Later, Paul Pacter took over as project manager. The IASC's effort closely paralleled the contemporaneous Canadian and U. S. segment reporting projects. Throughout the project, there was close staff level consultation between the Canadian Institute of Chartered Accountants (CICA), the Financial Accounting Standards Board (FASB), and the IASC (Cairns,1999: 741-44).

IAS 39 is an interim, de novo Standard that has a long, and as yet incomplete, history. The IASC commenced its financial instruments project in 1988. In November 1994, the IASC decided to split the project into two stages – presentation and disclosure (ultimately resulting in IAS 32), and recognition and measurement (leading to IAS 39). Paul Pacter was project director for IAS 39. In October 1997, the IASC decided to participate with national standard setters in a Joint Working Group (JWG) to agree a harmonised international financial instruments standard by 2001. Thus, IAS 39 is an interim standard pending completion of the JWG's work (Cairns 1999: 797-806).

Employing textual qualitative content analysis of these Exposure Drafts, representative comment letter suggestions, and the language of the final Standards, it is possible to uncover examples of effective lobbying. It is also possible to detect instances of ineffective lobbying[10]. Within the Minutes of the London Board meeting of 6-9 June 1997, is indication that the Board considered a revised draft of the Segment Reporting Standard prepared by the Steering Committee "in light of the comments on Exposure Draft E51." However, such direct evidence of effective lobbying is rare in the Board Minutes.

Comment letters tend to be the most readily available evidence of lobbying. Lobbyists express their preferences through a number of different channels. Their comment letters are attempting to ensure that the final piece of regulation reflects their interests. Their activities may involve either agreeing or disagreeing with part or all of the proposal. Using comment letters has its limitations, as already noted.

> In the case of lobbying, studies have tended to rely on analysis based on comment letters. It is not that this is the best media to study; in most cases it is the only available media. As Lindahl (1987) points out, comment letters are a low cost form of lobbying, but are unlikely to capture the extent of the total lobbying. Indeed, Fogarty et al (1994) go even further by stating that the research carried out to date, in '…conducting primitive counts and classifications, raises more questions than it answers aand has not even exhausted the capabilities of what must be the first step in content analysis' (pp. 40-41).

This limitation is recognized in this paper by acknowledging that there are many different types of lobbying being carried on within the regulatory process.

Language Differences. In Appendix 1 to the 11 July 1996 letter of the U. S. Securities and Exchange Commission to Sir Bryan Carsberg, there are fourteen suggestions for modifying E51; the IASC took, in whole or in part, five of them. The first suggestion taken referred to E51, black-letter para. 5. It was worded: 'This Standard should be applied by enterprises whose equity or debt securities are publicly traded'. The U. S. SEC recommended that the scope of the standard 'be expanded to include enterprises preparing to offer securities to the public'. Revised IAS 14, black-letter para. 3, states: 'This Standard should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets'. The underlined portion was added; it indicates this U. S. SEC suggestion was taken. The same position on the scope and applicability of the standard was taken by both the Japanese Institute of Certified Public Accountants and also by the Consultative Committee of Accounting Bodies (CCAB) in the U. K. The latter commentators also wanted a clearer definition of 'publicly traded', but were not to receive this[11].

An example of a U. S. SEC suggestion not taken was the recommendation that the IASC consider disclosure by segment of research and development expense, as Paragraph 24e of the U. S. FASB's Exposure Draft on business segments required it be included in segment profit or loss. The Accounting Committee of the Institute of Chartered Accountants in Ireland (ICAI) also made a similar suggestion of disclosure 'as information relevant to users of accounts'.

In its 25 June 1996 letter, the American Institute of Certified Public Accountants (AICPA) made six recommendations; IASC took two of them, in whole or in part An example of a partially taken recommendation follows. The AICPA Accounting Standards Executive Committee (AcSEC) indicated it did not believe that 'externally reportable segments should be limited to those that earn a majority of their revenue from sales to outside customers', as required by E51, paras. 29-33, especially gray-letter para. 31. AcSEC believed that 'segments that earn revenues from transactions with other segments should also be reportable'. Paragraphs 34 - 43 of Revised IAS 14 deals with Reportable Segments. Its gray-letter paragraph 40 states: 'This Standard encourages, but does not require, the voluntary reporting of vertically integrated activities as separate segments, with appropriate description including disclosure of the basis of pricing inter-segment transfers…'. Regarding the E51 stipulation that corporations' segment reports include non-cash items, other than depreciation and amortisation, AcSEC observed that, as many companies have centralised cash management, employee benefit, insurance, and debt financing programmes, 'These factors may make it impracticable for many enterprises to derive meaningful cash flow information by segment'. Therefore, the IASC should delete this requirement. Nevertheless, black-letter para. 61 of Revised IAS 14 states: 'An enterprise should disclose, for each reportable segment, the total amount of significant non-cash expenses, other than depreciation and amortisation for which separate disclosure is required…, that were included in segment expense and, therefore, deducted in measuring segment result'.

Further suggestions in the most part arising from current domestic GAAP were also not taken on board by the IASC. These included the disclosure of net assets only (CCAB, U. K.), the inclusion of finance leases in segment liabilities (JICPA, Japan) and the right of non-disclosure of information which might be damaging (Ordre des Experts Comptables, France).

The IASC was also not swayed on occasions when the majority of comments favoured one particular option. One specific question in the exposure draft E62 on Financial Instruments asked whether the standard should retain its scope of applicability (to quoted companies), expand to non-public companies or restrict the scope to cross-border offerings only. Out of 91 comments received, 54 (60%) favoured widening the remit of the standard, whereas only 33 (36%) favoured retention. Nevertheless, the IASC chose to ignore the majority on this occasion. However, in another question, as to the treatment of strategic investments, the IASC endorsed the view of 46 out of 85 respondents (54%) who preferred fair values to be applied to these.

Philosophical Differences. In March 1997, the IASC issued a Discussion Paper, *Accounting for Financial Assets and Financial Liabilities*. In it, the Steering Committee on Financial Instruments put forth the controversial idea that financial instruments should be valued at fair value at time of acquisition, and subsequent thereto. On 26 June 1997, Mr. Alex Milburn, Chair of this Steering Committee, met with the members of IOSCO's Working Party No. 1 to discuss some of the major issues raised by the Discussion Paper. Mr. Milburn noted it would be helpful to the IASC to receive Working Party input with respect to the appropriateness of fair value measurement of financial instruments at each balance sheet date. In a letter to Sir Bryan Carsberg, dated 22 August 1997, Mr. Paul A. Leder, Chair, Working Party No. 1, wrote:

> All members of the Working Party agree that a move towards more extensive use of fair value measurement in reporting the balance sheet carrying amounts of financial assets and financial liabilities is appropriate….while some of members (*sic*) of the Working Party support the Steering Committee's conclusion that the

> goal should be to have all financial assets and financial liabilities measured in financial statements at fair value, others are not prepared to commit today to such a conclusion.
>
> Some…members…note that comprehensive use of fair value measurement…would represent a major change from current practice in all jurisdictions. They...express concern about whether such a change can be effected in a timeframe...appropriate for completion of the core standards required for consideration by IOSCO. These members would consider piecemeal implementation of requirements for fair value measurement,…initially only trading portfolios of financial assets. Others…would object to...a piecemeal approach because it results in the basis of measurement…being determined by management's intent rather than by the characteristics of the instrument.

Thus, within the Working Party, there was conceptual support for fair valuing financial instruments, but division about the timing and method of accomplishing it.

When, on 30 September 1998, the IASC issued Exposure Draft E62, *Financial Instruments: Recognition and Measurement*, it took a mixed measurement approach to valuing financial instruments. Initial recognition of financial instruments was to be at cost (E62, para. 44). Subsequent measurement of financial assets, including derivatives, was to be at fair value, except for held-to-maturity investments, and any financial instrument whose fair value could not be reliably measured (E62, para. 46). Subsequent measurement of financial liabilities, other than those held for trading purposes, or derivative liability contracts, was to be at amortised cost (E62, para. 59). E62 was a very complex document, with 103 paragraphs. It covered the recognition and de-recognition of financial assets and liabilities, their initial and subsequent measurement, impairment, and hedging. Thus, the following discussion focuses upon but a small, yet important, portion of the exposure draft, that dealing with valuation issues.

In the Invitation to Comment section of the Exposure Draft, which preceded the text of the proposed Standard, the IASC asked for comments upon 20 specific questions.

Paragraph 46(b) requires that, after initial recognition, 'financial assets that otherwise would be measured at fair value be measured at amortised cost if fair value cannot be reliably measured'. Question 9 asked whether the guidance in paras. 46(b) and 63-66 was 'appropriate, clear, and sufficient', or 'should be modified'? Question 10 observed further that 'Some have suggested that this provision be modified to require that all financial assets other than held-to-maturity investments must be measured at fair value but to acknowledge that, in some cases, cost or amortised cost may be the best indicator of fair value'. It asked whether the commentators favoured the exposure draft's approach that 'sometimes, fair value may not be reliably measured', or the alternative approach 'that cost or amortised cost may be the best indicator for fair value'?

The comment letters reflected the same division over fair valuing financial instruments as did Paul Leder's IOSCO Working Party No. 1 letter of 22 August 1997; some commentators continued to stress the desirability of fair value accounting, while others went along with the IASC's mixed measures approach. Both responded to the IASC's questions with specific recommendations for changes. There was considerable diversity in the responses, the positions advocated, and the arguments given in defense of individual positions.

Among the commentators that supported fair value measurement were the U. S. Securities and Exchange Commission, and the Association for Investment Management and Research (AIMR). In a letter to Sir Bryan Carsberg, dated 27 October 1998, Lynn E. Turner, Chief Accountant, U. S. SEC, wrote:

> The extended development of a mixed measurement accounting model for financial instruments has presented a number of practice problems in the United States…The approach taken in E62 addresses some of these problems…However, the staff believes that using a single fair value measurement accounting model for

> both the initial and subsequent measurement of financial assets and financial liabilities would resolve many more of these problems. In addition, the staff believes that measuring all financial assets and liabilities at fair value would provide investors with more relevant and useful information than cost or cost-based measures. The staff also believes that a fair value measurement model would eliminate much of the complexity that is the inevitable result of using a mixed measurement accounting model. A full fair value approach also should eliminate much of the impetus for special hedge accounting….

Obviously responding to Question 9, Turner expressed the SEC staff's concern that 'without clear guidance as to the notion of 'reliably measurable' fair values, the final standard may be applied in a way that fails to bring financial assets, including all derivative instruments, onto the balance sheet at fair value'. He observed that the SEC staff's experience indicated that almost all loans, including commercial loans, derivatives and debt securities have reliably measurable fair values; that most fair value measurements 'can be observed in markets or estimated by reference to markets for similar instruments'.

In its 5 November 1998 letter, in response to Questions 9-10, the Association for Investment Management and Research commented:

> We believe that all financial instruments should be, and can be, measured at fair value….We are astounded that this standard provides a loophole of measurement "unreliability." We are particularly concerned that companies will use this loophole as a "fallback" option. For instance, if no secondary market exists or the derivation of a fair value is complete, Managers may deem such measurement to be "unreliable."
>
> Except in extremely rare cases, the fair value of financial instruments can be measures reliably….

Like the SEC, the AIMR argued that fair value estimates based upon valuation methodologies would be more useful to investors than amortised cost.

In a single-spaced, forty-one page comment letter, dated 20 October 1998, IOSCO's Working Party No. 1 indicated its belief that a rigorous application of E62 paragraphs 46 and 51-53 ‘would result in all or substantially all of the loan portfolios of financial instruments being accounted for at fair value’. This would be a ‘significant change in practice in virtually all jurisdictions’. An alternative outcome could be that enterprises would ‘attempt to accommodate current practices, especially use of amortised cost for most loans’; this would undermine the standards objectives, and its credibility. Some Working Party members were very concerned that E62 ‘creates a strong incentive for enterprises to assert that the fair value of an investment cannot be measured reliably’.

Regarding Question 10, the Working Party commented:

> …the Working Party is concerned that E62…will encourage reporting enterprises to circumvent the Board’s intention to require broader application of fair value. The Working Party has discussed whether the alternative described in Question 10 would be a better mechanism for implementing the Board’s intention, but have concluded that it would be difficult to justify that cost is the best indicator of fair value when fair value cannot be estimated using the methods and information described in paragraphs 63-66 of E62. Therefore, the Working Party believes that it would be preferable to focus on ensuring that the Board’s intention is articulated clearly and implemented consistently, rather than adopting the (alternative) approach suggested in Question 10.

Among the commentators who went along with the mixed-measures approach to financial instrument valuation was the European Commission (23 October 1998). Regarding Question 9, the European Commission commented that the guidance given in paragraphs 46(b) and 63-66 was ‘appropriate’, but that the IASC Board should be aware of the ‘widely varying results’ given by some independent ratings and well established valuation models. ‘Consequently, we believe that the standard should emphasize that caution should be exercised and that the concept of ‘reliable measurement’ should not be interpreted too widely’. Concerning Question 10, the Commission indicated it favoured the approach chosen in the exposure draft.

Paragraphs 46 and 63-66 of E62 became paragraphs 69(c) and 95-102 of IAS 39. The Standard retains the mixed-measures approach to financial instrument valuation of the exposure draft. Regarding the matter of 'reliable measurement' the Standard adds an explanatory black-letter paragraph (para. 70) that states:

> There is a presumption that fair value can be reliably determined for most financial assets classified as available for sale or held for trading. However, that presumption can be overcome for an investment in an equity instrument…that does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable. The presumption can also be overcome for a derivative that is linked to and must be settled by delivery of such an unquoted equity instrument….

Thus, the comments regarding fair value valuation of financial instruments had an impact in that the IASC inserted into the final standard the 'presumption that fair value can be reliably determined for most financial assets'. Guidance for estimating fair values is given in paragraphs 95-102. The exposure draft's four paragraphs (one black-letter) of guidance have become eight (two black-letter) in the Standard. The IASC heeded calls for additional implementation guidance. However, it retained the mixed-measures approach to valuation of financial instruments, despite comments in support of a more pure application of fair market valuation to them.

Conclusion

These few examples give some indication of the nature of the comments and the specificity of the suggestions made in the comment letters. Generally, the comments may be categorised as either accounting theoretical (philosophical) or language specific. Accounting theoretical (philosophical) comments deal with more abstract matters, such as whether to require fair value or mixed-measures models for valuation of financial instruments. Language specific comments deal with the actual wording, or lack thereof, of a particular black-letter or gray-letter paragraph. They include suggestions for specific wording changes, and inclusion, change or omission of certain guidance. For the purpose of this paper, they also include matters of the scope and applicability of standards

The examples discussed also give some indication of the likely effectiveness of a given commentator's efforts to influence the final thrust or wording of a particular standard. Some recommendations were taken; most were not. Often comments of more than one commentator paralleled those of another, such as those of the SEC and AMIR regarding E62. Many comments contradicted those of others on the same paragraph, or sentence within a paragraph. Thus, it was impossible for the IASC to accept all the comments made. The IASC utilised the comment period and the comments received as a means to measure support for a proposed standard, and to refine an exposure draft into a high quality final Standard. Examples given in this paper demonstrate that it neither sought to endorse the views of the majority nor did it appear to seek to achieve a consensus. In the process, it interacted with the various principals in its external environment. It was subjected to pressures, but it also sought to exert pressures, on behalf of particular proposed standards on its agenda. Thus, a unidirectional concept of lobbying is too simplistic; rather, a multidirectional concept is more in tune with what has actually occurred during the period studied. While the international standard setter had been lobbied by external parties in support of their points of view, it also lobbied some of those same parties to gain support for its points of view. Although there exists evidence of this alternative direction of lobbying, once again it may be assumed that only a small part of this process is visible. As at July 2000, the Board of IASC consisted of 27 members with 9 technical advisors. These covered 13 countries and were comprised of individuals from firms of accountants, professional institutes, national standard setters, corporations and academia. In addition, three international organisations were represented. These individuals may in some way have be en representatives from particular commercial factions, but also shared a common belief in the need for International Accounting Standards, and may well have lobbied stakeholder groups in their own countries.

Accounting regulation, like accounting itself may be said to be carried out under a principal/agent framework. This is justified by the satisfaction of identification criteria suggested by Rose (1985) which define the relationship between agent and principal, and include the identity of both agent and principal, the responsibilities of the agents and the way in which accountability takes place to the principals. Although it is argued elsewhere that in the context of accounting standard setting the relationship breaks down (Day,1999), nevertheless there is little argument in the first instance as to its presence. In the case of IOSCO and IASC, the relationship would on first examination appear to have existed. The latter could be seen as having been agents of the former to carry out a specific task, i. e. the formulation of a set of core standards. The delivery of this set of standards could be argued to represent the way in which accountability had taken place.

However, the IASC Board members never saw themselves as agents of IOSCO. There existed a mutual need between the two organisations. IOSCO saw their role as promoting and facilitating world-wide securities markets, whereas the IASC had always had as its mission the promulgation of a world class set of accounting standards. The implementation of the agreement was a way in which these standards could be promoted internationally. In addition, the external effects or economic consequences of this set of regulations would imply that the result of the relationship was not merely a matter of internal concern between the two parties, but also one on which broad agreement had to be received from others, many of whom could mobilise significant support for their opposition. The adoption of new accounting rules affect many parties, including preparers of financial statements of companies on quoted exchanges, user groups and government and other bodies with responsibilities for adoption or monitoring new standards.

The principal agent relationship is further diluted in this arena in that IOSCO itself, if defined as the principal, consists of many different organisations, each of whom may have had different and perhaps competing interests and who as seen in this paper, lobbied the IASC individually.

Because of the multi-facetted nature of the relationships derived from the IOSCO/IASC agreement, the usual characteristics of a private contract between principal and agent, in which mechanisms are introduced to bond the agent to the principal, do not appear to be present.

The very fact that the IASC had collaborated with other international and/or national organisations, such as IOSCO, the ASB, CICA, or FASB, in the formulation of one or more international accounting standard, signifies that a simple agency model is not entirely appropriate as a framework for analysis of its actions and operations. When such collaboration occurs, it is difficult to determine who is the principal, who the agent. Working together to achieve a commonly desired output implies that each acts as both principal and agent of the other. Under these circumstances, it seems appropriate to refer to these cooperative arrangements as examples of mutual agency. That is because each organisation operates as an agent of the other. The agreement to collaborate softens the boundaries between the organisations as contacts and cooperative efforts grow between their respective participating members. An environment of mutual respect and assistance evolves; it may actually outlast the life of a particular project as the organisations may continue to collaborate on future mutually beneficial projects.

Table 1. IOSCO's List of Necessary Core Standards Components

General

Disclosure of accounting policies
Changes in accounting policies
Information to be disclosed in financial statements

Income Statement

Revenue recognition (including construction contracts)
Production and purchase costs
Depreciation
Taxes
Extraordinary items
Government grants
Retirement benefits
Employee benefits
Research and development
Interest
Impairment (this item may be dealt with in other standards)
Hedging (this item may be dealt with in other standards)

Balance Sheet

Balance sheet impact of income statement items listed above including deferred income taxes
Property, plant, and equipment
Leases
Inventories
Foreign currency
Investments
Financial instruments/off balance sheet transactions
Joint ventures
Contingencies
Events occurring after the balance sheet date
Current assets and current liabilities
Business combinations (including goodwill)
Other intangibles

Cash Flow

Cash Flow

Other Standards

Consolidated financial statements (including adjustments for subsidiaries operating in hyper-inflationary economies)
Associated/equity accounting
Segments
Interim reporting
Earnings per share
Related party disclosures
Discontinued Operations
Fundamental errors/changes in estimates

Source: 16 August 1993 IOSCO Working Party No. 1 letter to Eiichi Shiratori, Chairman, IASC, pp. 1-2.

Table 2. E51 and E62 Comment Letters as Classified by the IASC

CLASSIFICATION	E51	E62
Member Bodies of IASC	17	16
Other IASC Board Members	2	1
Standard Setting Bodies	5	5
Financial Analyst Groups	3	8
Security Commissioners	3	4
Accounting Firms	8	8
Banking/Financial Representative Groups	3	11
Banks and Financial Institutions	2	10
Industry Representative Groups	5	6
Other Representative Groups	2	19
Corporations	19	27
Academics	3	0
Individual	1	1
Late Submissions		
Financial Analyst Groups	1	0
Corporations	1	0
Government Departments	0	4
TOTAL	75	119

Source: IASC Comment Letter files.

Endnotes

[1] The European Commission also hoped that the legislation would be extended by member states to permit or allow all private companies to use international standards for domestic filing purposes.

[2] On 7-8 March 2001, the IASC Trustees met in Brussels, Belgium; they passed the resolution necessary to activate the new Constitution, effective immediately. They established a not-for-profit Delaware corporation, the International Accounting Standards Committee Foundation to oversee the London-based International Accounting Standards Board (IASB). The IASB Members met for an informal, non-technical meeting in February 2001. The IASB held its first technical session in London on 18-20 April, thereby completing the envisioned restructuring of the old IASC Board, and ending its life. Henceforth, the IASB will formulate International Financial Reporting Standards (IFRS). In its April meeting, the IASB approved a resolution to adopt the existing body of International Accounting Standards and Interpretations of the IASC and its Standing Interpretations Committee.

[3] The International Accounting Standards Committee differentiates between Standards (with a capital 'S') and standards (with a lower case 's'). The Standard is the completed final document, i. e., the IAS. Within each Standard, are many bold lettered, italic individual requirements, standards. "There are many standards in a Standard" (Cairns, 1999: 99).

[4] In e-mail correspondence, dated 4 April 2001, with the authors, Dr. Paul Pacter, former IASC International Accounting Fellow, made the following observation: "Earlier, you cited the objective of IASC as developing global accounting standards "in the public interest." I think the critical part of the definition of lobbying is "special interest" – meaning self-interest. Most bodies that develop legislation or standards or regulations invite public comment. Naturally there will be many points of view. Are those responses always lobbying? I think it would be useful for you to make the public interest vs. self-interest distinction here. Lobbying is sometimes considered a dirty business. In Washington and Hartford, lobbyists must be registered. In Hartford, they must wear large badges so legislators can identify them. Is that part of your view of lobbying for purposes of your study?" The authors recognize that lobbying activity can be public interested, or self-interested. The character of the lobbying activity is a function of the lobbyist. For example, one might argue that lobbying efforts of the U. S. Securities and Exchange staff to secure a particular international accounting standard are in the interest of the American investing public, while the activities of corporate lobbyists are self-interested. In this paper, the authors make no attempt to differentiate between public interested and self-interested lobbying behavior. Human behavior is complex. In some cases, lobbying behavior may share aspects of both public interest and self-interest. For example, corporate lobbyists may actually be convinced that what is in their own

corporate self-interest, is also in the national, or international, public interest. The authors do not regard lobbying as necessarily "a dirty business". It is a normal part of the standard setting process, often encouraged by the standard setters, who seek feedback on their standard setting proposals and actions. It is also part of the legitimising process used by the standard setting body.

[5] In e-mail correspondence with the authors, Dr. Paul Pacter asked the following: "…Where to draw the line, if any, between public communication and lobbying. Is an IASC press release lobbying? Is the basis for conclusions section of a standard lobbying? Is a published article by IASC staff explaining and defending the Board's decision lobbying? A speech by the IASC Chairman? It would be helpful if you cited a few examples of IASC engaging in …lobbying so (the) reader understands what you mean by lobbying…." The authors recognize that it is difficult to draw the line where lobbying activities are concerned. However, the authors do not consider examples such as these to be lobbying behavior. Rather, to the authors, lobbying behavior consists of either overt or covert, oral or written communication designed to influence the decisions and / or actions of an organization to favor the position advocated by the communicator.

[6] Dr. Paul Pacter, who left IASC early in 2000, was for four years an IASC International Accounting Fellow. His projects included IAS 14, Segment Reporting, and IAS 39, Financial Instruments: Recognition and Measurement. In late 1999, Mr. James Saloman, a technical partner in the Toronto, Canada, office of PricewaterhouseCoopers, joined IASC as Technical Director. His experience included working with IOSCO during the Core Standards Programme.

[7] Unless operating in a national environment in which International Accounting Standards are endorsed by the state.

[8] As the Board minutes prior to 13-17 March 2000 were closed and meeting participants were assured that their remarks would be held confidential, the authors have been granted permission to paraphrase the minutes without specifically identifying the speaker. As this research work would not have been possible without the IASC's cooperation and encouragement, we have attempted to honor that commitment throughout the paper.

[9] The Working Party observed: "Suspense issues include items that generally are encountered infrequently, often are complex, and would not need to be addressed before IOSCO would consider recommending acceptance of IASC standards. In such cases, IOSCO members may accept compliance with the international accounting standard, accept home country treatment, or require specific host country treatment or equivalent disclosure. In addition, there are some suspense issues that represent reservations of certain member countries on the necessity of full application of international standards…."

[10] In his 4 April e-mail to the authors, Dr. Paul Pacter commented: "For every issue there are "lobbyists" on both sides (or 3 or more sides). Eventually, the Board must make

a decision. Its decision will be what some "lobbyists" supported and what others didn't support. Can you say that those who supported the decision the Board eventually took were effective lobbyists? I am not sure there is a cause and effect relationship there."

[11] Dr. Paul Pacter e-mailed the authors the following comment: "I find it hard to call this lobbying. I think the SEC pointed out a minor shortcoming or lack of clarity (companies in process of issuing...) and IASC corrected this. It avoid the need for a future interpretation. Regarding the need for clearer definition of publicly traded, IASC debated this but concluded that national laws are so varied that this is a matter appropriately interpreted at the national level. Clearly all listed enterprises are included, and this is the main objective of IASC."

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