



# The Comparison of Political and Technical Influence of the IASB Standard-Setting Process: Based on Key-Actors Model

Jiakai Chen<sup>1</sup>, Jingyi Xu<sup>1</sup>, Yifan Guo<sup>1</sup>, YINUO Zhao<sup>2</sup>, Yuhan Bi<sup>1</sup>

<sup>1</sup>Beijing Institute of Technology

<sup>2</sup>Purdue University

jiakaichen2022@163.com

xujingyi730@126.com

fionaguo1130@163.com

y.zhao5@outlook.com

brianna9byh@163.com

**Abstract.** The International Accounting Standards Board (IASB) is the setter and issuers of international accounting standards, with a goal to establish high-quality, easy-to-understand and feasible international accounting standard around the world. However, the truth is that IASB has not yet reach its goal. This article aims to discuss the factors influencing the process to reach a fair international accounting standard. By defining and analyzing political and technical influence respectively, we mainly illustrated the relationship and effects between influential institution in the standard-setting process with the help of Key-actors Model. We concluded that the IASB standard setting process is more influenced by political factors than technical, and joint efforts between each related institutions are needed to reach a balance between these two factors and formulate a fair international accounting standard.

**Keywords:** IASB, Standard-Setting Process, IFRS, the European Commission, Big Four.

## 1 Introduction

The accounting standard-setting process has been paid close attention by many parties. As the setter and issuer of international accounting standards, the International Accounting Standards Board (IASB) aims to formulate high-quality, easy-to-understand and feasible international accounting standards [1]. However, although the IASB has hoped to reach fairness since its establishment, this political influence still severe specially after the economic crisis [2]. Based on our extensive survey of past literature, many authors believe that the process of setting international accounting standards is mainly influenced by political [3,4,5].

We believe that although it is also affected by the nature of technology, the process of setting accounting standards is more political. Political influence in this study is defined as “An entity intervenes in the standard-setting process with the goal of affecting the outcome of that process to achieve some other self-interested purpose inconsistent with the IASB's mission.” [6]. For technical influence, we define it as whether accounting standards can purely achieve the IASB's goals - formulate a set of high-quality, understandable, and implementable global accounting standards without being affected by other factors.

The technical influence will be first analyzed. For the part of political influence, the relationship between influential institutions in the standard-setting process and the way in which it affects will be explained. Considering that the organization is constantly changing, the research is mainly based on the existing research, the websites of IFRS Foundation and the IASB, press releases, news, and discussion documents. Figure 1 below illustrates these main actors and their main interrelationships and ways of influencing them.

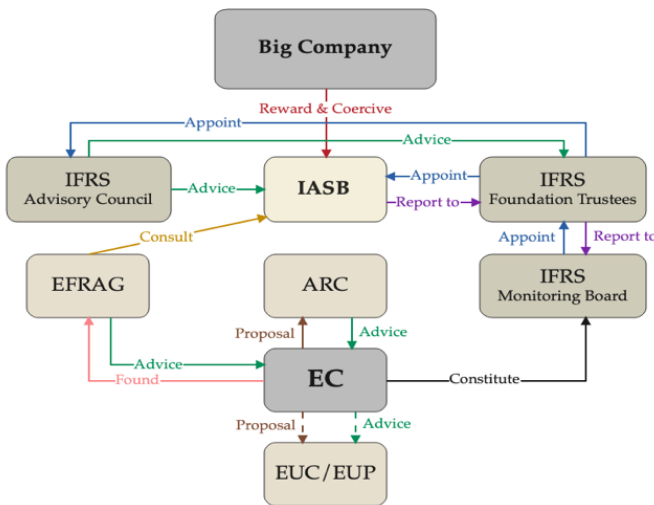


Fig. 1. Key Actors

## 2 Technical

The IASB's accounting standard-setting process is affected by technical factors, which is important and cannot be ignored.

First, as an effective standard-setter in corporate society, IASB is and should be professional. As the IASB member selection agency, IFRS Foundation stipulates in the appendix that IASB members must have proven high-level accounting and finance report professional technical knowledge and competence. Moreover, Bhimani (2019) summarized the backgrounds of all IASB's directors since 2001-2018 and found that

members can be divided into five main types: professional accounting firms, companies, users, regulators, and academia [7]. Board members' mixed skills balance the standards of all parties and enhance the technicality of the IASB standard setting. For example, opinions from standard-setter regulators and securities association regulators can neutralize analyst directors' ideas and make standard-setting more neutral.

Second, in the IASB's standard-setting process, elite audit companies are professional knowledge contributors and fund donors. To be more specific, they send comment letters in IFRS setting process to provide some advice [8]. They also supervise the European Financial Reporting Advisory Group (EFRAG) to better formulate accounting standards. Furthermore, although the number of IASB directors who have professional backgrounds decreased significantly after the 2008 financial crisis the Big 4 accounting firms still provided 34.3% (2009) of IASB's total funds, which had an important technical impact on the standard-setting process of IASB [9].

Additionally, the participation of academia is considered to have a huge technical impact on IASB's standard-setting process. To be specific, the academia conducts research on the standard-setting process. However, standard-setters cannot always understand that research well due to the lack of professional knowledge. Thus, the academia would help them to be familiar with results [10]. Besides, Barth (2006) stated that accounting standards are facing difficult problems and seeking the help of academia may solve it [11]. For example, scholars can enhance the legitimacy of IASB standards by writing review letters. As the influence of IFRS expands, the IASB, the Securities and Exchange Commission (SEC), the European Union (EU) and other organizations do hope to increase their participation of stakeholders in the global accounting standard-setting process [9]. However, compared with those stakeholders, academia still adheres to a pure and fair position.

### **3 Political**

While technical factors do play important roles in the standard-setting process, the political influence has a more profound effect. For the following sectors, the political effects will be analyzed respectively from the perspectives of internal structure, the impact of the European Commission (EC) and big companies.

#### **3.1 Internal Actor - IFRS Components**

Inside the IFRS foundation, four components are involved in the setting of IFRSs - the Monitoring Board, the Trustees, IASB and the IFRS Advisory Council [12].

The purpose of the Monitoring Board is to serve formal interaction between capital markets authorities and the IFRS Foundation [13]. Selected by the Monitoring Board, IFRS Foundation Trustees are responsible for the selection of IASB's members and overseeing the whole working process of the IASB and related organization. The Trustees are not involved in any technical process, instead they appoint the members of IASB to bear the sole responsibility for establishing IFRS [14]. The IFRS Advisory

Committee, also appointed by the trustee, is responsible for advising the IASB and the Trustees to boost the better operation of the foundation [15].

To illustrate the political factors in the standard-setting process, the constitution of both the IASB and other branches related to the operation of the IASB inside the IFRS will be analyzed in following.

As mentioned before, members of IASB chosen under strict criteria, have professional capabilities and relevant experience [16,17]. More importantly, the composition of members is also regarded crucially. To be specific, geographical and national balances are all considered into account when selecting the members, so that the IFRSs can be a fair representation of the interest of different organization and nations [18].

Apart from the IASB itself, the members composition of other branches within IFRS is also subject to significant political influence. As the head of IFRS and the key to connections between IFRS with external organizations, membership of the Monitoring Board is carefully considered to ensure that it fairly represents the interests and needs of organizations around the world. The board initially comprised the relevant leaders of the EC, the Japanese Financial Services Agency (JFSA), the SEC, the Emerging Markets Committee of International Organization of Securities Commissions (IOSCO) and the Technical Committee of IOSCO [19]. In compliance with the IFRS Foundation Constitution, there is also diversity of trustees drawn from various geographical regions, the Trustees should include 6 American members, 6 European members, 6 members from Asia or Oceania and 1 African members, accompanied by 3 members from any regions. For Advisory Council, the diversity of regions and functions is also an important factor to be considered when forming in order to generate fair recommendations [20]. Thus, in the selection of members, the balance of interests between relevant agencies of different national governments are evident, and the political nature of IFRS Foundation is also clearly demonstrated.

Both in terms of the composition of IASB's staff and of the body that supervises establish and interact with IASB, various aspects of the balance of members are highly valued. Under such a structure, IASB's standards is inevitably influenced by the will of the national governments, consortia and other organizations involved.

### **3.2 External Actors - the European Commission**

As one of the major decision-making bodies in the EU, the EC plays a crucial role in representing and upholding the interests of stakeholders. It is responsible for putting forward legislation, policies and action plans, as well as the implementation of the decision of the European Council (EUC) and the European Parliament (EUP). Thus, the EC drives the independence of politics in many fields of the institutional system of the EU [21].

The international financial accounting standards need a long and complicated process to become mandatory in the EU. During the process, the EC needs to assess whether it is in the European public good [22]. To better assist the EC in its work, two representative bodies from the EU provide advice to the EC [23]. One important agency is European Financial Reporting Advisory Group (EFRAG). In 2001, EC encouraged

to establish EFRAG which is made up of European stakeholders and national organizations. As for its function, EFRAG advises on the improvement of IFRS issued by the IASB. To be more specific, EFRAG takes part in the IASB's consultation process to ensure that European opinion is appropriately and clearly stated. Furthermore, EFRAG provides a judgment on whether the newly issued IFRS can receive EU's recognition [24]. These prove that EFRAG does impose a political impact on IASB for the sake of the EU.

Another crucial body is the Accounting Regulatory Committee (ARC), made up of civil servants from national government departments. Receiving a draft rule adopting the new standard written by EC, the ARC will propose approval or rejection. If the ARC rejects the proposal, the EC will send the criteria to the EUC and EUP for final judgment. The EUC and EUP may return the standard to the EC for revision within 3 months [25]. It is explicit that the ARC has the right to assess and participate in the decision-making process for mandatory international standards issued by IASB in the EU member states.

However, regardless of what decision ARC makes in IASB standard-setting process, the EC has the final adjudication on whether the standard becomes a directive applicable [26]. Besides, to make sure that the EU's interests are considered, the EC has contributed about 4.3 million euros per year to the IFRS Foundation between 2014 and 2020. In 2014, the EC contribution accounted for 17% of the foundation's total budget [21]. Because IFRS Foundation establishes and regulates IASB, it indicates that the potential political impact of EC on the IASB's standard-setting process is distinct and significant.

### **3.3 External Actors - Big Companies**

Another key character is big companies, which affect the setting process by both coercive and reward methods. The coercive force uses the threat of force, including physical, social, emotional, political or economic means to obtain the obedience of others [27]. When a powerful company or group of companies do not like a draft standard, they will have an incentive to engage in the politicking of the standard-setting body [28]. If big companies failed to persuade the IASB they would shift their focus towards other bodies such as the EC, the ARC and EFRAG. Or they would try to persuade the Trustees to approve the expansion of its membership, hence bringing in more trustees who sustain their views. The coercive power has been reflected on French Banks. In July 2003, because of the dissenting opinion by French Banks, the President of France made a public statement to criticize IAS 39, a standard proposed by IASB on financial instruments [28]. Another example is that IASB used to favor "Statement of Recognized Income and Expenses", which is a single statement method, to report on the financial performance. However, European companies argued that such a presentation would mislead readers of the performance. And they successfully persuaded the IASB to replace this single statement, allowing a combined measure to be placed on different pages from traditional earning pages [28].

The Big 4, PwC, EY, Deloitte and KPMG, are leading firms in the accounting and consulting industry. They also play important roles in the regulatory process of IASB.

Bengtsson (2011) stated that compared with other stakeholders, the accounting industry exerted far more influence based on its global scope, economic power, political influence, expertise and industry concentration [2,29,30]. Additionally, the Big 4 also have great reward power on IASB. Reward power is based on the right of some people to offer or refuse tangible, social, emotional, or spiritual rewards to others for doing what they want or expect [27]. In the setting process of IASB, reward power comes from the voluntary contributions to the IFRS foundation's funding [31]. According to the list of 2020 funding providers, international accounting firms, the Big 4, contributed £2,346,662, making it the second-largest provider. And among all the 32 providers including both countries and regions, the amount contributed by the Big 4 is 13% of the total [12]. This, combined with their deep understanding and diversified experience of modern accounting issues, reinforces their importance in the accounting standard-setting process [32].

## 4 Conclusion

In conclusion, IASB's standard-setting process is more political than technical in nature. This article establishes a key-actors model to draw the relationships with those actors including internal components, the EC and big companies. According to research, the technical supports do play a role in the standard-setting process. However, the will of countries, the regulatory functions of standard-advisory agencies, and the coercive and rewarding power of big companies have powerful impact on IASB standard-setting decision. To balance political influence and form a truly fair accounting standard, it requires the joint efforts of government departments, academia, audit firms, and large companies to supervise each other, in order to accept market scrutiny.

## Authors' contribution

Five authors contribute to this article the same. The author's order is based only on the initials.

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