Towards a Multidimensional Model of Power:
The International Accounting Standards Board and its Amendment of
International Financial Reporting Standard 3
(“Business Combination”)

by

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A thesis submitted in partial fulfillment of the requirements for the degree of

Doctor of Philosophy

in

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Faculty of Business

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Abstract

The dissertation investigates the organizational basis of standard setting at the International Accounting Standards Board (IASB). The data come from texts constructed over the course of Phase II of the IASB's Business Combinations Project (2002–2007). Consideration is also given to secondary source material, including the extensive literature on accounting standard setting. Theoretically, the dissertation follows from Steven Lukes's multidimensional model on power (1974; 2005), which provides a robust basis for analyzing actors involved in overt conflicts, the issues they mobilize or avoid, and the systemic forces that shape their preferences. The dissertation makes a theoretical contribution by applying Lukes's model to expert-based standard setting at the IASB. To this end, the works of Harry Collins (e.g., 1975, 1985; 1992, 2000, 2001, 2010) are applied.

Initial consideration is given to the association between the convergence project and developments in the transnational regulatory space. The analysis reveals that the IASB's efforts to promulgate International Financial Reporting Standards (IFRS) have been made in conjunction with economic globalization, the financialization of the market economy, and mounting American hegemony over global commerce. Consideration is subsequently given to the discursive construction of the IASB's organization. The argument is advanced that the stated configuration of the IASB's organization is intended to demonstrate to external authorities and the public that the IASB adheres to high standards of input, throughput, and output legitimacy. However, I suggest that the IASB exhibits a democratic deficit, which is conceived as the board falling short of fulfilling these standards.

The ensuing empirical-theoretical work turns to an investigation on how multiple dimensions of power bore on the secretariat and the board's project for amending International Financial Reporting Standard 3 (IFRS 3, “Business Combinations”). Against the backdrop of the project, I argue that the IASB's mode of standard setting resembles what I conceive as “regulatory elitism,” whereby the IASB reserved the right to adopt all proposals initially outlined in exposure draft 3 (2005) in the final version of IFRS 3 (2008) despite an
overwhelming majority of constituents submitting comment letters to the IASB encouraging it to rescind the proposals.

Of particular significance, accounting experts—conceived as senior accountants, auditors, financial executives, analysts, and so forth—rejected the proposals because the IASB failed to communicate what Collins and Evans call the requisite “specialist tacit knowledge” (2002, 2007) on how to apply the acquisition model in practice. Subsequent analyses of the data reveal that the secretariat and the board did not ameliorate the guidance on how to account for a business combination. I associate the IASB’s inaction with two phenomena. First, I suggest that the IASB did not provide detailed procedures on how to apply the acquisition model owing to its institutional preference for fair value accounting, principles-based accounting standard setting, and converging IFRS with U.S. Generally Accepted Accounting Principles. To invoke the terminology Lukes applies in his analysis of the third dimension of power (1974; 2005), mobilization of the IASB’s political bias gave rise to institutional inaction. Second, my investigation on the secretariat’s work and the secretariat and the boards’ formal deliberations in 2006 and 2007 highlights that they failed to elucidate how to apply the model, in part because they had yet to construct the expertise on operationalizing all facets of the acquisition model.

An additional level of investigation emphasizes that the secretariat at the IASB played an important role in the amendment of IFRS 3. Its work not only shaped the construction of the IASB’s technical agenda but also the rationales the board invoked to justify making specific decisions, such as spurning a comprehensive analysis of concerns expressed in 37 comment letters submitted to the IASB by actors in the cooperative sector. The episode is conceived as an empirical instance of what Lukes calls “nondecision-making” (1974; 2005). Based on this and other findings, the conclusion is reached that the IASB is not a monolithic institution. That is, the development of IFRS is not the exclusive domain of 16 board members. The unseen hand of the secretariat wielded substantial influence over the IASB’s amendment of IFRS 3.
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<td>UN Conference on Trade and Development</td>
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<td>Whole Entity Concept</td>
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Chapter 1 Introduction

1.1 Overview

The topic of the dissertation is the International Accounting Standards Board (IASB), particularly how various dimensions of power (expanded upon below) bore on the secretariat and the board’s recent amendment of International Financial Reporting Standards 3 (“Business Combinations”) (IFRS 3). The dissertation can be regarded as a tentative effort to unpack (or open) the “black box” of the IASB as an organization—that is, to treat seriously the associations between (a) developments within the IASB (see chapters 7 and 8), and (b) the promulgation of IFRS (see chapter 6), the political economy of the convergence project (see chapter 4), and the IASB’s perceived democratic legitimacy (see chapter 5). The organization is conceived as the public accountability and governance structures of the IASB and its reliance on a model using “independent expert standard setting.” One example of how the dissertation treats seriously the organizational basis of standard setting is apparent in chapters 7 and 8. Here, specific attention will be given to the important role the secretariat plays in the IASB, such as how the secretariat frames issues for the board, and in other cases, how the board “defers to the secretariat’s expertise” (i.e., Lamont, 2009) to construct “appropriate” accounting standards. A significant component of the dissertation turns on an investigation of constituent lobbying in relation the IASB’s proposed amendments to IFRS 3 as a sort of “lever” for making better sense of the secretariat and the board’s works, particularly how multiple faces of power bore on their standard setting activities.

It is important to study the associations between different forms of power and the works of the IASB. Power remains central to the IASB’s efforts in developing global accounting standards and ensuring their acceptance, for instance, in the face of challenges to the legitimacy of the board’s work by American authorities like the Securities and Exchange Commission (SEC) and U.S. Congress (see Alloway, 2012; Dye & Sunder, 2001; Hail, Leuz, & Wysocki, 2010a, 2010b; Hughes & Sanderson, 2010; Jones, March 2011, April 2011, July 2012). In spite of the formal agreement between the Financial Accounting Standards Board (FASB) and the IASB to converge their respective accounting frameworks (FASB & IASB, 2002; FASB & IASB, 2006, 2008; FASB, 2009), the SEC recently issued a staff paper that concluded that it should not cede authority from the FASB to the IASB (see Staff of the SEC, 2011; Ernst & Young, 2012; IFRSF, 2012g).\(^1\) (Also see World Accounting Report, March 2014.) Research on the IASB can help elucidate why these challenges arise and how to address them, particularly if, as I believe, certain benefits would be realized from convergence.

My work in the dissertation also seeks to determine where the IASB’s power as an independent expert body resides and whether its authority to develop IFRS in a relatively autonomous manner is problematic, and if so, for whom and why. The analysis in chapter 6 suggests that the overwhelming majority of actors that

\(^1\) This does not mean that only U.S. authorities contest the IASB’s legitimacy (see chapter 5).
submitted comment letters to the IASB in response to its formal invitation to comment on exposure draft 3 ("Proposed Amendments to IFRS 3") (ED 3) did not support the secretariat and the board’s proposed amendments to the acquisition model. Yet, the IASB did not recant the proposals. As part of my continuing analysis in chapters 7 and 8, I argue that one reason why a majority of accounting experts (conceived as senior-level accountants, auditors, financial executives, analysts, etc.) did not support the suggested revisions to the original IFRS 3 (2004) was that the expertise on applying the acquisition model had not yet been constructed, thereby making it challenging for preparers and producers to implement the new standard in practice. That the expertise on how to do acquisition accounting and fair value accounting continues to be formulated in practice (see, for example, Benston, 2008; Magnan, 2009; Laux & Leuz, 2009), helps to explain why the IASB struggled to transmit knowledge on how to apply the acquisition model to accounting experts vis-à-vis ED 3.

Understanding these challenges also constitutes a form of power, a kind of expert power (i.e., “interactional expertise” from Collins & Evans, 2002 and 2007) that may have significant policy implications. To this end, a component of the dissertation seeks to illuminate some ways that the IASB might manage the difficulties of communicating “specialist tacit knowledge” (e.g., Collins, 1992) via written instructions to the consumers of IFRS. For example, I suggest one way of moderating said difficulties might be achieved by the IASB implementing a more inclusive or deliberative approach (e.g., Cooper & Morgan, 2013) in developing IFRS, whereby a broader range of experts could be involved in what the IASB characterizes as a “due process” for developing IFRS. In this sense, I believe that power need not be regarded as something that is categorically negative, constraining, ignoble, or corrupting—power can also be seen as something productive, as a way forward. This is an idea I share with Clegg (2009), who says that “…power is not necessarily constraining, negative or antagonistic. Power can be creative, empowering and positive” (p.2).

1.2 The International Accounting Standards Board

Formally recognized as a private foundation under U.S. law (IFRSF, 2013a), the IASB’s current formal mission includes commitments to establishing in the public interest high-quality financial reporting standards, promoting compliance with them, and furthering international convergence by cooperating with international, regional, and national authorities. It describes itself as “…an independent, not-for-profit private sector organization working in the public interest” (IFRSF, 2013a). Its commitment to the public interest is sponsored by “thorough, open and transparent due process,” wherein this non-state actor develops IFRS, accounting standards said to be widely accepted throughout the world (e.g., Abbott & Snidal 2001, 2009; Brunsson & Jacobsson 2000; Eaton, 2005; Mattli 2003; Mattli & Woods 2009; Zeff, 2002, 2012).
Accounting principles differ between jurisdictions, and some differences may arise from local financial and regulatory cultures. In a reflection of these local cultures, which may encompass aspects of company law, company finance, taxation, the strength of the accountancy profession, and so forth, financial statements in each jurisdiction have historically been prepared in accordance with local accounting principles known as Generally Accepted Accounting Principles (GAAP) (e.g., Alexander & Ghedrovici, 2013; Ding, Jeanjean, & Stolowy, 2003; Haller & Wehrfritz, 2013; Nobes & Parker, 2008; Puxty, Willmott, Cooper & Lowe, 1987; Tsamenyi & Uddin, 2008; Willmott, Puxty, Robson, Cooper, & Lowe, 1992; Zeff, 1972b).

While accounting researchers like Barth, Landsman, and Land (2008) argue that the application of International Accounting Standards (IAS) is associated with “improved earnings quality” (i.e., less earnings management, more timely loss recognition, more value relevance of accounting amounts), there is an emerging literature that provides inconclusive evidence on whether firms’ application of IFRS lends itself to improved “earnings quality” (e.g., Christensen, Lee & Walker, 2009; Horton & Serafeim, 2010, 2013; Gjerde, Knivsflå & Sættem, 2008). Nevertheless, the IASB maintains that discrepancies in GAAP prevent accurately comparing financial statements of organizations around the world (IFRS Foundation, 2011d, 2013a, 2013b). Further, the IASB claims that diverging modes of preparing financial statements increase firms’ capital costs. As an example, prior to the SEC’s decision to abandon its reconciliation requirement for foreign listed companies in 2007 (see Bruce, 2007; Jamal, Benston, Carmichael, Christensen, Colson, Moehrle & Watts, 2008; IASCF, 2008a, Staff of the SEC, 2012), approximately 1,200 European firms with shares trading on New York’s public exchanges expended resources to comply with the requirement (Grant & Hughes, 2007). These resources could otherwise have been used to achieve organizational mandates. In an effort to greater enable comparability and to moderate firms’ reconciliation costs, the IASB claims “…to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards” (IFRSF, 2012c, p.7), and thus, harmonize financial reporting worldwide. This harmonization is said to be achieved in two ways. First, the board works with local accounting standard setters and/or regulators to reduce discrepancies between GAAP and IFRS. Second, the board assists local authorities in replacing GAAP with IFRS.

At the time of writing, the IASB’s program of standards comprise 18 IFRS and 28 IAS (IFRS and IAS are collectively known as IFRS.) Recently, the IASB has released a self-contained 230-page standard (“IFRS lite”) for small- and medium-sized private entities (i.e., SMEs) (IFRSF, 2012a). The IASB continues to amend its conceptual framework as part of a joint project with the U.S. FASB pursuant to the ratification of the Norwalk Agreement (FASB & IASB, 2002). The conceptual framework is believed to provide to the

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5 For example, the IASB worked with the Canadian Accounting Standards Board to harmonize Canadian GAAP and IFRS for publicly listed firms in 2011.
6 For instance, the IASB issued the Stable Platform of Standards in March 2004 in order to facilitate the European Commission’s formal ratification of IFRS in the pan-European market. Since January 2005, the EC has required European listed to prepare financial statements in accordance with IFRS.
7 www.ifrs.org/IFRScm/Pages/IFRS.aspx (accessed 3 June 2014.)
secretariat and the board a kind of conceptual schema for developing “good” accounting standards. Further, the IASB has published 8 authoritative interpretations of IAS known as “SICs” and 16 authoritative interpretations of IFRS known as “IFRICs.” The interpretations are thought to provide guidance to preparers and producers on how to apply IFRS in practice, and they are formulated by the IFRS Interpretations Committee (IFRSIC), an advisory branch of the IASB that I will discuss in chapter 5. IFRS are now required or permitted for use in more than 100 countries, and the IASB asserts, “Half of all Fortune Global 500 companies now report using IFRS” (IFRSF, 2012, p. 2). Further, authorities in approximately 120 jurisdictions either permit or require the preparation of financial statements in accordance with IFRS for domestically listed companies (AICPA, 2012), while authorities in over 70 jurisdictions have either adopted IFRS lite for SMEs or they have mobilized plans to do so soon (IFRSF, 2012).

Of particular significance to the work in the dissertation is that the IASB currently implements what it calls an “independent expert model” for the development of IFRS (IFRSF, 2013a). The IASB characterizes itself as a group of experts in the way it exhibits “…an appropriate mix of recent practical experience in standard setting, or of the user, accounting, academic, or preparer communities” (IFRSF, 2010c, p. 5). Standard setting is taken to be independent in two ways (see IFRSF, 2013a). First, potential board members are claimed to sever all formal ties to industry, public practice, the accountancy profession, and so forth before joining the IASB. The board maintains that this separation ensures insulation from undue political pressures in what Young calls “regulatory space” (1994). Second, the board claims to have complete authority to develop and amend IFRS. While the IASB has instituted what it calls a rigorous “due process” to solicit feedback from stakeholders and to increase the transparency of the standard setting process (see IASCF, 2004i, 2006ao, 2009b; IFRSF, 2010c, 2010d, 2012b, 2012d), only the board can formally vote on the final provisions of any IFRS (IFRS, 2013a). However, as the analysis in chapter 7 suggests, the secretariat plays a critical role in framing issues for the board. While it is true that only the board “formally” votes on how to resolve accounting problems, my analysis suggests that the secretariat constructs particular issues as the accounting problems warranting the board’s attention.

1.3 Power, the IASB, and the Convergence Project

A significant component of the dissertation explores the notion of power—that is, how multiple dimensions of power (expanded upon below as well as in chapter 3), can be associated with the political economy of the convergence project (see chapter 4), the configuration of the formal organization of the IASB (see chapter 5), and the secretariat and board’s recent amendment of IFRS 3 (see chapters 6, 7 and 8). The following discussion

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8 Although the work in chapter 7 suggests that the secretariat plays an important role translating the conceptual framework into a set of principles. It is observed that the secretariat and the board commonly invoke the principles (as opposed to the categories in the conceptual framework) to probe the limits of accounting change.

9 www.ifrs.org/IFRSs/Pages/IFRS.aspx (accessed 3 June 2014.)

10 The notion of politics is complex. I will analyze the notions of power and politics in chapter 4.

11 The analysis in chapter 3 expounds on how the notion of power is conceived the dissertation.
suggests at least three things. One, the IASB can be conceived as a “political” organization. Two, the convergence project is not benign. Three, the IASB is worthy of serious enquiry because it shapes the world in significant ways.

The development of global accounting rules has been conducive to the goals of transnational professional service firms. A component of the work of Suddaby, Cooper, and Greenwood (2007) suggests that the convergence project has been widely supported by international accountancy firms, in part because the development of IFRS has given them more opportunities to take on consultancy work as they assist preparers in multiple national jurisdictions in making the transition from national GAAP to IFRS (see also Ramirez, 2012). Further the authors’ work shows that the traditional “regulatory bargain” (as conceived by Cooper, Puxty, Robson, & Willmott, 1994; Robson, Willmott, Cooper, & Puxty, 1994) between accountancy associations and nation states has been displaced by a coalition of transnational regulatory and quasi-regulatory institutions (e.g., the IMF and the WTO) and multinational professional service firms (see also Arnold, 2012). One impact of the new compact is the emergence of a new regulatory logic that is based on (and reinforces) neoliberal principles of market economics. The logic contributes to the erosion of state governments’ capability to regulate economic activity within and outside their borders (but see Djelic & Sahlin-Andersson, 2006a; Kobrin, 2002; Jessop, 2000, etc).12

The growing adoption of IFRS around the world also sees a type of power at play in how IFRS reporting disseminates information pertinent to the information needs of investors rather than those of the vast majority of civil society.13 The increasing acceptance of IFRS by authorities tends to reinforce the taken-for-granted assumption that the purpose of financial accounting is to support investment decision-making (Young, 2006)—which is an understanding that is relatively foreign (and contested) in countries like China (Baker, Biondi & Zhang, 2010). To this end, Zeff (2012) argues that in China, “…most business is done by state-owned entities, not by private-sector enterprise” (p.834). I suggest that IFRS (particularly its predisposition towards facilitating and supporting capital markets as opposed to state agencies and other social groups and institutions) does not always integrate well with how “business” is conducted around the world. To illustrate, the IASB’s recent release of IFRS 3 (a standard that requires preparers, in all cases, to identify an acquirer) does not give proper cognizance, as Zeff (2012) argues, to “…the substantive relationships in Japan’s keiretsu and Korea’s chaebol, the networks of affiliated companies that may not have a parent company” (ibid, p. 824).

As I will discuss further in chapter 2, the IASB has emerged as a component of the global financial architecture (Arnold, 2012; Botzem, 2008, 2012; Botzem & Quack, 2006, 2009; Djelic & den Hond, 2014; Perry & Noelke, 2006; Suddaby, Cooper & Greenwood, 2007; and so forth). Soederberg defines this

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12 Naturally, the association between the works of transnational professional service firms and the convergence project is not unidirectional. Barrett, Cooper and Jamal (2005), for instance, show how globalization is “produced and re-produced” in terms of certain audit firm practices.

13 Cooper and Morgan (2013), for instance, argue that financial reporting could better serve the “public interest” by drawing attention to organizations’ impact on the natural environment.
architecture “…as ‘an emerging conjuncture of institutions, practices and discourses that aim to provide a managing infrastructure for the movement of global capital flows’” (from Arnold, 2012, p. 364). In April 2009 leaders of the G20 published a report (“Declaration on Strengthening the Global Financial System”) that urged the IASB to work with national standard setters, supervisors, and regulators to improve standards on the valuation of financial instruments to mitigate their pro-cyclical effects (G20, 2009) (see also Botzem & Quack, 2009). During subsequent summits held in Pittsburgh (2009), Toronto (2010), and Cannes (2011), the G20 has continued to encourage national standard setters to collaborate with the IASB to develop a single set of global accounting rules (IASCF, 2011).

The global financial architecture is thought to reinforce particular relationships of power within the global economy (e.g., Ahrne & Brunsson, 2006; Djelic, 2006; Djelic & Sahlin-Andersson, 2006a, 2006b; Drori & Meyer, 2006; Graz & Nölke, 2008; Jacobsson & Sahlin-Andersson, 2006; Loft, Humphrey & Turley, 2006; Overbeek, 2005; etc). Joseph Stiglitz (2000 and 2003), for example, maintains that the global governance structure perpetuates “free market fundamentals” that deepen inequalities between the core and the periphery. Arnold (2012) takes stock of the ways in which the work of the IASB’s forerunner has contributed to discrepancies in what Wallerstein and Hopkins (1982) and Wallerstein (2004) calls the “World System.” Arnold argues that the increasing adoption of global accounting standards by the global periphery is believed to increase the transparency of financial reporting practices in emerging markets. One may surmise that this enhanced level of transparency is associated with the West’s increasing levels of foreign investment in poor nations, which is a phenomenon I address as part of the work in chapter 4. One reason that countries like the United Kingdom have endeavored to invest in the global periphery is to counteract the economic downturn that began in the West in the wake of the collapse of the Bretton Woods System—something that bore witness to uneven development, overproduction, and diminishing returns (Briloff, 1972; Bryer & Brignall, 1986; Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980; Burchell, Clubb, & Hopwood, 1985; Miller, 1991; Robson, 1991, 1992; Stamp & Marley, 1970; etc).

While the liberalization of international investment and trade channels is commonly regarded as “good,” “natural,” and “inevitable,” dependency theorists like Singer (1950) and Prebisch (1950), have long argued that removing global market restrictions tends to create disadvantage at the periphery because it enables the core to extract resources (like cheap labor) from poor nations. Conversely the work of Hirst and Thompson shows that at the dawn of the 20th century, 91% of the financial benefits of global foreign direct investment had accrued to the 10 most significant members of the Organisation for Economic Co-operation and Development; that is, during the period following the collapse of the Bretton Woods System (1996). The current variety of economic globalization14 has also proven challenging for global core countries. The Economist (2013) reports, for instance, that American multinationals have sent between 150,000 and 300,000 production jobs to low-cost labor markets each year since 2004, and this is associated with escalating

14 I will explore the concept of economic globalization in chapter 4.
unemployment in the United States. Through its development of IFRS, the IASB is believed to promote a form of market discipline that turns on the increased transparency of global financial reporting practices, where transparency is believed to support global trade and investing and more generally what Fairbrother conceives as “expansion of the neoliberal project” (2007).

The development of global accounting standards at the International Accounting Standards Committee (IASC)\(^{15}\) and later at the IASB has also served a political function in promoting particular national (and later regional) “interests”\(^{16}\) (see, for example, Hegarty, 1997). Camfferman and Zeff (2007) acknowledge that the initial establishment of the IASC, in the early 1970s, was largely an attempt by the commission’s founding chairman, Sir Henry Benson, to ensure Britain’s “interests” remained central to the harmonization of accounting standards in Europe. Benson regarded the Institution of Chartered Accountants of England and Wales’s (ICAEW) role in founding the IASC as important, because he envisioned the IASC would serve as a counterweight to the European Economic Community’s (EEC) short-lived efforts to harmonize accounting standards in Europe (Haller, 2002; Hegarty, 1997). Benson and other notable figures in the U.K. accountancy profession expressed unease over a model of European convergence based on the EEC’s Directives because the directives (notably the Fourth Company Law Directive) (see Haller, 2002) reflected Germany’s tax-oriented model of financial reporting. One reason why Benson is believed to have established the IASC was to promote European accounting standards more in tune with the “Anglo-Saxon” paradigm. Hopwood states:

> A key impetus for the establishment of the IASC ‘was to forestall’ the imposition (in the EEC) of continental European statutory and state control on the much more discretionary relationship between corporate management and the auditor in the UK (Hopwood, 1994, p. 243).

On top of this, notable figures in the ICAEW perceived the directives as an impediment to the United Kingdom’s accountancy profession’s broader project of promulgating global accounting standards in line with the “Anglo-Saxon” mode of financial reporting (van Hulle, 2005). Hopwood states,

> Wanting to have a more institutionalized manifestation of British commitment to a wider transnational and Commonwealth mode of accounting, with the cooperation of its partners in the primarily English language audit community, the IASC was established. Its creation was intended to give a strong signal of Britain’s role in what no doubt was perceived as a global accounting community rather than a more narrowly circumscribed European one (Hopwood (1994, p. 243).

Further, Zeff notes that Benson mobilized the resources of the IASC to lobby for “improvements” in U.K. GAAP, which at the time were being forged by the newly minted independent Accounting Standards Steering Committee (ASSC) (2006). Benson’s efforts proved successful in several cases. For example, he persuaded the

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15 The IASC was the IASB’s precursor organization. The IASC developed 35 international accounting standards between 1973 and 2000. Consideration will be given to the IASC as part of the analysis in chapter 4.

16 Admittedly, it is impossible to define actors’ interests in any analytically or theoretically robust way. For one, interests are constructed in relation to particular social and economic conditions, and said conditions can reinforce a type of false consciousness. This in turn can complicate actors’ understanding of their own “real interests” (Lukes, 1974; 2005). One way I will try to deduce actors’ interests in this dissertation is by applying the “principle of charity” (Lukes, 1994) to the work; that is, a significant component of the work shall define actors’ interests in terms of how the actors themselves define their own interests. Put differently, this is study on power that allows the actors to speak for themselves.
London Stock Exchange to require listed companies preparing financial statements in accordance with U.K. GAAP to disclose departures from those statements versus ones prepared in accordance with the IAS framework. Preparers and producers in turn pressured the ASSC to eliminate discrepancies between U.K. GAAP and IAS so that they would not have to expend resources disclosing points of departure. In short, Benson "used" the IASC as a catalyst to better ensure that the U.K. accountancy profession did not completely lose what Abbott would call its “jurisdictional claim” (1988, 1995) to promulgate U.K. GAAP.

As Botzem’s work (2012) teaches us, the EEC’s mandate of facilitating European convergence was eventually vanquished, thereby paving the way for the IASC to move to the forefront of the European convergence project in the 1990s (see also Haller, 2002). The rise of the IASC in Europe began to see more actors in continental Europe (as opposed to solely ones in the United Kingdom) express support for the adoption of IAS. For one, the EC started to rally behind the IASC in the mid-1990s, in part in an attempt to encourage foreign capital market authorities (namely the SEC) to formally recognize financial statements prepared in accordance with IAS as opposed to U.S. GAAP (Flower, 1997). As the works of Hopwood (1990, 1994) suggest, the increasing importance of international financial and capital markets can be associated with a growing sense in Europe at the time that the harmonization project could not be confined to Europe alone. One may surmise that Europe didn’t want to get left on the margins of the convergence project, which is likely one reason that several European actors elected to support the IASC rather than break off into competing factions, whereby they supported convergence under the banners of the IASC, EEC, United Nations (see Rahman, 1998), and so forth.

Another factor believed to be associated with the EC’s increasing backing of the IASC in the 1990s was its realization that it would probably be more able to “influence” the works of the IASC as compared to those of the U.S. FASB and/or the short-lived G4+1. The field of international convergence was still being radically transformed in the 1990s,17 and the IASC certainly had not emerged as the uncontested accounting standard setter on that stage (see chapter 4). To illustrate, the IASC’s jurisdiction was being challenged by the G4+1. As the work of Camfferman and Zeff (2007) shows, the U.S. Congress and the SEC threatened to support the G4+1 instead of the IASC unless the IASC reconstituted its organization in a manner deemed acceptable by American authorities. Many actors in continental Europe threw their weight behind the IASC out of concern that if the G4+1 gained traction, Europe’s wholesale adoption of accounting standards patterned after U.S. GAAP might follow. After all, the U.S. FASB was particularly influential to the G4+1’s work, given that many of the principal authors of its papers were senior members of the FASB (see Street & Shaughnessy, 1998; Street, 2006).

1.4 Empirical Context

17 This is not to suggest that the field has since stabilized.
As noted, the dissertation is about the IASB, whereby significant consideration is given to how power relates to the secretariat and the board’s works. Initial consideration is given in chapter 4 to the IASB’s broader institutional context, whereby the analysis features a broad contextualization of the IASC’s emergence in 1973, particularly in the wake of what Germain (2010) deems a systematic configuration of the World System. Additional details are provided on some of the early debates concerning the accounting for business combinations, particularly how standard setting developments in the United States can be linked with the IASC and the IASB’s works on IAS 22 (“Business Combinations”) and IFRS 3, respectively. This analysis serves as a precursor to the analysis in chapters 6, 7, and 8 in which a theoretical and empirical gaze is cast upon the secretariat and the board’s amendment of IFRS 3. Before proceeding to an analysis of the IASB’s amendment of IFRS 3, however, the work in chapter 5 investigates the public accountability and governance structures of the IASB along with its reliance on what it calls an “independent expert model” of accounting standard setting. I hope to shed light on how the construction of its organization is clear and purposeful; that is, the IASB hopes to shape external actors’ perception that it is a “good” accounting standard setting body that serves the “public interest.”

With this being said, a central preoccupation of the dissertation centers on analyses of constituent lobbying in relation to the IASB’s proposed amendments to IFRS 3. I examine widespread opposition to the IASB’s proposed amendments to the acquisition model as a sort of “lever” for making better sense of the secretariat and the board’s works, particularly how multiple faces of power bore on their standard setting activities during Phase II of the Business Combinations Project (2002–2007). The IASB replaced IAS 22 (1998) with the original version of IFRS 3 (2004) following the IASB’s completion of Phase I of the Business Combinations Project (2001-04). Its primary objective in releasing the original version of IFRS 3 was to align its method on business combinations with the method outlined in the G4+1 discussion paper entitled “Methods of Accounting for Business Combinations: Recommendations of the G4+1 for Achieving Convergence” (see ASB, 1999 and FASB, 1998), which called for the end of “pooling.” The IASB released the original version of IFRS 3 in March 2004 as a component of its stable platform of standards that was intended to facilitate convergence in the European Union (EU) 9 months later (see Nobes, 2006; Nöelke, 2005; Parker, 2004a, 2004b; Schipper, 2005). IFRS 3 mandated the application of purchase accounting (with certain specific exceptions).

The IASB added a second phase to its work on the accounting for business combinations in April 2002. The IASB’s stated purpose for undertaking Phase II was to expand the scope of purchase accounting, now called the acquisition model, and to provide more specific guidance to accounting experts on how to apply it. For example, the IASB outlined a method of accounting for goodwill in a partial acquisition along with instructions on how to measure and recognize a bargain purchase as a reduction to a portion of the group’s goodwill (see chapters 6 and 8). It is worth noting that Phase II was the IASB and the FASB’s inaugural joint project, which they agreed to undertake following the boards’ ratification of the Norwalk Agreement
in 2002 (see De Lange & Howieson, 2006; FASB & IASB, 2002). Given this context, it is worth problematizing the IASB and FASB’s discourse of convergence. (For one, see World Accounting Report, March 2014.) As I will explain further in chapters 4 and 6, the FASB and the IASB conducted separate deliberations on how to amend their respective standards on business combinations, and ultimately they issued substantially different standards.

1.5 Empirical Questions

Table 1.1 outlines the primary empirical questions addressed in the dissertation:

| Chapter 4 | - In what ways can the emergence of the IASC in 1973 be related to a broader reconfiguration of the World System?  
- Are the IASC/IASB’s efforts to promulgate global accounting standards associated with economic globalization and/or the financialization of the market economy, and if so, in what ways?  
- What were some of the factors associated with the restructuring of the IASC into the IASB in the late 1990s?  
- What were the key debates in the 1980s and 1990s regarding the diverging methods for accounting for business combinations?  
- In what ways were broader systemic factors associated with the sudden problematization of the accounting for business combinations at the close of the 20th century? |
| Chapter 5 | - How does the formal organization of the IASB, including its model of utilizing what are purported to be “independent experts,” relate to its perceived democratic legitimacy?  
- In what ways have the public accountability and governance structures of the IASB along with its mode of standard setting been discursively constructed to uphold certain specific standards of input legitimacy, throughput legitimacy, and output legitimacy?  
- How do the IASB’s discourses of public accountability, governance, and independent expert standard setting relate to its observable organizational practices?  
- Are there cases in which the IASB’s organizational practices are decoupled from its discourses of transparency, due process, governance, public accountability, and so on, and if so, in what ways?  
- What type of public interest is the IASB seen to support?  
- Does the IASB exhibit what has been conceived as a democratic deficit? If so, how might it be moderated?  
- What types of self-characterized “experts” are involved in the development of IFRS? What role (if any) could accounting intellectuals play in facilitating a more inclusive (or deliberative approach) to the development of IFRS? Could they draw on their interactional expertise on accountancy to assist the IASB in developing standards that might support the “interests” of a broader section of civil society? |
### Table 1.1 Empirical Questions (Continued)

| Chapter 6 | - In what ways did constituent lobbying come to bear on the IASB’s observable decisions concerning its amendment of IFRS 3?  
- How responsive was the IASB to concerns expressed in comment letters regarding its proposed revisions to the acquisition model?  
- What can we learn from the IASB’s amendment of IFRS 3 about the distribution of power within the international standard setting arena?  
- Did the IASB’s “due process” for amending IFRS 3 give rise to what has been characterized as a system of *power of equivalency*, whereby power is said to be shared pluralistically among lobbyists and the IASB?  
- In those rare cases in which the IASB recanted its original proposals, are there any data suggesting that a so-called “lobbying elite” captured the IASB’s decision-making process? Alternatively, were there other pertinent variables that bore on the association between lobbyists’ stated preferences and the IASB’s observable decisions?  
- Do the data suggest that Phase II saw a case of classical pluralism or elitism? Or, alternatively, did the IASB’s mode of “independent expert standard setting” give rise to a type of *regulatory elitism*, whereby the IASB reserved the right to make all decisions on how to amend IFRS 3?  
- Does the IASB’s amendment of IFRS 3 suggest that the IASB judiciously upholds particular standards of *input legitimacy*, *throughput legitimacy*, and *output legitimacy*, and if so, in what ways? |

| Chapter 7 | - In what ways were the works of the secretariat at the IASB associated with the construction of the board’s technical agenda over the course of its post ED 3 deliberations?  
- How can we relate the secretariat’s translation of the conceptual framework into a set of project-specific principles with decision-making in the IASB during Phase II?  
- Did the secretariat’s principles limit even further the parameters of *accounting change* as compared to the limits established by the IASB’s conceptual framework—that is, the limits on how to get the accounting right for business combinations?  
- Did the secretariat’s formulation and application of project-specific principles mediate the relations between the conceptual framework and accounting standard setting in the IASB? If so, in what ways?  
- Are there any data suggesting that the works of the secretariat helped the board to comprehend the conceptual framework in relation to the board’s amendment of IFRS 3?  
- What role (if any) did the secretariat play in translating and summarizing concerns raised in 158 constituent submissions regarding the IASB’s proposed amendments to IFRS 3?  
- How can the secretariat’s summary of comment letters be associated with whether particular issues raised in comment letters subsequently gained access to the decision arena?  
- Can the works of the secretariat be associated with the subsequent framing of the IASB’s formal deliberations regarding the amendment of IFRS 3, and if so, in what ways? |
Table 1.1 Empirical Questions (Continued)

<table>
<thead>
<tr>
<th>Chapter 8</th>
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<tr>
<td>- A strong majority of constituents did not support the IASB’s proposed amendments to IFRS 3. What arguments did they make in contesting the proposed revisions in comment letters?</td>
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<tr>
<td>- Did lobbyists challenge the IASB’s proposed changes to IFRS 3 for reasons that extended beyond the economic consequences of IFRS 3?</td>
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<tr>
<td>- To what extent did accounting experts challenge the draft instructions because they failed to relay the requisite knowledge on how to apply the acquisition model?</td>
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<tr>
<td>- In what ways can written instructions impede the transmission of knowledge from one group of experts to another? How is this impediment relevant to accounting experts rejecting the proposed amendments to IFRS 3?</td>
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<tr>
<td>- How did the secretariat and the board respond to the arguments expressed in comment letters? In what ways did the secretariat explore respondents’ concerns in its preparation of 60 research papers? In what ways did the board and the secretariat discuss, make sense of, and then respond to constituents’ trepidation over the proposed amendments during the IASB’s public deliberations in 2006 and 2007?</td>
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<tr>
<td>- Did the secretariat and the board ameliorate the draft instructions? If they did not, what factors can be associated with their inaction in those cases?</td>
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<tr>
<td>- How did the IASB’s institutional preferences on financial accounting relate to the IASB’s decision to release an abridged version of IFRS 3, whereby many respondents requested further guidance on how to apply the exposure draft?</td>
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<tr>
<td>- Does the case of Phase II suggest that the IASB may in certain cases release IFRS in an attempt to encourage preparers to construct the expertise on how to apply IFRS?</td>
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1.6 Methodology and Data Constitution

Malsch and Gendron remark that the concept of power is one of the most fundamental topics of interest to social scientists (2011). As I will discuss in chapter 3, the concept of power is complex, diffuse, and hard to pin down. Power may involve overt coercion. As Dahl has described it, the behaviorist conception of power may see A getting B to do things B would otherwise not do (e.g., Dahl, 1957, 1961, 1963, 1976, 1994, 1999). Another model of power, postulated by intellectuals like Marx and Engels (1967) and Gramsci (2007), sees power tied to social structures shaped by certain elites who thus have power in that those structures may influence actors’ preferences, which in turn may prevent them from comprehending their real interests and thus acting to their own maximum benefit. Still other frameworks of power seek a balancing point between the extremes of structuralism and behavioralism. As an example, Giddens (1984) argues that power can be traced to the meeting points, or processes of interaction, that connect objective structures and subjective agents. In other cases, the notion of power is regarded as something more fluid and dispersed. Ever since the post-structural turn in the literature on power, Clegg (1989) states intellectuals have conceived power as productive or constitutive. The works of Foucault, for instance, enable us to see a type of power in discursive practices operating at the level of discourse. Through these practices, culture and the self are constituted.\(^{18}\)

\[\text{I apply Lukes’s multidimensional framework on power (1974, 2005) to the dissertation. However, it is worth}\]

\[^{18}\text{I will investigate a number of notions of power that share a strong family resemblance in chapter 3.}\]
emphasizing that several other rationally defensible ways exist to theorize about power and study it empirically. Lukes’s model is but one of several possibilities. Nevertheless, I have decided to apply this framework to study the associations between various forms of power and the works of the secretariat and the board because it provides a powerful basis for analyzing how certain things are kept in and out of policy debates, and this is a central preoccupation of the dissertation. The following section provides preliminary details on (a) my methodology, (b) how the work in the dissertation makes a theoretical contribution to Lukes’s framework, and (c) the data sources.

In the first dimension of power described by Lukes’s framework, actors’ interests are equated with observable subjective policy preferences revealed through political participation. An empirical and theoretical gaze is cast upon overt conflicts, whereby actors compete with one another to achieve particular desired outcomes. The mechanism of power is observable decision-making, while the relevant counterfactual is actors’ observable subjective policy preferences that do not resonate with observable policy (or standard setting) decisions. Much like the first dimension of power, the second dimension is also attentive to observable conflicts of interests. However, the second dimension of power is important because it is focused to the power dimensions associated with the construction of the political agenda. Lukes argues that policymakers may subvert potential issues from the political agenda vis-à-vis observable nondecision-making, whereby said nondecision-making is conceived as a mechanism of power and observable potential issues are treated as the relevant counterfactual. Lukes argues that policymakers may subvert potential issues (not necessarily consciously) that challenge their institutional values, assumptions, ideals, predispositions, discourses, rituals, symbols, beliefs, and so forth.

The third dimension of power relates to the power of ideology. Ideology shapes the preferences of actors, including accounting standard setters. This dissertation applies a restricted version of the third dimension of power in chapter 8, whereby I do not attempt to deduce actors’ real interests, which can be regarded as their interests in the absence of their “false consciousness” (i.e., Marx & Engels, 1967). Instead, I examine how the IASB’s institutional preferences for fair value accounting (FVA) (e.g., Barth, Hodder & Stubben, 2008; Cairns, 2006; Damant, 2003; Laux & Leuz, 2009; Perry & Nölke, 2005, 2006; Ryan, 2009; Walton, 2004), principles-based accounting standard setting (e.g., Bennett, Bradbury, & Prangnell, 2006; Carmona & Trombetta, 2008; Eaton, 2005; Largay, 2003; Nelson, 2003; Nobes, 2005; Nobes & Parker, 2008; Street, 2006) and converging IFRS with U.S. GAAP (e.g., Baudot, 2014; Botzem, 2008, 2012; Botzem & Quack, 2006; De Lange & Howieson, 2006; FASB & IASB, 2002; and so on) can be associated with a case of institutional inaction at the IASB, whereby the IASB did not (and in certain cases I argue it could not) provide additional instructions to preparers on how to apply the acquisition model. The IASB’s inaction is regarded as a particularly strong exemplar of the third dimension of power. It suggests how ideology works. As it will be noted in chapter 8, the IASB and the secretariat released IFRS 3 even though they publicly acknowledged that a portion of the expertise on how to apply the acquisition model had yet to be
fully constructed. Nevertheless, in my view their discussions suggest that they felt accounting experts should apply the acquisition model in practice so as to eventually construct the expertise and in turn enable the IASB to gradually codify the expertise associated with this relatively unprecedented form of financial accounting (i.e., mark-to-model accounting).

The dissertation makes a theoretical contribution by applying Lukes’s model to expert-based standard setting at the IASB. For this purpose, consideration is given to the works of Collins (1974, 1975, 1985, 1992, 2000, 2001, 2010) and Collins and Evans (2002 and 2007) on public policymaking. In their recent text Rethinking Expertise (2007), Collins and Evans apply the concept of “specialist tacit knowledge” to examine public policymaking in the realm of science and technology. They argue that expert policymakers may fail to transmit certain knowledge in written policy to other groups of experts. This failure makes it difficult for experts in the field to implement certain aspects of policy. While Collins’s works suggests that experts’ failure to communicate knowledge to other experts is unintentional, I suggest in chapter 8 that part of the reason why the IASB did not expound its instructions on how to apply the acquisition model was associated with what Lukes would characterize as mobilization of the IASB’s political bias (dimension three). To illustrate, the secretariat and the board were reluctant “to just tell” accounting experts how to measure all aspects of a business combination at fair value because the IASB was waiting for the FASB to complete its work on the fair value hierarchy. One may logically surmise that the IASB didn’t want to ameliorate its fair value guidance out of concern that doing so might see incongruences between the IASB and FASB’s conceptions of fair value. In sum, I suggest that one reason why the IASB did not render particular specialist tacit knowledge manifest can be related to its institutional preference for harmonizing IFRS and U.S. GAAP (e.g., Baudot, 2014; Botzem, 2006, 2008, 2012; De Lange & Howieson, 2006; FASB & IASB, 2002; and so on).

I am not the first to analyze the relations between expertise and accounting (see, for example, Armstrong, 1985, 1987; Dezalay, 1995; Fogarty & Radcliffe, 1999; Gendron, Cooper, & Townley, 2007; Hanlon, 2010; Kurunmäki, 2004; Malsch, 2013; Miller & O’Leary, 1993; Morris & Empson, 1998; Power, 1992, 1995, 1996, 1997a, 1997b, 2003; Radcliffe, 1999; Radcliffe, Cooper, & Robson, 1994). I have decided to draw on Collins’s works about expertise because he analyzes some factors that make it difficult for experts to communicate knowledge in written instructions to other experts. Collins’s work does not deal with experts trying to communicate ideas to laypeople. For example, Collins carefully investigates the struggles highly qualified physicists encountered when they tried to build transversely excited atmospheric (TEA) lasers. They relied on highly detailed instructions that were drafted by other highly qualified physicists. Collins’s work suggests that written instructions can obfuscate knowledge for several reasons that I will analyze shortly. Collins’s thesis helps me to better understand why a significant number of highly qualified accounting experts

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19 I will explain why I have decided to draw on the works of Collins in chapter 8.

20 Specialist tacit knowledge is knowledge that experts are aware of (not necessarily consciously) but for a number of reasons they struggle to render the knowledge manifest. (See chapter 8.)
struggled to make sense of the IASB’s instructions on how to do acquisition accounting. It should be noted that the comment letters weren’t knocked out in five minutes. Very senior accountants and other financial and corporate executives drafted them, and their letters offer very astute and comprehensive analyses of the draft instructions. In sum, accounting experts had a hard time understanding the IASB’s written instructions, and this is why Collins’s thesis fits well with the forthcoming analysis.

The data analyzed in the dissertation are texts. The material and analysis presented in chapters 4 and 5 are derived primarily from an extensive review of various literatures along with official reports, consultation documents and related responses, and information available on the IASB’s website (www.ifrs.org) and the websites of other key regulatory players in the global financial arena, like the U.S. FASB (www.fasb.org), IOSCO (www.iosco.org), and the International Monetary Fund (IMF) (www.imf.org). Chapters 6, 7, and 8 follow from a modified content analysis of texts constructed during Phase II. Some of the key texts analyzed include 282 comment letters submitted to the IASB and the FASB regarding their proposed amendments to their respective standards on the accounting for business combinations (i.e., IFRS 3 and SFAS 141), 94 comment letters submitted to the IASB on its proposed amendments to IAS 27 (“Consolidated and Separate Financial Statements”), 60 research papers prepared by the secretariat over the course of Phase II, 14 audio podcasts of the IASB’s public deliberations in 2006 and 2007, and 132 issues of IASB Update, along with approximately 1,000 news clippings about the IASB drawn from the Financial Times Historical Archive.

1.7 Theoretical motivations for studying Phase II

I have decided to focus primarily on Phase II of the Business Combinations Project because it provides a robust basis from which I may investigate the notion of power in relation to the IASB’s works. I did three things to make this determination. First, I conducted a handful of informal exploratory interviews with one member of the board. She described the project as one of the most controversial ones that she had worked on during her tenure at the IASC and the IASB. From this I gathered that an analysis of Phase II might provide valuable insights into what Cooper and Robson (2006) call “the politics of standard setting” (p.424). Based upon her recommendation, I conducted a preliminary round of data sampling in which I carefully examined texts constructed during Phase II. By juxtaposing ED 3 and the amended IFRS 3, for instance, I identified variations (see IASCF, 2005b versus IASCF, 2008c), one of which relates to the full-goodwill model, which had been a cornerstone of ED 3. Through an understanding of what Lukes calls the “first dimension of power” (1974; 2005), the public debate on IFRS 3 initially appeared to include instances of power exercised over the board; the full-goodwill model ended up being rejected by approximately 80% of respondents, and the board subsequently dropped the model from IFRS 3.

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I will elaborate the complete data set utilized in the dissertation in chapter 3.

It worth noting, however, that the work in the dissertation is not limited to an analysis of phase II. As an example, the work in chapter 5 seeks to situate power within the IASB’s formal organizational structure.
Further analysis of comment letters submitted to the IASB suggested that the IFRS 3 amendment process also included a series of what Lukes calls “covert conflicts” (second dimension) (Lukes, 1974; 2005). Several potential issues were raised in comment letters, but they were patently downplayed by the secretariat and the board vis-à-vis observable nondecision-making. To illustrate, I observed that the IASB received 37 submissions from cooperatives. The cooperatives categorically rejected the IASB’s proposal that they should apply FVA, largely because they felt that FVA does not impart useful information to cooperative members making decisions on how to achieve particular social mandates. Through further consideration of the secretariat’s works, I realized that potential issues raised by cooperatives in comment letters were marked for exclusion from the board’s technical agenda. Through an understanding of what Lukes calls the second dimension of power (and to paraphrase Bachrach and Baratz, 1962, 1970), it appeared as though the IASB held power over cooperatives by devoting its energies (not necessarily intentionally) to reinforcing its social and political values on financial accounting. Its institutional predispositions appeared to have limited the acceptable parameters of what the IASB asserted as a “due process” for amending IFRS 3—that is, the IASB confined the formal debate to issues that were comparatively innocuous to the IASB’s fundamental assumptions on financial accounting.

In other cases, the preliminary work suggested to me that the IASB’s political bias manifested in institutional inaction, which, Lukes argues, is part and parcel of the “third dimension of power” (1974; 2005). In this regard, through my deeper investigation of arguments made in comment letters, I came to realize, for instance, that a majority of accounting experts contested ED 3 on the grounds that it did not relay sufficient details on how to apply the model in practice. My subsequent investigation of the secretariat and the board’s works showed that they did not ameliorate the instructions initially elaborated in ED 3 (2005) in the subsequent IFRS 3 (2008). In fact, as I will discuss in chapter 8, the IASB released a substantially abridged version of the draft standard. I suggest that this case of institutional inaction can be associated with at least two factors. On the one hand, I argue that the IASB failed to deliver further instructions to accounting experts because the secretariat and the board themselves had yet to construct all the expertise on how to do acquisition accounting. On the other hand, I suggest that the IASB’s decision to some extent was clear and purposeful—that is, it did not add further instructions to the amended IFRS 3 in its reinforcement of a number of its institutional preferences on financial accounting (see chapter 8).

After my preliminary analysis of these data, I continued by investigating the literature about the development of accounting standards for business combinations. Admittedly, much of the work relates to the American context. Nevertheless, my review of the literature helped me to better understand how the development of accounting standards for business combinations has long been controversial, involving processes of power and resistance (e.g., Aboody, Kasznik & Williams, 2000; Anderson & Louderback, 1975;
Baker, Biondi & Zhang, 2010; Cocco & Moores, 2002; Copeland & Wojdak, 1969; Dunne, 1990; Gagnon, 1957, 1971; Hopkins, Houston & Peters, 2000; Krug & Shill, 2008; Nathan & Dunne, 1991; Ramanna, 2008; Rayburn & Powers, 1991; Wyatt, 1965; Zeff, 2012; etc. The literature seemed to further corroborate my growing impression that Phase II would provide a robust basis from which I could investigate how different types of power are associated with accounting standard setting in the IASB. The analysis in chapter 4 highlights some reasons why the accounting for business combinations can be conceived as being “political.” Particular attention is given in section 4.8 to some of the early debates leading up to Phase II of the IASB’s Business Combinations Project.

1.8 Contributions and Overview

This study is situated within the literatures that Cooper and Robson (2006) call the “politics of accounting standard setting” (p. 424) and “accounting regulation in its organizational and social context” (p. 428), which I will review in the next chapter. Specific consideration will be given to the ways in which the work in the dissertation builds on the lobbying literature and historical and insider accounts of the IASC/IASB, but most significantly on works concerning the organizational basis of standard setting. Accompanying the analysis, consideration will be given to the dissertation’s intended contributions to the literature, and more significantly, to their importance. As a point of emphasis at the outset of the work, the dissertation’s primary contribution to the literature is to treat seriously the IASB’s organization and its standard setting practices, particularly how they relate to the politics of standard setting. In the next chapter I will explain in greater detail why the formal sites of accounting standard setting matter. However, it is worth mentioning here that a nascent line of enquiry suggests standard setting organizations—including their conceptual schemas, logics, formal structures, discourses, workflow practices, and so forth—affect the promulgation of GAAP and IFRS/IAS. The logical corollary is the following: If we want to better understand how accounting standards are developed then we need to cast an empirical-theoretical gaze upon the formal organizations that order and structure the development of GAAP and IFRS. I hope to achieve this, in part by carefully analyzing the works of the secretariat over the course of Phase II along with the secretariat and the board’s deliberations in 2006 and 2007.

The dissertation proceeds as follows:

Accounting have been linked to various facets of globalization (e.g., Cooper & Ezzamel, 2013; Cooper, Greenwood, Hinings, & Brown, 1998; Cooper, Puxty, Robson, & Wilmott, 1996; Graham & Neu, 2003; Neu, Gomez, Léon, & Zepeda, 2002; Neu & Ocampo, 2007; etc). The work in chapter 4 examines the connection between the IASC/IASB’s attempt to converge accounting standards and economic globalization. It features three sections. The first section comprises a cursory overview of economic globalization, particularly as it manifested in the wake of the collapse of the Bretton Woods System. I argue that the IASC’s emergence in
1973 can be associated with what Germain characterizes as “...the incessant march of capital account liberalization” (2010, p. 54). The work of the IASC/IASB is believed to reinforce economic globalization by increasing the transparency of financial reporting practices (but see Chua & Taylor, 2008). Subsequent consideration is given to the IASC’s struggles to increase compliance with IAS. Then details are provided on some of the factors thought to be associated with the IASC’s reconfiguration into the IASB, which is a self-described “independent expert body.” The chapter closes by looking at some of the early debates concerning the IASC/IASB’s efforts to develop a universal accounting standard for business combinations. This exposition sets the stage for the subsequent work in chapters 6, 7, and 8, whereby I judiciously investigate the IASB’s amendment of IFRS 3.

The work in chapter 5 looks at the formal organization of the IASB. The organization is defined as the public accountability and governance structures of the IASB and its reliance on a model of “independent expert standard setting.” I argue that the organization has been discursively constructed to maintain a front of legitimacy I contribute to a burgeoning body of work that evaluates the IASC/IASB’s legitimacy (e.g., Hallström, 2004; Larson, 2002, 2007; Richardson & Eberlein, 2011; Stenka, 2014) by analyzing how the IASB endeavors to build democratic legitimacy, which is conceived as the IASB’s fulfilling standards of input, output, and throughput legitimacy. Central to the chapter is a juxtaposition between the IASB’s claimed organizational rules, policies, and procedures, and its observable organizational practices. From this, I suggest that the IASB exhibits what researchers like Cutler (2010), Scharpf (1997, 1999), and Zürn (2000) call a “democratic deficit.” Legitimacy is a status conferred upon the IASB by the public, state agencies, and private regulators, provided that the IASB’s work is perceived to be appropriate, acceptable, and morally correct. The analysis in chapter 5 will help enlighten whether the IASB’s work is apposite for supporting a broad spectrum of the public interest.23

Chapter 6 focuses on the relations between constituent lobbying and the IASB’s amendment of IFRS 3. The chapter builds on the lobbying literature in several ways. For one, it extends the scope of the analysis on overt conflict to include the IASB’s public deliberations, whereby the IASB discussed respondents’ stated concerns. I suggest that it is important to investigate the secretariat and the board’s formal deliberations to shed light on the associations between lobbying and observable decision-making, in part because the IASB’s decisions are shaped by factors that extend beyond lobbying pressures. In the case of Phase II, for instance, the IASB eventually withdrew the requirements for the acquirer to measure the acquiree as a whole at fair value along with the application of the full goodwill method. The two proposals were highly contested by the public. One may surmise that the discrepancy between ED 3 (2005) and the amended IFRS 3 (2008) was related to constituent lobbying. However, from an analysis of the secretariat and the board’s public deliberations, it is patently clear that the proposals were retracted because they were challenged from inside the IASB as early as the project’s inception in 2002; by 2007 several board members

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23 The notion of the public interest is not self-evident. Consideration will be given to notion of the public interest in chapter 5.
rescinded their support of the proposals. In sum, the work in chapter 6 is important to avoid misestimating the relation between lobbyists’ stated preferences and the IASB’s observable decisions; the work will show that there are additional variables that bear on the association between lobbyists’ stated preferences and the IASB’s observable decisions.

Another way that chapter 6 builds on the lobbying literature is by treating the IASB itself as an interest group in the evaluation of the balance of power in the decision arena. As discussed in the next chapter, some work considers whether the development of accounting standards sees a type of pluralism at play. Elsewhere, work suggests that in certain cases the development of GAAP and IFRS has been the domain of a so-called power elite. In contrast to this research, I evaluate the IASB’s level of responsiveness to concerns expressed in comment letters on proposed amendments to IFRS 3. The data do not suggest that the IASB made compromises in its amendment of IFRS 3, but they do not reveal that the IASB conceded to the stated preferences of a particular lobbying coalition. The IASB’s amendment of IFRS 3 suggests a type of regulatory elitism in the way the IASB eventually released the draft standard unaltered (with few exceptions\textsuperscript{24}) amidst widespread concern expressed by the public on applying the reconfigured acquisition model in practice. The outcome of Phase II warrants pause for thought. All those who are interested in sound and useful financial reporting hope that the board will treat seriously concerns raised by the public on the application of IFRS. I contend that if the board follows a highly deliberative process for promulgating IFRS, it will be better able to develop high-quality and understandable financial reporting standards, particularly ones that will serve the information needs of a broad array of users.

Chapters 7 and 8 are unified in the sense that they home in on the secretariat and the board’s works in relation to the amendment of IFRS 3. Chapter 7 analyzes some of the ways in which the secretariat frames issues for the board. Expressed in Lukes’s terminology, the secretariat’s work can be associated with particular dynamics of power related to agenda building (second dimension). There is a line of work (originally pioneered by Young, 1996) that alerts us to how the conceptual framework serves as an automatic starting point for the development of “good” accounting standards (see also Mete, Dick & Moerman, 2010; Potter, 2002). This research suggests that the conceptual framework limits accounting standard setters’ search for appropriate solutions, being as the framework fosters a type of “institutional thinking” (i.e., Douglas, 1986), whereby accounting standard setters make sense of accounting standards in relatively accustomed ways. That is, in ways patterned after the meanings that the conceptual framework conveys to them.

Chapter 7 contributes to this line of research. I concur with the argument by Young (1996) that the conceptual framework limits the ways in which standard setters catechize “accounting problems.” However, some research suggests that the conceptual framework is relatively nebulous (see, for example, Alfredson et al., 2007, Penno, 2008, and Nobes, 2006). While the conceptual framework serves as an automatic starting

\textsuperscript{24} One of them being significantly less guidance on how to apply the standard.
point for the development of “good” accounting standards, the work in chapter 7 suggests the secretariat plays an important role in mediating the associations between the conceptual framework and decision making in the IASB. In the case of Phase II, the secretariat edited and reconfigured the rudimentary concepts underpinning the conceptual framework into nine principles on the accounting for business combinations. In doing so, the secretariat translated the conceptual framework’s elementary goals, purposes, and characteristics into project-specific principles, which assigned more precise meanings to the framework. The data suggest the principles were more germane to the secretariat and the board’s handling of issues encountered in Phase II.

The work in chapter 7 is important because it shows that the development of accounting standards is not the exclusive province of 16 board members. Analysis of the data upholds an expansive body of research on public administration, which was pioneered by scholars like Blachly and Oakman (1934), Gaus, White and Dimock (1936), Gulick (1933), Haines and Dimock (1935), Herring (1936), Hyneman (1939), Pfiffner (1935), etc. These works suggest civil servants, administrators, policy advisors, technical staff, and so forth work behind the scenes, essentially in the shadows of the politicians, to shape polity, and in other cases, to develop policy outright. Consistent with the overarching theme of the dissertation, the work in chapter 7 shows that when the IASB gets down to brass tacks, the secretariat in the IASB has enormous influence over the development of IFRS. The secretariat wields substantial sway over the construction of the technical agenda, and it frames the board’s deliberations in particular ways. The board routinely accedes to the secretariat’s advice on how to formulate IFRS. In summary, if we want to learn more about how IFRS are developed, we can’t disregard the important role the secretariat plays in developing them.

The work in chapter 8 probes even further the dialogues between the board and the secretariat in 2006 and 2007. This analysis is significant because it sheds new light on how the secretariat and the board comprehend and respond to constituents concerns over the development of accounting standards. Through an understanding of what Collins calls “specialist tacit knowledge” (e.g., 1992) the analysis shows that an overwhelming majority of senior accountants, auditors, financial executives, analysts, and so forth contested the IASB’s proposed amendments IFRS 3 based on the IASB having failed to relay knowledge on how to apply the acquisition model in practice.

Through my analysis of the secretariat and the board’s monthly meetings in 2006 and 2007, I learn more about why the IASB did not further expound the instructions on how to implement the acquisition model. The work here can be regarded as a preliminary attempt to peel open the black box of the IASB’s organization. Analysis of the data show many variables—which extended well beyond overt lobby pressures—bore on the secretariat and the board’s decisions on how to configure the acquisition model. Through my judicious examination of the IASB’s “due process” for amending IFRS 3, I learn more about some of the elements associated with the IASB’s decision to release a significantly condensed version of ED 3.
after an overwhelming majority of accounting experts requested further instructions on how to account for a business combination vis-à-vis their application of the acquisition model. As noted, my investigation shows that one reason that the secretariat and the board did not enhance the instructions in IFRS 3 arose from their inability to do so. Taking this into account, the work contributes to the literature on accounting standard setting by suggesting that the limits of accounting change are further restricted by the expertise accounting standard setters possess (i.e., have constructed) on developing new modes of financial reporting. In the case of Phase II, I suggest the secretariat and the board did not expound on the initial draft guidance, in part for the reason that they had yet to construct the expertise on how to apply certain facets of the acquisition model in practice.

I suggest that the IASB’s failure to explain the detailed procedures on accounting for a business combination warrants serious attention. On the one hand, preparers, producers, regulators, investors, creditors, and so forth claim to rely on instructions from the IASB to prepare and evaluate financial statements. If the IASB does not provide clear instructions on how to apply and evaluate IFRS, the information content of financial statements prepared in accordance with IFRS may be reduced. On the other hand, one may logically surmise that the IASB’s stated mandate to eliminate diversity in practice will be compromised.

Additionally, the work in chapter 8 shows that the technology of accounting is itself constitutive of conflict. While an extensive literature in journals like Accounting, Organizations and Society, Critical Perspectives on Accounting, and Accounting, Auditing, Accountability Journal reveals how accounting reinforces and deepens broader social developments, work that examines how the technology of accountancy is itself constitutive is relatively scarce. I argue that in the case of Phase II the technology of acquisition accounting generated conflict. I argue that one way accounting scholars can better understand how accounting standard setting interrelates with events occurring elsewhere is to treat its technology seriously, and this is my aim in this dissertation. My view follows from the work of the sociologist Collins on the epistemology of science and technology (e.g., 1974, 1992, 2000, 2001, 2010). Collins argues that those studying the social and organizational bases of a specific science must have interactional expertise in that science—that is, not necessarily enough to be able to perform experiments in that science, but enough to be able to critique and make suggestions to improve experiments.

As an example, in 2001 Collins sought to understand why for over 20 years scientists in the West were unable to replicate Russian scientists’ measurements of the quality factor (Q) of sapphire (i.e., how long a piece of sapphire will ring when struck). Collins initially struggled to understand this failure because he did not grasp the scientific procedures involved in the measurement of resonance decay. As the analysis unfolds, Collins gradually acquires interactional expertise in the field. He comes to understand the specifics of the Russian scientists’ procedure, that the desired rate of resonance decay of sapphire ($4 \times 10^6$) was achieved by suspending the sapphire crystal in a cylinder that was 5–10 centimeters long and 1–10 centimeters in
diameter. Once Collins grasps the “technical minutia” of the experiment, he realizes that scientists in the West were unable to replicate the measurements partly because of the lack of specialist tacit knowledge—the Western scientists followed a set of instructions that did not explicitly include the cylinder measurements for instance.

By attending to the detailed calculations and procedures underpinning IFRS 3, I have been able to better understand the association between the technology of acquisition accounting and some of the reasons why a majority of respondents contested ED 3. Like Collins, I also initially struggled to comprehend why accounting experts challenged the forthcoming revisions to IFRS 3. However, as I immersed myself in the board and the secretariat’s works and carefully studied the technology of acquisition accounting (particularly as it had been articulated in ED 3), I eventually acquired a type of interactional expertise that enabled me to realize that a significant share of respondents did not support ED 3 because they did not understand how to perform the detailed calculations related to the application of the technology. It was at this point, that I gained a better appreciation of why the amendment of IFRS 3 proved to be highly controversial.

Having outlined the focus of each of the forthcoming chapters, I now proceed to a more comprehensive analysis on the literature on accounting standard setting.
Chapter 2 A Review of the Literature on Accounting Standard Setting

2.1 Introduction

The dissertation is situated within the literature that Cooper and Robson (2006) call the “politics of accounting standard setting” (p. 424) and “accounting regulation in its organizational and social context” (p. 428). This is a capacious body of work. The purpose of the chapter is not to review all research on accounting standard setting. Instead, the forthcoming analysis intends to identify a number of strands of work within this research. More significantly, it seeks to pinpoint gaps in the literature and explicate how the work in the dissertation reduces these gaps through careful consideration of the International Accounting Standards Board (IASB) and its people, organizational structure, and recent amendment of International Financial Reporting Standard 3 (IFRS 3) (“Business Combinations”). I begin by explaining how the dissertation has benefited immensely from an analysis of historical accounts of standard setting.

2.2 Historical Accounts of Standard Setting


The great strength of this research lies in its in-depth descriptive analysis of standard setting activities. It is an invaluable source of information, and it provides a vital starting point for more comprehensive research on the development of accounting standards. The various articles and books include references to primary source texts. An examination these regulatory texts has enabled me to move from a general understanding of the history of the harmonization project to a more critical appreciation of the particular standard setting processes and outcomes, such as those related to the International Accounting Standards Committee (IASC) and IASB’s work on the accounting for business combinations (i.e., International Accounting Standard 22 [IAS 22] and IFRS 3). In addition, the literature imparts important details on the evolution of the IASC/IASB as an organization, particularly how transformations in its formal structure are in part connected to the boards’ negotiations with national, regional, and international authorities. These authorities have contested both the IASC/IASB’s accounting standards and its mode of developing them. What follows
are some specific examples of how the literature has furthered my analysis of how various forms of power bore on the secretariat and the board’s amendment of IFRS 3.

Camfferman and Zeff’s account of the IASC (2007) is particularly illuminating. To paraphrase Botzem and Quack (2009, p. 990), the work of Camfferman and Zeff shows that the bulk of standard setting at the IASC was accomplished by the secretariat working in steering committees. This is an important insight, which suggests that standard setting is not the exclusive domain of 16 board members. The IASB is not monolithic. The secretariat completes much of the “technical groundwork.” The authors’ revelation sparked my curiosity about the role of the secretariat in relation to the IASB’s amendment of IFRS 3 (see chapters 7 and 8). My research indicates that the secretariat played a significant part in the amendment of the acquisition model. There are empirical data, for instance, implying that the works of the secretariat not only shaped the construction of the IASB’s technical agenda but also the board’s deliberations. As an example, the secretariat constructed nine principles on the accounting for business combinations. The forthcoming analysis suggests that the board appealed to the principles to probe the acceptable limits for accounting change for IFRS 3. In other cases, the board “deferred to the expertise of the secretariat” (i.e., Lamont, 2009) with respect to how to develop specific facets of the acquisition model, like when the board asked the secretariat to clarify the procedure for prorating goodwill in the case of a partial acquisition (IASCF, 2006ad) (see chapter 8).

Furthermore, this line of enquiry provides a detailed analysis on the internal developments at the IASC/IASB concerning specific projects. Through my review of this literature, I gained knowledge about the genesis of Phase II of the Business Combinations Project (2002–2007). To illustrate, I learned that the IASC/IASB’s work on the accounting for business combinations dates back to 1978 when it first added the topic to its technical agenda before the release of IAS 22 in 1983. The IASC made subsequent amendments to IAS 22 in the 1990s and later replaced it with IFRS 3. The literature provides possible reasons for why the accounting for business combinations was problematized. It also shows how external authorities like the G4+1, the U.S. Securities and Exchange Commission (SEC), the International Organization of Securities Commissioners (IOSCO), and the U.S. Financial Accounting Standards Board (FASB) have been particularly influential to the IASC/IASB’s development of IAS 22 and IFRS 3. As an example, the IASB’s decision to abandon the practice of amortizing goodwill under IFRS 3 can be associated with lobbying in the United States. The FASB eventually agreed to forsake the amortization of goodwill under Statement of Financial Accounting Standards 142 (SFAS 142, “Goodwill and Other Intangible Assets”) as a type of compromise to appease corporate lobbyists contesting the abolishment of the pooling-of-interests methodology (see, for example, Zeff, 2002, 2012). To this end, Hamberg, Paananen, and Novak (2011) explain why the practice of testing goodwill is conducive to bolstering firms’ bottom line: “Earnings increased with the mandatory IFRS 3 adoption mainly because of the abolished goodwill amortizations. On average, goodwill impairments under IFRS 3 are considerably smaller than the amortizations and impairments reported under (prior GAAP)” (p. 264).
In summary, my review of the literature has enabled me to locate Phase II in its broader historical context. Phase II did not materialize overnight. It is part of an ongoing process that has seen bargaining, negotiations, and a series of “messy compromises.”

Another insight gleaned from this body of work is that regional and national authorities have long contested the IASC/IASB’s legitimacy. It is patently clear that 1987 marked a major turning point for the IASC when it abandoned its original mandate of seeking preparers’ voluntary compliance with International Accounting Standards (IAS). Instead, it turned to the SEC, IOSCO, and the European Commission (EC) and asked them to formally endorse IAS. Invariably the IASC/IASB’s growing reliance on external regulators and quasi-regulators has shaped not only the content of IAS and International Financial Reporting Standards (IFRS) but also its organizational structure. For one, IAS/IFRS increasingly imbue a pro-capital market logic. One may surmise that this manifestation is associated with the SEC’s stated position (beginning in the 1980s) that it might allow foreign firms to list on American exchanges if they prepared financial statements in accordance with IAS/IFRS. Various works suggest that the SEC proposed dropping its reconciliation requirements provided that the IASC/IASB patterned its standards after U.S. Generally Accepted Accounting Principles (GAAP). Historical accounts of the IASC/IASB also show that the IASC was reconfigured into an “independent expert” body in 2000. Members of the IASC were concerned that if the group was not reorganized as an organization tantamount to the FASB, American support of IAS would dwindle, which would potentially pave the way for either the FASB or the G+4 to displace the IASC/IASB. That the IASC/IASB’s legitimacy has been (and continues to be) contested by authorities on both sides of the Atlantic prompted me to investigate how the discursive construction of its organization relates to its attempt to maintain a pretense of legitimacy (see chapter 5).

The IASB now being a self-characterized independent expert body further sparked my curiosity about how its organizational configuration lends itself to a system of “power equivalency” (i.e., Hussein & Ketz, 1991), whereby the IASB is believed to make a series of compromises when it develops IFRS (see chapter 6). Further, I started to think about how the IASB’s growing reverence for self-characterized “technical experts” relates to what Drori and Meyer call the “growing rationalization of the social world” (2006). Given that the promulgation of IFRS is said to be accomplished by technical experts sequestered from the realm of “politics,” I further considered whether the IASB’s mode of standard setting gives rise to particular challenges, and if so, for whom. The work in chapter 8, for instance, suggests that the IASB’s deference to “independent experts” can be related to impediments in the transfer of knowledge between the IASB and accounting experts in the field.

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25 Eventually this came to fruition in 2007.
26 The users of U.S. financial statements are said to be investors and creditors making “economic” decisions (see Young, 2006).
While this impressive body of work provides important context for my dissertation, it is not without limitations. For one thing, it tends to lose sight of how the rise of the IASC/IASB and the growing diffusion of the discourse of convergence are interrelated with broader social and economic conditions and developments. As I will explore in chapter 4, for instance, the establishment of the IASC occurred in the wake of the collapse of the Bretton Woods System, whereby a broader restructuring of what Wallerstein and Hopkins (1982) and Wallerstein (2004) conceive as the “World System” was undertaken. As the work of Germain (2004, 2010) shows, the global core increasingly pushed for the liberalization of global capital and financial markets in the 1970s. The IASC/IASB’s work can in part be associated with expansion of the neoliberal project, which among other things sees the (a) growing integration of national and regional markets, (b) reduction of capital controls, and (c) exponential rise of international flows of goods, services, and investments (including international acquisitions).

Taking this into account, an extensive literature locates the work of the IASB not only in relation to certain, specific facets of economic and political globalization—like what Krippner (2004, 2005) calls the growing financialization of the World Economy (see also Arnold, 2012; Müller, 2013; Nölke & Perry, 2007; Perry & Nölke, 2006)—but also in terms of the IASB/IASC’s complex alliances, disputes, agreements, and accords with international authorities and quasi-authorities, like IOSCO (Botzem & Quack, 2006; Hallström, 2004; Thorell & Whittington, 1994) and the former G4+1 (Botzem & Quack, 2009; Street, 2006), and European regulators (Hopwood, 1990, 1994; Van Hulle, 2005), not to mention national institutions, like the U.S. FASB (Baudot, 2014; De Lange & Howieson, 2006) and the SEC (Erchinger & Melcher, 2007; Flower, 1997). While the discourse of global governance tends to depict transnational actors, like the IASB, as displacing state and national authorities, considerable research suggests that global governance is more aptly conceived as a highly polycentric network of local and international institutions. The transnational regulation of financial reporting is no exception. The works of Djelic and Sahlin-Andersson (2006a), Djelic and den Hond (2014), Djelic and Quack (2010), and Graz and Nölke (2008) show that it manifests in the midst of what Kobrin characterizes as a “patchwork” (2002) of local and international political structures. Porter (2005) states, “…the global harmonization of accounting standards involves differentiation in which public, private, and technical authority are brought together in a way that preserves their autonomy from one another to a significant degree, and that one must understand this in order to understand the emergence of global accounting standards” (p.37-38).

Another limitation of these historical accounts of standard setting is that they tend to promote the normative view that globalization is “good,” “inevitable,” and “recent.” Yet extensive work suggests that economic globalization continues to have nefarious consequences for the stability of global finance (Chomsky, 2002, 2010; Stiglitz 2000, 2003), the well-being of the natural environment (see Huwart & Verdier, 2013), and the economic prosperity of the global core (Constâncio, 2013; The Economist, 2013) and the global periphery (Hirst & Thompson, 1996). Further, globalization is not a recent phenomenon (see Abu-Lughod, 1995;
Harlan & Rahschulte, 2011), and this obscures the precise connection between the recent push to harmonize accounting standards and economic globalization (see Chua & Taylor, 2008). In some ways the great weakness of this literature is its strength. It is full of detailed descriptions of standard setting; however, it fails to connect them to the broader literature on global governance, structural transformations of capital and financial markets, the proliferation of multinational auditing firms, the dismantling of the traditional regulatory bargain between the state and the accountancy profession, and so on. I continue now by explaining how the dissertation tries to build on work that depicts the development of accounting standards as a project that sees overt conflict.

2.3 The Politics of Accounting Standard Setting

The fact that political dimensions attach to professional accounting affairs is no longer very interesting, but the question of how political dimensions manifest themselves and how they affect accounting-related outcomes is of interest (Dailey & Mueller, 1982, p. 40).

The development of accounting standards is a controversial process. Zeff (1978) argues that the application of accounting standards have widespread “economic consequences” and “redistributive effects.” Further, the construction of financial reports is inherently normative (e.g., Gerboth, 1973) in the way it imperceptibly reinforces the value of capturing particular types of information about organizations and their activities (e.g., Hines, 1988, 1991). It is hardly surprising that the development of accounting standards has been called “political” by accounting researchers like Bengtsson (2011), Camfferman and Zeff (2011), Königsgruber (2010), Young (2014), and so on. As Gerboth succinctly puts it: “When a decision-making process depends for its success on public confidence, the critical issues are not technical; they are political” (1973, p. 479). In their recent review of the literature on the “politics of standard setting” (p. 424), Cooper and Robson (2006) elucidate several reasons why the process by which accounting standards are promulgated is not benign. Overt conflict is part and parcel of accounting standard setting.

Cooper and Robson (2006) argue that the state has taken an increasing interest in the development of accounting standards and the configuration of regulatory structures, in part to moderate particular social and economic calamities. The works of Miranti (1986) and Zeff (2003a, 2003b), for instance, show that on the heels of the collapse of the U.S. stock exchange, President Roosevelt signed into law the Securities and Exchange Act of 1934, which in turn spawned the SEC. One measure taken by the newly minted SEC was to require all registrants to have their financial statements audited by what were perceived to be independent Certified Public Accountants. The SEC initially required financial statements to be prepared in accordance with six broad accounting principles. Further, it necessitated auditors to prepare a standard audit report. To paraphrase Puxty, Willmott, Cooper, and Lowe (1987, p. 278), we can say that in the wake of the stock market crash, the principle of hierarchical control intervened in the United States: specific financial reporting practices were mandated by the SEC in its effort to moderate market turbulence. Conversely, Robson (1991,
1992) looks at how the government in the United Kingdom took a keen interest in shaping the regulatory structures and rules of accounting to mitigate inflation and wage bargaining. Also focusing on the United Kingdom, Miller (1991) explores government attempts to promote economic growth by encouraging industry to apply discounted cash flow analysis to enhance the quality of investment decisions. The context of Robson and Miller’s works is the declining Anglo-American economic performance in the 1960s and the 1970s (see Germain, 2010). They assess how the U.K. state utilized increased accounting regulation to moderate several problems associated with the phenomenon. Cooper and Robson state,

As the state became involved more explicitly in standard setting, so the research community, echoing practitioners enrolled in the process, started to see the process as ‘political’ (Horngren, 1973; Stamp, 1985; Zeff, 1978), some even arguing that the state’s involvement amounted to ‘interference’ (Solomons, 1978) (2006, p. 425).

Another reason why the literature depicts the development of accounting standards as a political process is that the accountancy profession has long sought to preserve its jurisdictional claim (i.e., Abbott, 1988, 1995) to promulgate financial reporting standards. Cooper, Puxty, Robson, and Willmott (1994), Robson, Willmott, Cooper, and Puxty (1994), and Suddaby, Cooper, and Greenwood (2007) argue that the relationship between the accountancy profession and the state was traditionally a sort of “regulatory bargain,” whereby the state granted to the profession the right to self-regulation along with a monopoly over particular types of work. In return, the profession helped to preserve the state’s authority in certain, specific respects. For the better part of the 20th century, the state in the Western world also leaned heavily on the accountancy profession to develop GAAP (see, for example, Zeff, 1972b). However, it is believed that the profession’s authority over the development of GAAP came to be vanquished in several jurisdictions amid concerns that the profession (particularly stewards of the big firms) were “captured” (i.e., Kothari, Ramanna & Skinner, 2010) by powerful clients (see, for instance, Wyatt, 2004).

While several national and international accounting standard setting bodies are now said to operate independently from the accountancy profession, concerns persist about multinational accounting firms’ “interference” in the standard setting arena. As an example, some research suggests that such firms undertake heavy lobbying campaigns to support the development of accounting standards that will create more opportunities for auditing work (e.g., Clarke, Dean & Oliver, 1997; Puro, 1984, 1985; Saemann, 1999). Conversely, other research offers empirical evidence of what Johnston calls “corporate patronage” (1972) in the way it alerts us to incidents in which accounting firms are depicted as lobbying for what are purported to be the “economic interests” of powerful clients (e.g., Georgiou, 2002; Levitt, 2001; McKee, Williams & Frazier, 1991; Meier, Alam & Pearson, 1993; Owsen, 1998; Watts & Zimmerman, 1981). Concerns over the “balance of power” in the standard setting arena has motivated researchers to evaluate the extent to which accounting standard setting is a pluralistic process. This research belongs to a broader literature on lobbying, to which I now turn my attention.
2.4 Lobbying Literature

As noted in chapter 1, the topic of the dissertation is the IASB, particularly how various dimensions of power bore on the secretariat and the board’s recent amendment of IFRS 3. One way that I address the topic is through an investigation of constituent lobbying in relation to the IASB’s proposed amendments to IFRS 3. An extensive line of research situates the development of accounting standards in terms of lobbying. Recently, research on lobbying is undergoing something of a renaissance (see Ball, 2009; Bengtsson, 2011; Durocher, Fortin & Cote, 2007; Elbannan & McKinley, 2006; Giner & Arce, 2012; Gipper, Lombardi & Skinner, 2013; Hoffmann & Zülch, 2014; Orens, Jorissen, Lybaert & Van Der Tas, 2011; Ramanna, 2008; Schultz & Hollister, 2011; Stenka & Taylor, 2010; and so on). In the dissertation, I analyze lobbying as a basis for investigating the board and the secretariat’s decision processes. A portion of the dissertation, therefore, seeks to build on two streams of lobbying research. As noted in the next chapter, the bulk of this work follows from what Lukes conceives as the “first dimension of power” (1974, 2005), whereby lobbyists’ stated preferences are juxtaposed with observable decision outcomes. Dahl argues that powerful lobbyists are “…participants with the greatest proportion of successes out of the total number of successes” (Dahl, p. 80, 1957 qtd. in Lukes, 2005, p.17). A “success” is defined as an incident in which particular lobbyists either (a) express support for proposals that are subsequently ratified, and/or (b) contest proposals that are then recanted.

2.4.1 Balance of Power in the Standard Setting Sphere


In contrast, other works highlight cases in which a so-called lobbying elite is thought to have exercised power over accounting standard setters as implied by a consistent pattern of agreement between the stated preferences of certain actors and observable standard setting decisions (see André, Cazavan-Jeny, Dick,

But caution should be exercised in interpreting the impact that constituent lobbying appears to have on the development of accounting standards. For one, McLeay, Ordelheide, and Young (2000) state that private lobbying may be more influential than lobbying in the form of submissions (p. 86), and Stamp (1985) argues that the bulk of standard setting takes place behind closed doors (see also Armstrong, 1977; Camfferman & Zeff, 2007; Horngren, 1973; Lafferty, 1979). This situation makes it difficult to definitively determine who influences whom. Further, Ramanna’s recent work (2008) alerts us to the strong association between accounting standard setting and political action committee funding in the United States (see also Ingram & Aubin, 2012). One way that the dissertation seeks to build on the lobbying literature is by assessing how the secretariat and the board’s works bore on the association between lobbying and observable decision-making on IFRS 3. The work in chapters 6, 7, and 8, for instance, extends the scope of the analysis on overt conflict to include the IASB’s public deliberations, whereby the secretariat and the board discussed respondents’ stated concerns. The chapters’ findings indicate that pressures unconnected to constituent lobbying can be related to discrepancies between exposure draft 3 (ED 3) and IFRS 3. Taking this into account, I argue that it is important to expand the scope of the analysis on the politics of standard setting given that events occurring within the formal organizations of the standard setting project bear on the development of accounting standards. For example, the analysis in chapter 8 illuminates some of the secretariat and board’s stated rationales for their inaction in the wake of accounting practitioners requesting the IASB to expound the instructions on the application of the acquisition model.

The work in chapter 6 also seeks to extend the literature by treating the IASB itself as an interest group—one that tries to influence the development of IFRS. As noted, the lobbying literature investigates the extent to which standard setting outcomes reflect the preferences of particular lobbyists. But the work in chapter 6 reveals that the amendment of IFRS 3 gave rise to a type of “regulatory elitism,” whereby the IASB reserved the right to make all decisions on IFRS 3 in spite of its claim that it is “unlikely to overlook issues raised around the world” (Goldschmid, 2011, p.3). I suggest that it is important to evaluate the extent to which the IASB’s “due process” promotes a system of “power equivalency” that prevents a single set of observable interests, including those of the secretariat and the board, from controlling the development of IFRS. It would be cause for concern if self-characterized “technical experts” governed the development of IFRS. If they did, they would have a substantial capacity to normalize what is regarded as “valuable” information worth
capturing in financial statements as well as what is unimportant.

Expressed differently, it is important to assess the IASB’s development of IFRS to shed light on the type of “public interest” the IASB appears to support. Admittedly, it is difficult to define the “public interest” in any analytically or theoretically robust manner—a difficulty that is highlighted in the works of several accounting researchers that have critically examined the ever-elusive concept of the public interest (e.g., Cooper, 2005; Neu & Graham, 2005; Sawabe, 2005; Schuppert, 2006; Sikka, Willmott, & Lowe, 1989). Nevertheless, I submit that one way the IASB can serve the public interest is by treating seriously concerns expressed in comment letters. While the IASB’s claim to “serve the public interest and promote economic progress” (Goldschmid, 2011, p.3) would be frustrated if the development of IFRS was driven by the stated preferences of particular lobbyists, I argue that it would be cause for concern if the IASB did not attend to concerns expressed by constituents regarding the board and the secretariat’s development of IFRS. If the IASB does not assiduously attend to queries raised by constituents about IFRS, it may, for instance, complicate the IASB’s ability to resolve respondents’ concerns; for example, on how to apply IFRS in practice (see chapter 8).

2.4.2 Accounting Choice Theory

Another body of work tries to deduce actors’ incentives for engaging in lobbying. The bulk of this work starts from the presumption that accounting standards have “economic consequences” (Zeff, 1978). Actors engage in lobbying to moderate “political” and “contracting costs” (see, for example, Healy & Palepu, 2001; Watts & Zimmerman, 1986). Drawing on the work of Downs (1957), Sutton (1984) argues that individuals weigh the perceived costs of engaging in lobbying against the discounted future stream of economic benefits of a “desired outcome.” Some work suggests that actors contest or support accounting standards when it is believed that particular economic benefits will be realized from involvement in the standard setting process (e.g., Ang, Gallery & Sidhu, 2000; Elbannan & McKinley, 2006; Fields, Lys & Vincent, 2001; Francis, 1987; Georgiou, 2005; Griffin, 1983; Kelly, 1982, 1985; Larson, 1997; Lindahl, 1987; McArthur, 1988; Watts & Zimmerman, 1978, 1979, 1986, 1990; and so on).

This line of research is a branch of accounting choice theory. Producers are thought to prefer the application of accounting standards that enable them to report earnings at particular points in time. This general supposition has been evaluated in several ways. Watts and Zimmerman (1978) advanced the “political cost hypothesis,” whereby it is believed that large firms in highly regulated industries lobby in favor of accounting standards that enable firms to defer the recognition of reported earnings. Watts and Zimmerman argue that large firms want to minimize reported earnings to circumvent regulatory costs (e.g., taxes). Following the work of Watts and Zimmerman, accounting researchers have uncovered varying degrees of support for the political cost hypothesis, whereby “firm size” is used as a proxy for “political costs” (see Ang,
Accounting researchers have also utilized firms’ debt-to-equity ratio (i.e., “debt covenant hypothesis”) (e.g., Bowen, Noreen & Lacey, 1981; Deakin, 1989; Dhaliwal, 1980; Duke & Hunt, 1990; Holthausen & Leftwich, 1983; Jensen & Meckling, 1976; Kalay, 1982; Ndubizu, Choi, & Jain, 1993; Press & Weintrop, 1990; Sweeney, 1994; Watts, 1977; etc.) and management compensation plans (i.e., “bonus plan hypothesis”) (e.g., Christie, 1990; Deakin, 1989; El-Gazzar, Lilien & Pastena, 1986; Healy, 1985; Smith & Watts, 1982; Watts & Zimmerman, 1986; etc.) as proxies for contracting costs. The debt covenant hypothesis is based on the presumption that producers lobby in favor of accounting standards that enable them to shift reported earnings to the current period so that they avoid breaching the provisions of accounting-based debt covenant contracts. Other research provides varying degrees of support for the bonus plan hypothesis. It suggests cases in which management has lobbied in favor of accounting standards that make it possible for the firm to shift reported earnings from future periods to “time zero.” This in turn enables management to maximize its personal compensation in the short-run.

One limitation of the above work is that it is based on the assumption that actors engage in lobbying to expand their economic utility function. Zeff states, “The motivations of the lobbyist can include a desire to make earnings look larger, smaller or less volatile” (2006, p.231). The assumption that maximizing profits is the primary motivation for lobbying invariably affects the research findings because the assumption inflects what is taken into consideration by the researcher in conducting his or her empirical work. In contrast, the dissertation momentarily suspends the assumption of profit maximization. I analyze arguments expressed in comment letters. The dissertation builds on the lobbying literature by investigating whether constituents contested the proposed amendments to IFRS 3 for reasons unrelated to maximizing reported earnings, smoothing earnings, enhancing managerial compensation, reducing regulatory and debt-covenant costs, and so on. Against the backdrop of Phase II, the dissertation’s findings suggest that an overwhelming majority of actors argued that the IASB needed to provide more comprehensive instructions on how to account for all aspects of a business combination at what is believed to be “fair value.”

Taking this into account, the work in chapter 8 extends the research of Giner and Arce (2012), Jupe (2000), Nobes (1992), Stenka and Taylor (2010), Tuticci, Dunstan, and Holmes (1994), Weetman (2001), and Weetman, Davie, and Collins (1996) by analyzing the rhetorical arguments expressed in constituents’ submissions. Previous research evaluates the association between particular rhetorical arguments and standard setting outcomes. As an example, Giner and Arce analyze the types of arguments articulated in comment letters by various constituents concerning the IASB’s development of IFRS 2 (“Share Based Payments”). Consistent with much of the literature on lobbying, they evaluate the relative influence of various constituents’ stated preferences on the IASB’s observable decisions. However, they treat the types of arguments raised in comment letters as a causal variable in the association between the preferences and
The authors suggest that the IASB is more attentive to “conceptual arguments” as opposed to “economic-consequences” arguments. Giner and Arce’s study corroborates Brown’s assertion (1982) that accounting standard setters are attentive to the nature and strength of arguments raised in submissions. I extend Giner and Arce’s work (2012) by suggesting that lobbyists invoke additional types of arguments to contest proposed amendments to accounting standards. Specifically, the work in chapter 8 suggests that an overwhelming majority of respondents argued against the IASB’s suggested revisions to IFRS 3 on the grounds that the draft guidance did not transmit the requisite knowledge on how to apply the standard due to the problems emanating from “mismatched saliences,” “ostensive knowledge,” “unrecognized knowledge,” “concealed knowledge” (see Collins & Evans, 2007), and “logical inconsistencies.”

I argue that it is important to let the actors speak for themselves rather than deducing their “interests.” This is a study about the relationships between power and accounting standard setting that treats seriously the stated preferences that actors revealed in their responses to the IASB’s invitation to comment on ED 3. In conducting this study, I do not presume to know what the respondents’ “real interests” are apart from what they identified them to be. This approach follows from Lukes’s “principle of charity” (1994). Townley, Cooper, and Oaks state that observing the “principle of charity” means that…one should be maximally charitable in assigning truth conditions to the language which is held to be true by those being interpreted. From this, the interpreter should impute an immanent rationality to all utterances and assume that they represent a reasonable expression (2003, p.1048-49).

Townley, Cooper, and Oaks make the case that there are three reasons why it is desirable to observe the “principle of charity” (2003). Applied to my analysis of Phase II, it is important on an ethical level to treat seriously the explanations and reasons actors give for their preferences. To dismiss their claims not only denies them voice, but also undermines their integrity. Second, there is a methodological advantage in letting the actors speak for themselves. When the “principle of charity” is not observed, the perceived interests of the actors become a function of what a researcher values and deems relevant, rather than a reflection of what actors believe their own interests are. Finally, there are political implications in giving greater agency to actors’ explanations as they come to bear on a social process like accounting standard setting. Much of the literature on lobbying presumes that it is self-evident that stakeholders engage in lobbying to maximize monetary benefits. As this study will reveal, however, other reasons exist for groups resisting developments in the international accounting standard setting sphere. Neglecting to acknowledge these motivations invariably reinforces particular taken-for-granted assumptions about the purposes of accounting, accounting standard setting, and more broadly, the impact both have on how people come to understand what a market

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27 The work in the dissertation does not evaluate the extent to which particular argument types resonated with the IASB’s observable decisions, given that the IASB did not revise any of its original decisions, despite the majority of respondents arguing against its proposed amendments.
is; that is, an arena for the exchange of goods, services, and capital and financial resources that is subject to
the laws of supply and demand and best regulated through particular mechanisms of transparency.

2.5 The Organizational and Social Basis of Accounting Standard Setting

Much of the research on accounting standard setting does not delve into the organizations wherein
accounting standards are produced. But the formal sites of accounting standard setting matter. The
importance of organizational bodies in decision-making is suggested by the work of several theorists. As an
example, in their discussion on public administrations, including universities, Cohen, March, and Olsen
(1972) and March and Olsen (1983, 1988) posit that organizational decision-making may be characterized as
a sort of “organized anarchy,” wherein the combination of certain organizational structures and
organizational conditions may lead to unexpected decision outcomes. This finding suggests that
organizations exhibit a type of agency that extends beyond (a) the people working in them and (b) their
broader institutional contexts. This finding is also in step with, but goes well beyond, the notion of
“bounded-rationality” (e.g., Simon, 1945), in which the rationality of individuals in decision-making is limited
by available information, time, cognitive capabilities, and organizational constraints. Following the works of
March et al., decision processes can be depicted as a garbage can, and this model has been widely examined in
studies of organizational decision-making (e.g. Bendor, Moe, & Shotts, 2001; Cooper, Hayes, & Wolf, 1981;
Hodgkinson &. Starbuck, 2008; Mouritsen, 1994; Padgett, 1980).

In spite of the important role organizations play in decision processes, relatively little work endeavors to, for
lack of a better term, unpack the black box of the organizations, wherein GAAP and IFRS are formulated.
What follows are a few exceptions.

2.5.1 Insider Accounts of Accounting Standard Setting

To begin, a handful of insider accounts of accounting standard setting have been written by former standard
setters that returned to academic life (see, for example, Barth, 2007; Brown, 1981, 1982; Cook, 2009;
Wyatt, 1989, 1990a, 1990b 1991a, 1991b, 2004; and so on). In many ways, the great strength of this work is
comparable to that of historical accounts of standard setting (see above). Insider accounts are full of detailed
descriptions of standard setting activities. The work is particularly insightful being as individuals that were
involved in the development of accounting standards write about their personal experiences. Unfortunately,
their personal reflections often reinforce many of the same normative biases found in scholarship on the
History of accounting standard setting. As an example, former standard setters tend to depict the
harmonization of accounting standards as somewhat commonsensical and universally desirable. Rarely do
they connect their former duties to broader institutional developments. Nevertheless, their insights into the
standard setting process still provided to me another rich source of empirical material concerning the context of the IASB and its work in Phase II.

2.5.2 Building Legitimacy

Some work looks at the IASB’s attempts to build legitimacy (e.g., Larson, 2002, 2007; Richardson & Eberlein, 2011). The legitimacy of the IASB and its forerunner organization continue to be contested by a number of authorities (e.g., Bengtsson, 2011). Stenka states, “The members of (the IASB’s) regulatory boards are continuously engaged in efforts to persuade individuals and groups located outside the regulatory entity that their work is valuable, useful, and provides ‘appropriate’ solutions to accounting problems” (2014, p.1). She suggests that the IASB is actively engaged in what Goffman calls a project of “impression management” (e.g., 1959, 1971, 1974), whereby it invokes particular rhetorical arguments to convince authorities and the public that it is a legitimate standard setter working in the “public interest.” [See also Young’s analysis of the FASB’s use of rhetoric to persuade actors that its work is “valuable, appropriate, useful and correct” (2003, p. 621).]

In a similar vein, Hallström’s scholarship (2004) suggests that accounting standard setting in the IASC was largely a project of building legitimacy. Her work is particularly germane to the dissertation because it locates the IASC’s quest for legitimacy with changes in its organization. She shows that the IASC endeavored to build legitimacy by (a) forging strategic alliances with multiple regulatory and quasi-regulatory bodies, (b) securing a broader basis of funding, (c) implementing what it regarded as a highly transparent due process for developing IAS, (d) expanding membership to non-accountants, and (e) establishing a host of advisory bodies, wherein capital market regulators increasingly advised the board on how to develop IAS. Another way the committee tried to increase compliance with IAS in the 1980s and 1990s was by applying particular organizing principles (e.g., principles of expertise and representativeness) in developing its workflow practices. These principles were used by the committee, for instance, to determine what type of actors should be chiefly responsible for developing IAS. In the end, Hallström finds that the simultaneous application of various principles by the committee proved to be problematic because not all of them were entirely compatible with each another. To illustrate, the principle of expertise would require that accounting standard setting be the exclusive domain of accountants, while the principle of representativeness would have the development of accounting standards undertaken by a spectrum of stakeholders extending beyond the accountancy profession.

Hallström’s work (2004) teaches us that the IASC’s attempts to build legitimacy were achieved, in part through the configuration of its organization. However, certain workflow arrangements strained the IASC’s ability to do its work. She argues that in its attempt to moderate these difficulties, the IASC’s organizational practices were at times “decoupled” (e.g., Meyer & Rowan, 1977) from its stated policies and procedures on
how to develop IAS. This practice of decoupling better enabled the IASC to construct a guise of legitimacy by demonstrating to external constituents that the IASC adhered to appropriate procedures, processes, and protocols for developing IAS. Its practice of decoupling, however, also afforded members of the IASC a sufficient degree of flexibility “to get the work done.”

The work in chapter 5 seeks to add to Hallström’s scholarship (2004) by analyzing how the IASB endeavors to maintain legitimacy. Consideration is given to how the public accountability and governance structures of the IASB and its reliance on a model of using “independent expert standard setting” are intended to demonstrate its adherence to specific criteria of democratic standard setting. Further, the chapter evaluates the IASB’s democratic legitimacy. The claim is made that several of its practices do not follow from its claimed organizational rules, policies, and procedures. From this, I suggest that the IASB exhibits a democratic deficit, which is conceived as falling short of fulfilling standards of input, output, and throughput legitimacy. As an example, the analysis indicates that the majority of civil society is excluded from the IASB’s work, and I argue that this exclusion contravenes the IASB’s input legitimacy. Consideration is given to some possibilities for moderating the IASB’s democratic deficit. One possibility is that academic accountants could play a public role in the transnational regulation of financial reporting by facilitating a more deliberative approach for developing IFRS.

If one is convinced, which I am, that several benefits will accrue from a more harmonized global accounting standards framework—specifically one that emphasizes the information needs of a mosaic of users—it is worth examining the IASB’s democratic legitimacy. If the public is to have confidence in the IASB, it must be assured that the development of IFRS upholds high standards of accountability, governance, transparency, and procedural fairness. If the public loses confidence in the IASB, then the IASB risks losing its jurisdiction, and this would have negative consequences for the convergence of GAAP. As the work of Zeff (2003a, 2003b) suggests, accounting standard setters, like the Accounting Principles Board, fail when their legitimacy is eviscerated. The IASB is not immune from this possibility, particularly if American authorities walk away from the convergence project. It is equally important to analyze the IASB’s democratic legitimacy to ensure that the development of IFRS does not become the exclusive domain of the expert equivalent of Plato’s philosopher kings (Pine, 2000). In contrast to the IASB’s discourse of “independence,” it is my contention that the development of IFRS should be highly politicized. Given the considerable effect IFRS have on citizens’ lives, I suggest the development of IFRS should be full of public contestation and controversy. Public debates and political disagreements are healthy in any polity. The development of IFRS should be no exception.
2.5.3 The Role of Individuals and Organizations in Standard Setting

In addition, a handful of empirical studies suggest an association between the types of individuals involved in the decision arena and the types of accounting standards developed (e.g., Jiang, Wang, & Wangerin, 2014; Jiang, Wang, & Xie, 2014; Walton, 2009). The recent work of Allen and Rammana (2013), for instance, proposes that the professional background of FASB members bears on the relevance and reliability of U.S. GAAP. Allen and Rammana evaluate the biographies of 39 board members that worked on 143 exposure drafts that were issued by the FASB from 1973 to 2007. Their findings suggest that ceteris paribus, board members with longer tenures in the FASB display a propensity to issue standards that promote the principle of reliability over the principle of relevance. Further, Allen and Rammana present data suggesting that board members with a background in the financial sector tend to develop GAAP that are believed to impart more relevant financial information to users. In particular, these board members encourage expansion of fair value accounting in U.S. GAAP. Conversely, board members affiliated with the U.S. Democratic Party and with no prior experience in the financial services sector are depicted to promote standards centered on the principle of reliability.

Comparable work has tried to situate the development of IFRS in relation to the professional backgrounds of members of the IASB. Botzem (2012), for instance, investigates the individual actors and organizations involved in the works of the trustees, board, and the IASB’s various advisory bodies. He states, “Auditors make up the large majority of Board members while the Big Four dominate the network of organizations involved in its operations” (Botzem, 2012, p.126-127). Further analysis suggests that since 2001 the board has comprised individuals that for the most part are (a) professionally designated accountants, (b) former employees and/or partners of the Big Four, and (c) former American, English, Canadian, or Australian accounting standard setters and/or international accounting standard setters. Increasingly the IASB is recruiting market regulators. Further Botzem applies the tools of social network analysis to evaluate the configuration of organizations involved in the works of the trustees, the IFRS Advisory Council, and the IFRS Interpretations Committee. The analysis suggests the existence of three central clusters. The most influential one encompasses stewards of the Big Four. (See also Ramirez, 2012.) Secondly, representatives of international regulatory and quasi-regulatory organizations have established themselves as central nodes within the standard setting network. These authorities include IOSCO, the EC, the World Bank, and the Bank for International Settlements. A third influential group lies on the periphery of the network, and it comprises individuals with ties to the SEC, the Chartered Financial Analyst Institute, and a number of multinational corporations, banks, and financial service firms. Botzem attributes the membership structure of the IASB to the perpetration of a strong “capital market orientation” (p. 162), as suggested, for instance, by expansion of the fair value accounting paradigm in the IFRS framework (see also Walton, 2009).
Chantiri-Chaudemanche and Kahloul (2010) conduct a similar analysis of the biographies of individuals working in the IASB. In contrast to Botzem’s investigation (2012), the work of Chantiri-Chaudemanche and Kahloul takes stock of the types of individuals that serve on the secretariat at the IASB. The authors’ work suggests that the secretariat is a microcosm of the IASB; that is, individuals that complete much of the IASB’s technical groundwork exhibit demographic characteristics comparable to those of the individuals serving on the board, its advisory bodies, and the Group of Trustees. They conclude that the IASB’s reverence for particular types of “experts” has rendered the IASB an epistemic community. Haas (1992) defines an epistemic community as a group of individuals that share a set of normative and principled beliefs, a set of causal beliefs, a common conception of valid knowledge, and a mutual policy enterprise (p. 3). Consideration of this work has helped me to better appreciate that the IASB is a highly homogenous standard setter.

Work showing that IASB members share a common predisposition for making sense of appropriate financial accounting practices was constructive for a component of the research in the dissertation. This work suggests one potential factor that is associated with the IASB’s decision to eschew consideration of potential issues contravening the IASB’s taken-for-granted assumptions on what financial reporting is, who it serves, and its relationship with the world. (See, for example, the work in chapter 7 where consideration is given to the IASB’s dismissal of issues expressed in 37 comment letters submitted by cooperatives to the IASB.) In other words, this research suggests an association between what Lukes conceives as mobilization of the political bias (second and third dimensions) and the frames of reference of individuals working in the IASB.

2.5.4 Agenda Setting

A crucial determinant of accounting standards is how particular accounting issues get included on the standard-setters’ agenda, yet we have little evidence on the economic and political forces that determine which projects the FASB decides to take on. Beresford (1993: 70), at the time the chairman of the FASB, said the following: “I continue to believe that agenda setting is the single most important decision that we make at the FASB (Gipper, Lombardi, & Skinner, 2013, p. 528).

Overall, it seems clear that economic, institutional, and political factors play an important role in agenda-setting at the FASB. While anecdotal observation of certain critical agenda decisions—such as oil and gas accounting, business combinations, and employee stock options—makes this clear, we have little in the way of systematic empirical evidence on how the accounting standard setters’ agenda is determined in a more general sense (ibid, p. 530).

The above comments remind us that more research is needed to shed light on how the agenda for accounting rules gets determined. The construction of the technical agenda—which can be conceived as how particular topics get problematized as issues that need to be “resolved” through the development or amendment of accounting standards—is important because it ultimately shapes what is seen as feasible accounting rules and conversely what extends beyond the “reality” of financial reporting. Although there continues to be a relative dearth of work addressing the development of the technical agenda, a few notable exceptions exist. This
literature suggests that construction of the technical agenda is linked to specific organizational dynamics and broader sociopolitical developments.

The works of Young are particularly enlightening in understanding how the U.S. FASB’s technical agenda is constructed against the backdrop of what Hancher and Moran originally conceived as the “regulatory space” (1989). Young argues that before it is possible understand how the FASB as an organization bears on the construction of the technical agenda, proper cognizance must be given to the “uneasy institutional nexus” (p. 84), wherein the FASB resides. This nexus is known as the regulatory space, and the metaphor has been applied by several researchers to investigate how accounting regulation both reflects and reinforces particular social, historical, legal, and economic conditions (see Canning & Dwyer, 2013; MacDonald & Richardson, 2004; Malsch & Gendron, 2011; Nicholls, 2010). Young first applied the construct of regulatory space to elevate our understanding on how the FASB enacted particular changes regarding accounting recognition practices for loan fees, leases, and not-for-profit organizations (1994). She states,

Regulatory space is an analytical construct that is defined “by the range of regulatory issues subject to public decision” (Hancher & Moran, p. 277). The shape of this space and the allocation of power within the space are affected by the political and legal setting, history, organizations (my emphasis) and markets (Hancher & Moran, p. 271) (Young, 1994, p. 84).

She argues that it is within the regulatory space—which is occupied by the FASB, the state, the accountancy profession, auditors, preparers, the SEC, business, and so forth—that particular rationales are constructed to meet the apparent need for standard setting action. Within the regulatory space certain accounting practices are depicted as “appropriate,” while others are problematized. This means that the regulatory space sees conflict. However, Young emphasizes that “interests” do not provide a robust explanation for the actions of the FASB much less those of other actors occupying the regulatory space, in part because “interests” are constructed and interpreted by actors extemporaneously as they link problems, actions, and solutions (Young, 1994, p. 86). Taking this into account, Young argues that one of the strengths of applying the construct of regulatory space as a lens for investigating accounting regulatory change is that it “lighten(s) the weight of causality” (Foucault, 1981 qtd in Young, 1994, p. 86), given that application of the construct necessitates serious consideration of the conditions of possibly for adding particular accounting problems to the FASB’s technical agenda.

In a similar vein, the work of Robson also situates the construction of the technical agenda in a social context. Focusing on the United Kingdom, Robson (1993) shows how the technical agenda is discursively constructed. He analyzes the discourses associated with the U.K. Accounting Standards Committee’s development of a standard for research and development called SSAP 13. Through his critique of Watts and Zimmerman’s work (1978), Robson argues, “…many conventional forms of interest-type explanation in analysis of the standard setting process are flawed” (ibid, p. 2). Much of the conventional literature on lobbying and accounting standard setting suggests that particular “interests” drive both the construction of
the technical agenda and the subsequent development of accounting standards (e.g., Aboody, Kasznik, & Williams, 2000; Anderson & Louderback, 1975; Copeland & Wójdak, 1969; Dunne, 1990; Gagnon, 1967, 1971; Hope & Gray, 1982; Hopkins, Houston, & Peters, 2000; Krug & Shill, 2008; Kwok & Sharpe, 2005; Nathan & Dunne, 1991; Puro, 1984, 1985; Ramanna, 2008; etc). This literature follows from the economic self-interest assumptions contained in the agency approach to standard setting. Robson argues that the commonsensical notion of “interests” needs to be challenged to trace the linkages between (a) the construction (and reconstruction) of actors’ “interests” and (b) transformations in accounting regulation. His work shows that actors’ “interests” are discursively constructed in terms of particular social, historical, and economic conditions. These conditions shape actors’ perceptions on what constitutes an accounting problem warranting standard setting action.

The works of Young and Robson are in step with a much broader literature that treats seriously the social and organizational basis of accounting. Beginning with the landmark works of Benston (1985), Burchell, Clubb, Hopwood, Hughes and Nahapiet (1980), Burchell, Clubb, and Hopwood (1985), Cooper and Sherer (1984), Lowe and Tinker (1977), and Tinker (1984), accounting researchers have endeavored to locate and analyze accounting in its social and organizational context. Robson (1991) traces the formation of the Accounting Standards Steering Committee to a particular set of political and economic discourses, rationales, and bodies of knowledge, which manifested in the United Kingdom during the 1960s. Robson’s work shows how particular difficulties came to be translated within the accounting constellation into matters that could be best “resolved” vis-à-vis the establishment of a new regulatory body.

The scholarship of David Cooper and his colleagues has been particularly insightful in better understanding the linkages between accounting and various national histories and cultures. The work of Puxty, Willmott, Cooper, and Lowe (1987) juxtaposes accounting regulation in four advanced capitalist countries (i.e., Germany, the U.K., Sweden and the U.S.A) in relation to what Streeck and Schmitter originally conceived as the confluence of three organizing principles of “Market,” State,” and “Community” (1985). Puxty, Willmott, Cooper, and Lowe state that in order to better understand the manner in which accounting regulation—such as the regulation for accounting for research and development (see Willmott, Puxty, Robson, Cooper & Lowe, 1992)—manifests and changes in various advanced capitalist societies, it is necessary to appreciate the ways in which accounting’s institutions and practices take shape through the three organizing principles. That said, they emphasize three things. One, accounting regulation is affected not only by the interdependence of the principles but also by their internal contradictions. Two, the relationship is not unidirectional: Accounting’s institutions and practices shape the configuration of the principles individually and collectively. Three, the principles are inextricable entwined and complex, which means that no specific facet of accounting, such as the profession (see Cooper, Puxty, & Lowe, 1989) functions predominantly thought one principle. Conversely, the “Market,” “State,” and “Community” are themselves organized around multiple (often contradictory) principles.
In summary, the authors’ work facilitates a better understanding of why accounting regulation takes shape in divergent ways in different advanced capitalist states. They state,

In examining accountancy regulation, we theorise its institutions and practices as an outcome of interactions between parties (e.g. diverse state managers, agents of factions of capital and representatives of organised interest groups) who are positioned within a structure of politico-economic relations that is simultaneously united and divided by internal contradictions, tensions and struggles (Puxty, Willmott, Cooper, & Lowe, 1987, p. 282).

…each of the four capitalist countries studied has a different structural (authors’ original emphasis) complex of different institutional arrangements within which to regulate accounting, accounts and accountants. These differences reflect differences of culture, history, sociopolitical structure and patterns of supra-national influence. (…) In these differences we have seen contrasts in the interplay between the organizing principles of dispersed competition, hierarchical control and spontaneous solidarity… (Willmott, Puxty, Robson, Cooper & Lowe, 1992, p. 49-50).

The above research on the social context of accounting is important. It shows how accounting’s institutions and practices are constitutive. The works of David Cooper and his colleagues reveal, for instance, how accounting regulation and the principles underpinning advanced capitalist societies are mutually constitutive. The dissertation seeks to add to what Cooper and Robson (2006) call research on “accounting regulation in its organizational and social context” (p. 428) by showing how the technology of accounting is itself constitutive. I suggest that it is important to give proper appreciation to the technology of accounting because it shapes the institution of accounting, its related practices, and more broadly what Fairclough calls “social structures” (2003). In the case of Phase II, the nuances of the technology of acquisition accounting gave rise to overt, covert, and latent conflict in part because the IASB did not (and could not) explicate the procedures on how to apply the acquisition model. The failure prompted a majority of respondents and a handful of board members to oppose ED 3. I will develop this argument further in chapter 8.

While the works of Cooper, Robson, Young, and their colleagues show that it is impossible to separate accounting regulation from the contexts wherein they “exist,” the research of Hallström (2004), Young (1994, 1996, 2006), and Mezias and Scarseletta (1994) is significant because it shows how accounting standard setting (including the construction of the technical agenda) is affected by the formal political organizations of the standard setting project. While the authors’ works demonstrate an awareness of the broader environment of accounting standard setting, they are particularly insightful because they display particular ways in which organizations themselves exhibit a type of agency in relation to the development of GAAP and IFRS.

Following the works of Cohen, March, and Olsen (1972) and March and Olsen (1983, 1988), Mezias and Scarseletta (1994) conceive of decision-making in the FASB Emerging Issues Task Force (EITF) as a sort of “organized anarchy” because the Task Force exhibits problematic preferences, poorly understood technologies, and fluid participation. Decision-making occurs at the intersection of independent streams of
problems, solutions, choice opportunities, and energy. Decision structures and access structures mediate the manner in which the four independent streams flow into the decision arena. At the confluence of these streams, certain types of organizational conditions manifest. These conditions can be linked to particular modes of decision-making, including decisions made by flight, oversight, and resolution. As an example, Cohen, March, and Olsen (1972) state that highly specialized access structures tend to be related to decision-making by resolution. Conversely, their model suggests that higher energy levels tend to yield more streams of problems, which are subsequently addressed via flight or oversight.

It is worth emphasizing that Mezias and Scarselletta's findings (1994) show that the EITF is not an island unto itself. That is, certain facets of the EITF's broader institutional environment moderate the level of disorderliness in the decision arena. As an example, the authors' work reveals that the high degree of “professionalization” among decision makers in the EITF sees a relatively higher number of incidents of resolution. Consistent with other research on the sociology of the accountancy profession (e.g., Anderson-Gough, Grey, & Robson, 1998; Covaleski, Dirsmith, Heian, & Samuel, 1998; Grey, 1998; Hanlon, 1994), Mezias and Scarselletta's work suggests that members of the EITF have internalized strong professional norms, yielding what DiMaggio and Powell conceive as a type of “normative isomorphism” (1983).

The various works of Young are particularly astute. They show the importance of the FASB as an organization in relation to the construction of the technical agenda. Again it is worth emphasizing that Young makes no attempt to disentangle the FASB from things happening elsewhere. Nevertheless, her work is significant because it demonstrates particular ways in which the FASB regulates the development of U.S. GAAP. As an example, Young (1994) argues that members of the FASB appeal to a “logic of appropriateness” to figure out appropriate responses to problems constructed in the regulatory space. The FASB commonly states that it adds a project to its technical agenda to moderate diversity in practice. But Young states that diversity in practice is a condition and not a problem, being as the FASB does not try to eliminate all points of divergence in practice. This leads Young to argue that diversity in practice needs to be constructed as a problem. She states,

I suggest that diversity in practice becomes a “problem” only when it is judged to clash with such accounting claims as relevance, reliability and representational faithfulness. Despite the problematic nature of these claims, they nevertheless play an important role in constructing accounting conditions as accounting problems within regulatory space (Young, 1994, p. 87).

Thus, diversity in practice is used to justify the inclusion of projects on the FASB agenda and representational faithfulness is used to justify the designation of diversity in practice as a problem (ibid, p.87).

That a particular issue comes to be problematized as an accounting problem, however, does not guarantee its inclusion on the technical agenda. Young’s work shows us that accounting problems must be constructed as appropriate problems for standard setting action. Drawing on the work of March and Olsen (1988), Young
specifies that members of the FASB appeal to a “logic of appropriateness” to determine whether particular problems ought to be added to the technical agenda. In its attempt to make this determination, the FASB tries to match what it perceives to be appropriate actions to the demands that occur in particular situations. This means that the FASB endeavors to do its work in ways that will best fulfill external actors’ expectations on how it should go about doing “good” work. Invariably, these expectations limit the possibilities for the FASB to add certain types of problems to its technical agenda.

Elsewhere, Young (2006) suggests that the accounting standard setting agenda in the United States and internationally has progressively been articulated in recent years in terms of the information needs of the users, who are conceived as investors and creditors making “economic” decisions. She argues that this specific understanding of the user has become more institutionalized since the 1970s. And it has ramifications for the construction of the FASB’s technical agenda, as she suggests here:

> When the term financial statement user is invoked in various accounting publications including accounting standards (my emphasis), the user appears as a resource to justify or dismiss a particular accounting disclosure or practice (Young, 2006, p. 580).

> The accounting standards of the FASB continue this work (i.e., the construction of the user as the investor and creditor) by depicting the user as being of a particular kind and employing this depiction as a justification for its various accounting choices (my emphasis) (ibid, p. 580).

Similarly, Cooper and Robson (2006) state, “This naturalization suggests the dominance of a pro-capital orientation for those who are involved in accounting rule making” (p. 427). An excerpt from the IASB’s recent Conceptual Framework Project Summary and Feedback Statement seems particularly germane to the conclusion reached by Cooper and Robson (2006) and Young (2006):

> Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups (IFRSF, 2012d, p.8).

It is worth mentioning, however, that the work of Collison, Cross, Ferguson, Power, and Stevenson (2012), Cooper and Morgan (2013), and Cooper and Sherer (1984) demonstrate that the general economic welfare of society is not optimized by what Collison, Cross, Ferguson, Power, and Stevenson characterize as the “ascendency of the shareholder perspective” (2014) in financial reporting.

In chapter 7, I try to build on the above literature by analyzing the association between the secretariat’s work and the construction of the IASB’s post-exposure draft technical agenda (2006–2007). One point warrants emphasis here: I analyze how the work of the secretariat affected the construction of the IASB’s technical agenda once the project had already been added to the agenda. The work in chapter 7 seeks to extend the scholarship of Young (1996), Mete, Dick, and Moerman (2010), and Potter (2002). As part of my work in
chapter 7, I will elaborate the concepts, vocabulary, and insights featured in Young’s work (1996) on how the conceptual framework serves as an automatic starting point for the FASB in its efforts to develop U.S. GAAP.

Like Young’s work, my theoretical-empirical findings also suggest that the IASB’s conceptual framework constrained the secretariat and the board’s conception of the acceptable limits for amending IFRS 3. Significantly, however, I argue that the conceptual framework was not completely deterministic. The secretariat organized the rudimentary categories espoused by the conceptual framework as nine principles. In this regard, the chapter attempts to build on Young’s work (i.e., Institutional Thinking) (1996) by showing that the IASB’s conceptual framework in conjunction with the secretariat’s translation of the conceptual framework bore on the IASB’s interrogation of the accounting for business combinations and by extension the types of problems that came to be mobilized for standard setting action on the technical agenda. Further, the work seeks to build on Hoffman’s recent analysis of the secretariat at the IASB (2012), particularly the role the secretariat plays in summarizing comment letters. Hoffman’s work reveals that the secretariat’s summary of issues raised in comment letters is not entirely commensurate with the reference texts. One way that I try to extend Hoffman’s work is by showing how the secretariat invoked nine principles as a sort of translation template. The work seeks to shed new light on how the secretariat makes sense of issues raised in comment letters through its construction of principles. Further consideration is given to how the secretariat’s summary of comment letters can be associated with the overall framing of the board and the secretariat’s discussions in Phase II.

2.6 Beyond the Accountancy Literature

As noted above, the decision to study the work of the secretariat in Phase II follows in part from numerous historical and insider accounts of standard setting, which show that much of the detailed groundwork of standard setting is accomplished by the staff. However, my decision to explore the works of the business combinations project team was also motivated by an extensive body of work outside of the accountancy literature that highlights the relationship between administrators, civil servants, bureaucrats, policy advisors, and so forth and elected officials. Svara states,

> The nature of that relationship and the proper role of administrators in the political process have been the subject of considerable debate. Anxiety about administrative legitimacy has been particularly intense in the United States, where the rise of the administrative state was out of synch with a democratic society (Stillman 1997), but similar issues have arisen in other countries as well (Rutgers 1997) (Svara, 2001, p. 176).

There is a rich history of research on public administration—pioneered by scholars like Blachly and Oakman (1934), Gaus, White and Dimock (1996), Gulick (1933), Haines and Dimock (1935), Herring (1936), Hyneman (1939), Pfiffner (1935), and so forth—that shows civil servants discreetly shape policy “behind the scenes.” This line of enquiry rejects what other researchers like Aberbach (1981) and Zhang and Feiock
(2010) conceive as the “Politics/Administration Dichotomy.” Stocker and Thompson-Fawcett explain some of the presumptions underpinning the model here:

The most long-standing theoretical model for defining those relationships (i.e., between civil servants and elected officials) is the Politics/Administration Dichotomy. This prescribes a sharp divide between the policy-making role of elected representatives and the implementation of policy by bureaucrats. (...) the Dichotomy presumes a strict hierarchy between the two groups. The core principles behind this model are the protection of staff from political interference and the democratic control of bureaucrats (Stocker & Thompson-Fawcett, 2014, p.1-2).

The dichotomy has been problematized by a number of researchers (see, for example, the works of Montjoy & Watson 1995 and Mouritzen & Svara 2002), in part because the model doesn’t resonate with what they observe in practice, which is unelected civil servants substantially influencing the development of public policy. This realization has led several scholars to question the common narrative that suggests elected officials shoulder the bulk of policymaking. The various works of Svara, for instance, suggest that the relationship between policymakers and administrators is more aptly characterized as “complementary” (see Svara, 1998, 1999, 2001, 2006). Elected officials and bureaucrats are purported to work together to achieve mutual goals. Svara argues that in practice there tends to be a high level of integration between the activities of elected officials and bureaucrats, and this routinely sees a sort of reciprocal influence (i.e., between the staff and the elected officials) at play in the decision arena.

Much of the above works investigates public policymaking at the municipal level. But there is research showing that bureaucrats wield substantial influence over the decision-making role of politicians at the national level as well. In his recent text Policies Without Politicians: Bureaucratic Influence in Comparative Perspective (2012), Edward Page investigates 52 decrees developed between 2005 and 2008 in France, the United Kingdom, Germany, Sweden, the United States, and the European Union. The decrees were developed in the delegated legislation. In contrast to the relatively high-profile primary legislation, policymaking in the delegated legislation tends to be highly insulated from public scrutiny. Page asks, have bureaucrats taken over the decision-making role of politicians in these relatively private spaces? While Page’s findings suggest different patterns of bureaucratic involvement across jurisdictions, his results still indicate that the formulation of 60% of the decrees did not include the involvement of elected politicians or even their direct advisors or political appointees. Hogwood succinctly elaborates the value of Page’s work in this way:

(Page) crystallises the contribution made by civil servants to democratic governance as follows: they routinize public policy, ensuring that policy processes are legitimate and consistent with an existing ‘acquis’ of policy measures; they regularise policy to ensure the legal integrity of the measure; and they suggest improvements to existing policy to effect policy adjustment.  

28 Decrees are laws, which for the most part, are promulgated by bureaucrats and subsequently they tend not to be subjected extensive legislative scrutiny.

Beyond the national level, further work investigates the duties of the secretariat at supranational institutions. Numerous researchers, for instance, have carefully studied the role of the Council Secretariat in first and second pillar policy-making (see, for example, Beach, 2004 and Dijkstra, 2010). Members of the Council Secretariat are not publicly elected, and they are believed to assist, support, advise, and so forth the Council of the European Union, the Presidency of the Council of the European Union, the European Council, and the President of the European Council. However, some research suggests that the unseen hand of the Council Secretariat wields substantial influence. The work of Christiansen (2002) is particularly insightful. It shows specific ways in which the Council Secretariat staff has a significant impact on EU decision-making. Here Christiansen expounds on the importance of the secretariat:

…the Council, the European Council and the Presidency rely on the legal, administrative and political expertise of the Council secretariat when it comes to the making of primary EU law (Christiansen, 2002, p. 82).

More recently, the acquisition of substantial executive responsibilities has fundamentally changed the nature of the secretariat. From being essentially a small bureau providing logistical support, legal opinion and political advice, developments in the areas of justice and home affairs, and in particular foreign and security policy, have turned the secretariat into a sizeable executive agency in its own right (ibid, p. 82).

While a comprehensive recap of Christiansen’s findings (2002) extends beyond the parameters of the chapter, his work shows that in the realm of the EU policy process (i.e., the first pillar), the secretariat’s duties are primarily geared towards constructing and framing the political agenda in terms of policy proposals that have already been selected by the Presidency and the Council. Once draft legislation “enters the house” (ibid, p. 84), the secretariat plays a significant role in managing the projects, as in the way it “…prioritise(s) certain agenda items over others or (suggests) changes to proposals in the light of legal opinion” (ibid, 84). The work of Christiansen also shows that the secretariat plays a driving role in the development of policy concerning foreign and security policy (i.e., second pillar). He emphasizes that the “…secretariat has developed into a quasi-executive agency making policy in its own right” (ibid, p. 89).

Taking this literature into account, I have been further inspired to carefully examine the role that the secretariat played in the amendment of IFRS 3. Specific consideration will be given to how the works of the secretariat can be associated with the construction of the IASB’s post-exposure draft technical agenda in Phase II (see chapter 7). Further attention will be given to cases in which the secretariat guided the 16 board members on how to make specific decisions, such as when the board acquiesced when the secretariat proposed that it was preferable to forgo providing explicit guidance in IFRS 3 on how to measure and recognize income tax uncertainties at fair value (IASCF, 2007u) (see chapter 8). It is important to consider

30 The second pillar relates to the development of policy pertaining to common foreign and security policy, whilst the first pillar relates to policy concerning (a) the European Community, (b) the European Atomic Energy Community (Euratom) and (c) the former European Coal and Steel Community (ECSC). http://europa.eu/legislation_summaries/glossary/eu_pillars_en.htm (accessed 14 July, 2013.)
31 In a similar vein, the empirical-theoretical analysis in chapter 7 suggests that the secretariat at the IASB also plays a significant role in prioritizing particular topics over other ones in relation to the construction of the IASB’s technical agenda.
the works of the secretariat at the IASB. As the above literature on public administration suggests, bureaucrats, civil servants, technical advisors, and so on do not exist simply to be servile and to do elected officials' bidding. Rather, the former play an instrumental role in crafting policy. Ergo if we want to learn more about how IFRS are developed in the IASB, then it is necessary to treat seriously the secretariat's input into the decision arena.

Notably, the work in the dissertation is not completely commensurate with the above literature. In contrast to elected policymakers, the board is a self-characterized expert body with the requisite knowledge to develop IFRS. The board asserts that its expertise enables it to work in an independent fashion. Yet the secretariat at the IASB has grown exponentially over the last 15 years, and this suggests a bit of a paradox. On the one hand, the IASB depicts itself as a group of experts presumably in its efforts to demonstrate its adherence to certain standards of output legitimacy. On the other hand, the board increasingly defers to the secretariat's expertise as suggested not only in the forthcoming analysis, but also by the IASB's increasing recruitment of staff with highly specialized knowledge (see IASCF, 2002, 2003a, 2004a, 2005a, 2006aa, 2007t, 2008a, 2009a, 2010a, 2011a, 2012c), which is believed to be pertinent to the promulgation of IFRS.

Having situated the dissertation in the literature on accounting standard setting, I now proceed to discuss the methodology employed.
Chapter 3 Methodology

This chapter elaborates the dissertation’s methodology, which is based on Steven Lukes’s multidimensional model of power (1974; 2005). I apply this model to my assessment of the International Accounting Standards Board’s (IASB’s) development of International Financial Reporting Standards (IFRS), particularly IFRS 3 (“Business Combinations”). The chapter is divided into three parts. Part I explores a number of “frameworks of power” (from Clegg, 1989). A number of ways exist for thinking about power and studying it empirically. I investigate several of these power constructs in the first section to explain my rationale for applying Lukes’s framework to my work. Then, in Part II, I judiciously analyze the three dimensions underpinning Lukes’s model. I also identify the chapters in this dissertation that contain analysis that follows predominantly from each particular dimension of power. Finally, in Part III, I outline the data, which are texts. The work in chapters 4 and 5 is based primarily on my review of various literature (i.e., secondary sources), while the work in chapters 6, 7, and 8 turn on a modified content analysis of texts (i.e., primary sources). Most of the texts were constructed over the course of Phase II of the IASB’s Business Combinations Project (2004–2007). One point warrants emphasis: Part III elaborates where the data come from, but I will provide more comprehensive details on how the texts are assessed in each of the empirical chapters.

Part I: Framework of Power

Complex and elusive, the concept of power constitutes perhaps one of the most fundamental notions that social scientists should investigate (Flyvbjerg, 2001) (Malsch & Gendron, 2011, p. 457).

As the above excerpt suggests, the concept of power is ever present in the works of social theorists. However, power remains one of the most difficult concepts to understand, let alone to define. What is power? What does it do? How is it exercised? Over whom is power used? Does power require some form of intentionality? What are the relations between the human agent and the structures around that individual? Is power more diffuse than the agency–structure dichotomy suggests? Does power, for instance, flow as knowledge across contexts of the self, local practices, and the broader global architecture? How has the post-structural turn in the literature enabled us to rethink power beyond the effects of what people intentionally do? What are the relationships between power and politics, liberalism, democracy, and certain gender-based patterns? Is power categorically negative, oppressive, or constraining? Alternatively, might we regard power as something positive? Can power lead, for instance, to the emancipation of structurally marginalized groups? Is power constitutive or productive? Where are the sites of power located? Within our formal organizations? The state? Within networks that span the globe?

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32 The dimensions are not mutually exclusive. But for the sake of analytical clarity the work in each chapter initially follows from one specific dimension. As the work unfolds, however, it becomes patently clear that the dimensions intertwine.
Cooper and Robson (2006) state that the notion of power has been conceived and analyzed in several ways in the accounting literature. This chapter provides an abridged analysis of the concept of power—that is, how we think about power theoretically and how we study it empirically. This chapter is intended to illustrate that power is manifold; power means various things to social theorists. Power has multiple faces if you will. I examine some of them here. My objective is not to provide an exhaustive review of the literature on power. Such an undertaking transcends the scope of my dissertation, let alone that of a single chapter. Instead, I provide a rudimentary survey on social theory and its influence on the ways in which we think about power. I identify particular types of work that share a “family resemblance” (Wittgenstein, 1981). For illustrative purposes, a handful of examples from the literature on accounting regulation and accounting standard setting supplement the analysis. From here, I proceed to explain my decision to theorize about power (and study it empirically) through the lens of Lukes’s multidimensional framework of power (1974; 2005) when other possibilities exist. I begin by discussing some of the reasons why the concept of power remains ever elusive.

3.1 Power is Complex

We have come to think about the concept of power in several ways. But why? Clegg and Haugaard (2009) argue that power as a field of study, a set of analytic views and hypothesis, and a series of substantive issues encompasses many contested concepts. As one example, power has been conceived in terms of legitimacy. However, legitimacy is interpreted in many ways. For the ancient Athenians, such as Aristotle (2004), legitimate power is grounded in the daemon of laws, statutes, and ordinances (“nomos”). In contrast, Hobbes (1982) sees the monarch’s absolute power over civil society as neither oppressive nor coercive. Rather, he views the monarch’s power as legitimate because it is necessary in promoting essential human liberties. Nietzsche characterizes legitimacy as a capacity to define certain accepted realities of religion, morality, and science. That is, legitimacy enables constructing knowledge as truth and, in doing so, reducing the opposition to some knowledge.

Further, the original vocabularies of power have been supplemented with new ones. Clegg (2009) and Clegg, Courpasson, and Phillips (2006) state that in organizational theory, for instance, power is commonly conceived in terms of discourses of rationality, efficiency, or impression management. Given that different vocabularies are invoked with respect to different aspects of power—some of which are only loosely related to the relatively indispensable concept of power in which A causes B to do something—the concept of power becomes all the more indefinable. This does not mean that only one construct of power is rationally defensible. However, it does suggest that we attribute different meanings to the notion of power, which makes the concept somewhat pliable and less precise.

We also think about power in different ways because it is an inherently normative concept. What we see as power reflects what we value, and this was a particularly salient point during the American Community
debates beginning in the 1960s. One school of thought believes that a ruling elite controls American politics (see, for example, the works of Mills, 1956, 1959 and Hunter, 1953). Mills and Hunter argue that American society is ordered by particular structures, wherein a power elite occupies key positions, such as in the leadership of wealthy corporations. According to Mills and Hunter, these corporations have sufficient resources to subsidize key figures in Washington. These subsidies in turn cause American politics to be highly partisan in certain cases; that is, they are the domain of the power elite. In a similar vein, in his seminal text “The End of Liberalism” (1979), Lowi argues that American Congress has expanded exponentially in the 20th century to facilitate the demands of a plurality of organized interest groups, which is a phenomenon he calls “clientism.” The works of Mills, Hunter, Lowi, and so forth, have been motivated, in part, by the authors' desire to see American politics made more inclusive. They express concern that the ruling elite render “ordinary men” powerless, and they find this objectionable.

Eventually, as Lukes (2005, p.4) states, Mills and Hunter's theories invited a backlash: “These striking depictions of elite domination over powerless populations produced a reaction on the part of a group of political scientists and theorists centered on Yale University.” This group, the pluralists (e.g., Dahl, 1957, 1961, 1963, 1976, 1999; Polsby, 1963, 1968; Wolfinger, 1971a, 1971b; Wolfinger & Rosenstone, 1980), rejected the claims of Mills and associates. Yale University supported the “status quo,” viewing American society, including its formal political institutions, as democratic, transparent, and equitable. One may surmise that this is one reason why it did not perceive the power dynamics elaborated in the works of Mills and company, and by extension why it did not call for sweeping reforms of America's political landscape. One way that the classical pluralists tried to weaken the claims made by Mills and associates was by arguing that their works do not adhere to the rigors of what is believed to be the “scientific method.” In particular, Dahl argues that an evaluation of power and politics requires, above all, a representative sample of cases to formulate generalizable conclusions (see Dahl, 1961, 1963, 1976).

3.2 Frameworks of Power

Although the concept of power is expansive, Clegg states that it is possible to identify particular “frameworks of power” (1989); that is, we can delineate particular types of work that exhibit “family resemblance concepts” (Wittgenstein, 1981). Clegg and Haugaard state:

Family resemblance concepts do not share a single essence. Rather, they embody a cluster of concepts with overlapping characteristics. Just as in an extended family, there may be similarities which make each member recognizable as a member, yet there is not a single set of characteristics which all of the family have in common [...] Thus, applying these views, when we examine power in the writings of Lukes and Dahl, it may appear that domination defines the essence of power, while if we read Arendt and Parsons, it would appear to be legitimacy, and so on (2009, p.5).
In this chapter, I primarily consider works focusing on power held by human agent(s) and social structures along with works that treat structures seriously but nevertheless do not see them as completely deterministic. Further consideration is given to the works of post-structuralists, namely those of Foucault. Foucault conceives of power beyond the agency–structure dichotomy. Before proceeding to this analysis, I first explore what Clegg regards as two seminal works that have inspired much of the literature on power. The first is Hobbes’s *Leviathan* (1982), and it is believed to have influenced how American political scientists wrote about power up until the 1970s. The second one is Machiavelli’s *The Prince* (2003), and Clegg argues that Machiavelli’s ideas have been very significant in the writings of post-structuralists, including Foucault’s.

Clegg states that we see an “episodic notion of power” in Hobbes’s *Leviathan* (1982), whereby power is inextricably tied to particular notions of agency, rationality, and intentionality. He argues that *Leviathan* has been instrumental to the modernist view on power; that is, power is conceived in certain notions of mechanics, scientism, and perhaps above all causality in *Leviathan*. Clegg states that these concepts were

The early formulation of which was to become the core of modern ‘science.’ Given the enormous success of the scientific project, it was hardly surprising that, in conceptualizing power, as in much else, the early political and social scientists sought to emulate in their principal terms and metaphors those notions conceived in mechanics by Hobbes’ contemporaries (1989, p.6).

According to Clegg, Hobbes’s work has yielded a model of power that incorporates cause and effect, which is a conception that can be found in both agency-based and structural accounts of power. As an example, Jacob Torfing (2009) states:

Power is a causal effect which (is) either produced by a clearly identifiable social agency or by some anonymous social, economic or political structure. Agency and structure are both equipped with a generative capacity to affect and constrain social actions, decisions and outcomes” (p.111).

Machiavelli (2003) and his successors see power as being more diffuse and less linear and extending beyond human actors’ purposeful actions. Clegg (1989) considers Machiavelli’s work as highly influential to the post-structural turn in the literature on power because Machiavelli regards power as a convoluted web of local strategies, or political maneuvering, rather than as *A causing B to do something she or he would otherwise not do.* Clegg (p. 6) states, “For Machiavelli, (power) was (about) interpreting the strategy and organization that seemed most likely to secure an ordered totality of power in a sense characterized by a flux, a vortex, of politics.” In sum, we might say Hobbes and his successors have tried to define what *power is*, while Machiavelli and his successors have tried to identify *what power does.*

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33 I analyze the notions of agency and structure below.
3.3 Agency

A longstanding debate on power concerns the primacy of *agency* versus *structure*. When we see a world filled with human agency, we see people making decisions deliberately and consciously. The ability to choose among different courses of action is thought to be relatively unconstrained. In contrast, an ardent structuralist would argue that social structures reduce our capacity to act independently; that is, all we do is limited or shaped by enduring, patterned social arrangements. We may even be unaware of how these structures inform what we do. As I will discuss later, Lukes argues that ideology may depict actors as being unable to perceive their “real interests” (1974; 2005), which are what we would like to achieve in life if not for the particular institutional obstacles that prevent us from realizing our goals.

Dowding (2009) argues that rational choice theory is *one example* of a research tradition that suggests human actors have tremendous agency. It asserts that people make decisions clearly and purposefully to acquire the most economic resources possible (see, for example, the works of the pioneers like Gary Becker, Milton Friedman, and Richard Posner). Rational choice theory and its related assumptions have been widely utilized in the accounting literature. Scott (2011) explains what rational decision-making means:

(I) assume that most investors are *rational* (author’s original emphasis), that is, they make decisions as to maximize their expected utility, or satisfaction, from wealth. (…) The theory captures the average behavior of those investors who want to make informed investment decisions (Scott, 2011, p. 7-8).

Generally, rational choice theory rests on the presumption that the broader socioeconomic environment does not shape individuals’ preferences. The theory tends to exhibit a type of methodological individualism in the sense that the market is not regarded as a social construct that both reflects and informs what people desire. Rather it is viewed as the culmination of actors’ intentional investment decisions made to maximize their economic wealth. Actors’ desire to expand their utility-function is thought to be an instinctive desire—one that arises beyond the social, economic, and historical contexts in which it is imbedded.

Not only has rational choice theory proven to be influential to a strand of accounting research that applies what is called the *decision usefulness approach* (see Smith, 2011 for a review of this literature), but it has also influenced much of the research on lobbying and accounting standard setting, as discussed in the previous chapter. In many respects, the accounting lobbying literature follows from the works of the early pluralists (e.g., Dahl, 1957, 1961, 1963, 1976, 1994, 1999; Polsby, 1963, 1968; Wolfinger, 1971a, 1971b; Wolfinger & Rosenstone, 1980) both in terms of their conceptions of power and their method. It is believed that lobbyists seek to exert *power over* standard setters by causing them to rescind accounting standards that would reduce lobbyists’ economic wealth in terms of such things as political costs, reported earnings, and debt covenant costs. Refer back to section 2.4.2 for a more comprehensive analysis of research on lobbying, including the various ways in which it shares a strong semblance to the works of the early pluralists. One
way that the two traditions are analogous is how they tend to sidestep the subtle but nevertheless highly significant ways in which actors’ “interests” are discursively constructed in terms of particular social, historical, and economic conditions (see Robson, 1993). I will address the works of the early pluralists as part of my exposition of what Lukes calls the “first dimension of power” (1974; 2005). (See section 3.8 below.)

3.4 Structuralism

In contrast, an extensive tradition exists that situates power within its social structures (see, for example, the seminal works of Max Weber, Émile Durkheim, Talcott Parsons, and so on). In very general terms, structuralists argue that human behavior and culture can only be fruitfully understood by relating them to larger, overarching systems, institutions, or structures. Fairclough (2003) maintains that social structures shape everything that we perceive and do in life, and they may limit the possibilities for actors to do particular things.34 A component of feminist theory, for instance, suggests the existence of a social system known as the patriarchy, which is believed to be linked with female subordination. Taking a different view, Marx and Engels analyze structures in relation to class conflict, particularly how the structures of capitalism marginalize the working class. In their seminal text The Communist Manifesto, for instance, Marx and Engels assert the history of society as one of class struggle between “freeman and slave, patrician and plebeian, lord and serf, guild master and journeyman, in a word, oppressor and oppressed…” (1967, p.79). The Marxist tradition regards the structures of capitalism—including the state’s role in maintaining them—as exploitative because they enable the owners of the means of production to extract surplus value created by the working class in producing goods and services. Given that workers have no way to own capital, they are forced to sell their labor to capitalists at a discount to survive. This process leads to a regime of capital accumulation, wherein at least two outcomes occur: (a) owners amass capitalist profits, and (b) structural constraints become more entrenched—that is, an ever-widening gap in the distribution of wealth in society makes it increasingly difficult for the working class to achieve economic emancipation.

From the early 1980s onward, accounting researchers like David Cooper, Tony Tinker, Tony Lowe, Tony Puxty, Hugh Willmott, and so on, became increasingly interested in studying accounting regulation to further understanding on how accounting is associated with various capitalist states’ implementation of structural reforms that have been conducive to expansion of the neoliberal project. The Marxist tradition has long regarded the state as part of a superstructure of society. The capitalist state is thought to exist, in part, to moderate class antagonisms and to better enable the politically and economically dominant class to

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34 Social events and social practice also shape social structures. They are mutually constitutive.
31 Naturally the Marxist tradition is quite expansive. No less than Marx’s own works have been split into two periods; that is works he completed in his “young” and “mature” periods, respectively.
36 Surplus value is the difference between the value created by laborers and their actual labor costs.
37 It is worth noting that the “state” is a widely contested concept. But a comprehensive discussion on the nature of the state extends beyond the chapter’s parameters.
retain power over the relatively marginalized. Bearing this in mind, Cooper and Robson (2006) suggest that a literature known as “the politics of standard setting” (p. 424) has tried to situate accounting in relation to politics and the state, and thus accounting has come to be seen as a “political” institution. Recall from chapter 2, for instance, that the works of Robson (1991, 1992, 1993) and Miller (1991) suggest the government in the United Kingdom became increasingly preoccupied with shaping accounting regulatory structures and accounting standards to counteract the declining Anglo-American economic performance in the 1960s and the 1970s (see Germain, 2010). Also recollect that the works of Puxty, Willmott, Cooper, and Lowe (1987) and Willmott, Puxty, Robson, Cooper and Lowe (1992) show that accounting’s institution and practices manifest at the confluence of specific organizing principles in several advanced capitalist societies. In short, accounting and certain specific modes of advanced capitalism are mutually informing. As Cooper succinctly puts it: “…accounting can be regarded as ideology” (1980, p. 161).

Structural accounts of power extend beyond class conflict. For example, social structures have been conceived in terms of social networks, wherein linkages or social ties connect a series of nodes (see, for example, the works of Borgatti, & Foster, 2003; Brass, Galaskiewicz, Greve, & Tsai, 2004; Burt, 1992, 2001; Granovetter, 1973; etc). Social Network Analysis (SNA) is a methodology that was first advanced by Barnes (1954). As Knoke and Yang (2008, p.4) state, SNA has been widely used to study how particular structural configurations shape the distribution of resources in society: “Social network analysis explicitly assumes that actors participate in social systems connecting them to other actors, whose relations comprise important influences on one another’s behaviors.” As seen through the lens of SNA, power is equated with positional advantage, which means that actors accrue power if they occupy strategic positions that enable them to influence and/or control the circulation of resources in networks of communication, kinship, transaction, sentiment, and other binding elements. To evaluate the relative power of actors within networks, researchers have devised several metrics, of which measures of centrality are particularly significant. An actor’s degree centrality specifies the extent to which he or she connects other actors within a network. If an actor exhibits a high degree of centrality, he or she is said to be powerful and to be acting as a conduit through which resources must flow before reaching other actors who desire them.

Richardson (2009) applies SNA in examining the network of international and domestic regulatory organizations responsible for developing accounting and auditing standards in Canada. His findings suggest that the Canadian Institute of Chartered Accountants Accounting Standards Oversight Committee is an elite institution because it connects otherwise highly dispersed clusters of regulatory organizations. Alternatively, Perry and Noelle (2005) apply SNA to evaluate the network dynamics of actors submitting comment letters on 16 of the IASB’s exposure drafts between 2002 and 2004. Their work suggests an association between (a) the preferences expressed in submissions from “financial market actors” and accounting firms, and (b) the IASB’s observable decisions on the 16 ensuing IFRS.
Prior to the next section, it is worth emphasizing that while structural and agent-centric notions of power differ significantly, they share at least one point of similarity in that they both regard power as a manifest relational concept. To paraphrase Pitkin (1972), power relates to A intentionally doing something that causes B to do something that B would otherwise not do, whereby both A and B can be taken to be human agents or the social institutions that they create. As I will explain later, I apply this concept of power to the work in the subsequent chapters.

3.5 A Point of Balance: Structure Versus Agency

Numerous attempts have been made to find a point of balance between the extremes of structuralism and behaviorism, where structures are not viewed as entirely deterministic and actors have some agency (see, for example, the works of Georg Simmel, Pierre Bourdieu, Peter Berger, Thomas Luckmann, and so forth). As I will elaborate below, Lukes’s framework may be regarded as one such attempt. Another example occurs in Anthony Giddens’s cross-disciplinary structuration theory (e.g., 1976, 1979, 1981, 1984, 1993). Structuration theory focuses on the meeting points, or processes of interaction, that connect objective structures and subjective agents. This work sees the social as neither purely individualistic nor predetermined. Rather, it is an aggregate substance, which means that an individual’s experiences are informed by the world and also shape it. They are mutually supporting. Giddens regards phenomenology, hermeneutics, and social practice as the proverbial glue that binds structures and agents in order across space and time. Central to his thesis is the notion of the duality of structure, by which structures are both the vehicles and outcomes of social practices. Although structures are instrumental in the constitution of the agent, structures are simultaneously modified through social practices; that is, structures exist both within the agent as memory traces and beyond that individual as the culmination of our actions as a society.

Stones asserts that Giddens’s efforts to develop structuration theory can be understood as an attempt to avoid the trappings of objectivism and subjectivism. Stones states the following:

Objectivism places all the emphasis on impersonal forces and subject-less structures, in which agents, if they are considered at all, are no more than the playthings or puppets of reified social systems…[while] subjectivism reduces the whole of social life to the actions of individual agents or groups, their actions, interactions, their goals, desires, interpretations and practices (2009, p.91).

Structuration theory, which Giddens developed partially as a critique of Talcott Parsons’s work on power as authority, has engendered a particular notion of power that oscillates between (a) structures of domination, signification, and legitimation and (b) actors’ potential awareness of the knowledge underlying those structures. Modalities refer to the ways in which actors sometimes draw resources from structures of domination and rules from structures of signification and legitimation to achieve particular outcomes. However, the actor’s potential to harness said resources and rules in particular social projects is always
contingent on his or her capacity to perceive these structures. Giddens’s work, therefore, is a reminder that, while structures constrain, we still have the capacity or the power to achieve some goals in certain instances. Some accounting researchers have used Giddens’s structuration theory as a basis for investigating accounting standard setting. As an example, Tollington (2006) investigates the interaction between social structure and social action leading up to the U.K. Accounting Standard Board’s (ASB) implementation of Financial Reporting Standard 10 (“Goodwill and Intangible Assets”). Tollington examines submissions made to the ASB regarding the board’s proposed changes to the accounting for goodwill and its subsequent handling of concerns expressed in comment letters. Tollington concludes that the “main way” power was exercised by the ASB over respondents was through exclusion, particularly the ASB’s exclusion of respondents’ attempts to change the significance structure drawn from the ASB’s Statement of Principles (i.e., the ASB’s conceptual framework).

3.6 Post-structuralism

Beginning in the 1960s and the 1970s, the works of a number of mid-20th century French and continental philosophers and critical theorists gained attention (see, for example, the works of Jacques Derrida, Gilles Deleuze, Julia Kristeva; and so on). In part, they have tried to elucidate the associations between power and social developments beyond the agency–structure dichotomy. Post-structural thought regards culture as more than what actors deliberately do, in part because certain things, like language (see Chandler, 2006), are not fixed to actors, groups, institutions, and so on. To invoke the terminology of Hanna Pitkin (1972), much of the post-structural turn in the literature regards power as a type of capacity, that is, as power to produce certain things. Its capacity for action means that power can be positive or productive. In discussing the notion of “power to,” Göhler (2009) states, “The focus is not on the effects of power on others, those subjected to it, but on power as the ability to act autonomously. In this sense, power is constitutive for society” (p. 29).

One of the most influential post-structural theorists concerned with power is Foucault (e.g., 1972, 1977, 1981). (Armstrong (1994) and Power (2011) provide more comprehensive analyses on how the central preoccupations of Foucault’s scholarship are depicted in accounting research.) What follows is a very rudimentary consideration of some of his seminal works and a handful of examples of their resonance with research on accounting regulation and standard setting.

Foucault formulates a form of critical discourse analysis that homes in on the ways in which language and discursive practices are associated with certain power relations in society (see Fairclough, 2003; Hardy, 2001; Phillips & Hardy, 2002). Language constructs one component of the social world. Foucault argues that discourse establishes orders of truth, and these orders shape what is commonly accepted as “reality” in a given society. Discourse holds a type of power in the way it affects what may be said or written. Discourse also bears on the construction of new spaces, wherein new utterances manifest. Foucault argues that discourse is
neither the exclusive domain of certain human actors nor that of the institutions that they build. Discourse is knowledge that exists everywhere, in everything, and in everyone. With discourse, we see a type of power that is constitutive or productive. Discourse defines certain social realities, fosters particular ways of perceiving the world and our place in it, and produces certain specific conditions of possibility at particular points in time.

By depicting power as a set of discursive practices, Foucault enables us to conceive of power beyond the parameters of individualism or behavioralism. We may begin to appreciate how it does not necessarily involve a type of linear causality in which intentionality is always at play. In this way, the burden of causality is lightened because power is not conceived of purely as what people deliberately do to other people. Instead, Foucault sees a type of power in discursive practices operating at the level of discourse. Through these practices, culture and the self are constituted. In his archeological analysis of knowledge and science, Foucault (1972) develops a particular notion of discourse analysis, whereby statements are understood as networks of rules of formation that mediate the meanings of acceptable propositions, utterances, or speech acts. These statements exist within fields of discourse known as discursive formations. These rules of formation regulate what we talk about, the manner in which we talk about it, and who is authorized to talk about it. Through a historical analysis of the human sciences, Foucault investigates, for example, how particular historical circumstances saw the circulation of certain meanings that rendered some truth claims on madness and punishment more permissible than others.

Foucault’s subsequent work has enabled us to better appreciate how discourse is ascribed meaning(s) at the interconnection of power struggles (see, for example, Foucault, Rabinow & Rose, 2003). This idea arises as a contrast to his earlier presumption that discourse is associated with sudden ruptures, through which new formations displace previous ones. Foucault’s genealogical method makes it possible to think about how power is productive and to consider that strategic power struggles engender certain discourses through which particular meanings, identities, and types of knowledge are constituted and disseminated. Torfing states the following:

Power is neither defined as the power of one actor over another actor (power as a relation of subordination) nor as the power to do certain things (power as a capacity to act). Rather, power is defined as a crisscrossing field of power strategies that form and regulate the relational identities of the social actors, their conception of the world, and their range of appropriate actions (2009, p.112).

Foucault’s genealogical method can be regarded as a historical approach extending Nietzsche’s work. The work of Loft (1986) is one of the first attempts made by an accounting researcher to apply the genealogical method to investigate the history of accounting regulation. One aim of this method is to challenge common assumptions about social developments. Accordingly, Loft contests the assumptions underpinning much of the scholarship on the history of accountancy—assumptions that suggest that the development of accounting
has primarily concerned the pursuit of “technical excellence.” In contrast, Loft argues that accounting should be regarded as an activity that is both “social and political in itself” (ibid, p.138). The context of her study is the United Kingdom in the wake of World War I (see also Loft, 1994). She examines the conditions under which management accounting techniques—as a basis for knowing the business organization—appeared and then proliferated. In contrast to works suggesting that the rise of cost accounting can be associated with the spread of scientific management, Loft’s work shows that cost accounting emerged in the United Kingdom because of the unusual circumstances created by the war. In this way, she maintains that the sudden rise of cost accounting was unexpected. In particular, it was an unanticipated consequence of wartime legislation enacted by the government to circumvent profiteering and more broadly to coordinate the U.K. wartime economy. Loft states:

It came as part of an uneasy resolution between the desire to keep ‘business as usual’ and to set up a command type economy to cope with the massive problems of productions of armaments and distributions of scare resources, including food, at a time of war (1986, p. 165-166).

In sum, her application of Foucault’s genealogical method enables seeing how cost accounting techniques facilitated a type of regulation of the U.K. economy at a distance, whereby the capitalist state was better able to preserve the status quo of free enterprise.

Foucault’s later works begin to view power as government, or the conduct of conduct (e.g., Foucault 1977, 1991). The notion of governmentality has yielded insights for social theorists like Miller (1990, 1994, 2001), Rose and Miller (1992), Rose (1991), and Dean (1995, 1996a, 1996b, 1999) to separate power from the formal state; that is, cutting off the king’s head. Given that the art of government relates to a variety of control techniques, many of which are believed to exist within us, power need not be regarded purely in hierarchical terms because, as Foucault believes, we govern ourselves. That is, we regulate our own conduct in particular ways. Foucault’s work on governmentality has also had an enduring impact on research on accounting regulation. A relatively recent example of this appears in the work of Stein (2008), whereby he draws on the concept of governmentality to investigate corporate governance regulation in the United States, particularly the Securities and Exchange Commission’s (SEC’s) implementation of the Sarbanes–Oxley Act. In his attempt to cut off the king’s head, Stein suggests that we can begin to better understand how the act facilitates a type of governing at a distance; whereby, for example, managers begin to regulate their own behavior, in part, by seeking the counsel of those purported to be “experts,” including accountants. Experts provide guidance to managers, and this guidance extends well beyond the provisions of the Sarbanes–Oxley Act, thereby creating new norms and identities associated with what continues to be constructed as “good” corporate governance. Stein concludes:

Corporate governance is therefore self-constituted in individuals through the internalization of appropriate norms; it is not the result of having the proper number of outside directors, or a financial expert on the audit committee (2008, p. 1019).
3.7 Lukes's Multidimensional Framework

I acknowledge that power remains essentially a contested and elusive concept. As the preceding analysis suggests, social theorists (including accounting researchers) have applied multiple frameworks of power to productively illuminate how different faces of power relate to accounting standard setting and accounting regulation. I have decided to apply Lukes’s multidimensional framework of power to this dissertation. By doing so, I am not suggesting that Lukes’s work is the only justifiable way of conceiving of power. Nevertheless, I concur with Lukes in his assertion that power is a manifest relational concept. While various post-structural works on power are rationally defensible, I agree with Lukes’s argument that their focus on the locution *power to* has the potential to lose sight of the most conflictual aspects of power exercised over people. Lukes (2005) expounds on this point here:

> And along with it there disappears the central interest of studying power relations in the first place – an interest in the (attempted or successful) securing of people’s compliance by overcoming or adverting their opposition” (2005, p. 34).

Bearing this in mind, I regard power in the dissertation to mean *A affecting B in some nontrivial way*. I suggest that power is more than a capacity to do certain things, in part because a latent capacity may not see B do anything. Like Lukes, I am also reluctant to view power in terms of unintended consequences (see Hayward & Lukes, 2008) (“Nobody to shoot? Power, structure, and agency”). As Loft’s work (1986) convincingly demonstrates, a certain type of power can be at play even though it is unforeseeable. However, I am concerned that attributing power to unintended events may potentially dilute the concept of power—at least in terms of what Lukes characterizes as “…the central meanings of ‘power’ as traditionally understood and with the concerns that have always centrally preoccupied students of power” (p. 34). While it is undeniable that mistakes shape the world in significant ways, I believe that widening the scope of the notion of power to encompass errors potentially renders the concept of power infinitely pliable. Therefore, I concur with Lukes who concludes that “to count as power (consequences) must be foreseeable” (ibid, p.76). While I acknowledge that it is difficult to define and identify people’s *intentions* and *interests* in any analytically robust way, I will define power in the dissertation as Lukes does here:

> A, by doing x, actually gets B to do what B would otherwise not do (whereby) x is an intervening cause which distorts the normal course of events (…) Only in the case where B’s change of course *corresponds to A’s wishes* (my emphasis), that is, where A secures B’s compliance, can we speak properly of a successful exercise of power (2005, p. 43).

There are additional reasons underlying my decision to incorporate Lukes’s methodology into the dissertation. For one, it can be understood as a point of balance between the extremes of human agency and structure, both of which I regard as indispensable to a comprehensive analysis of power. Social structures
matter. They indisputably shape my life in material ways. As a Canadian, little doubt exists that I am privileged and that I am able to do things that are inconceivable for a young man in Dhaka. However, structural determinism goes too far. As Albert Camus (1948, 1955, 2012, 2013) argues, we have considerable free will in life. We can create our own personal meanings, particularly when we strive to be reflexive. Lukes’s methodology is appealing to me because it does not regard social structures as completely deterministic.

Further, I have come to better understand how certain facets of power bore on the IASB’s work by drawing on Lukes’s methodology. I believe that one of the important functions of social theory is to help us to make sense of developments in the social world. Lukes’s model provides a valuable lens through which I may investigate how certain issues were either retained or excluded from the IASB’s amendment of IFRS 3. The model has proven particularly valuable to my investigation of standard setting, being as the methodology was specifically developed to explore the manner in which various manifestations of power are associated with public policymaking. Through my application of the methodology, I have been able to make better sense of how certain types of power relate to actors involved in overt conflicts, the issues they mobilize and those they avoid, and the systemic forces that shape decision-making (which may very well manifest in institutional inaction). Put differently, a nice fit exists between the model and my topic of analysis: The first dimension of power concerns power exercised vis-à-vis observable decision-making, and Lukes’s notion of the first dimension of power has better enabled me to comprehend certain types of power that were seen in relation to constituent lobbying and the secretariat and the board’s observable decisions on IFRS 3. Conversely, Lukes’s second dimension of power has proven valuable to my understanding of how the secretariat holds a type of power in framing the IASB’s technical agenda and the board’s public deliberations. Finally, Lukes’s conception of the third dimension of power has alerted me to the importance of ideology, particularly in how the secretariat and the board’s institutional assumptions on financial accounting shape the conceivable limits of accounting change within the IASB.

Finally, the methodology is versatile. The model can be regarded as a broad typology of power. It provides a general roadmap. It does not exhaust all possibilities for thinking about and studying power. For instance, Malsch and Gendron (2011) recently apply a modified version of Lukes’s framework, whereby they conceive of the third dimension as being discursively predicated. Lukes himself has revised the framework twice, largely in his consideration of the post-structural turn in the literature on power. Lukes’s framework provides a useful starting point for considering how different aspects of power relate to public policymaking, standard setting, the development of regulation, and so forth. As I will next explain, the framework sketches three dimensions that can be applied in conjunction with the works of other social theories—which is something that I do, for instance, when I connect Harry Collins’s work on expertise to my analysis on the third dimension of power, or when I apply Young’s work on “institutional thinking” (1996) to my analysis of
the secretariat’s role in constructing the board’s technical agenda. On this note, I now turn my attention to a more detailed analysis on Lukes’s multidimensional framework of power.

**Part II: Methodology—Lukes’s Multidimensional Model of Power**

A comprehensive analysis of power in regulatory space necessitates consideration of the multiple faces of power, including power that manifests via observable decisions (first dimension) and nondecisions (second dimension), but also power situated beyond the consciousness of actors (third dimension). The purpose of this second part of the chapter is to explore my methodology, which is based on Lukes’s multidimensional framework of power (1974; 2005). Specifically, I apply Lukes’s claim that “we need to think about power broadly rather than narrowly—in three dimensions rather than one or two—and that we need to attend to those aspects of power that are least accessible to observation: that, indeed, power is at its most effective when least observable” (2005, p.1). His framework is depicted graphically in Figure 3.1. It shows that the framework exists at a balancing point between the extremes of behaviorism and structuralism as both relate to the relationships between power and public policymaking. I make a theoretical contribution by adding Collins’s concepts on expertise to Lukes’s framework.

### 3.8 The First Dimension of Power

Lukes bases the first dimension of power on behaviorism. In this dimension, lobbyists’ and policymakers’ *interests* are equated with *observable subjective policy preferences revealed through political participation*. **Key issues** are policy proposals that impact stakeholders’ abilities to achieve particular goals. **Overt conflicts** are instances in which observable disagreement exists among lobbyists and/or policymakers on how to “resolve” key issues. Overt conflicts see actors compete with each other to achieve desired outcomes. The first dimension of power relates to power exercised by *A over B via observable decision-making*. Ergo, observable decision-making is conceived as the *mechanism of power*. Referring to the realm of public policymaking, Lukes states that observable decision-making gives rise to instances of pluralism and elitism, as well as instances in which both are empirically discernible.

In the case of classical pluralism the decisions made by a policymaker, standard setter, regulator, and so on, are thought to signify a series of compromises that balance competing actors’ observable preferences (see the works of pluralists, like Dahl, 1957, 1961, 1963, 1976, 1994, 1999; Merelman, 1968; Polsby, 1963, 1968; Wolfinger, 1971a, 1971b; Wolfinger & Rosenstone, 1980). Power is said to be “shared” equally by constituents. For this reason, pluralistic decision-making structures are believed to be “democratic”.²⁸ As noted in chapter 2, some research on accounting standard setting suggests that the development of

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²⁸ In the context of the dissertation democracy is taken to mean a system where one person has one vote and each vote counts the same.
accounting standards is democratic because accounting standard setters are thought to employ a system of power equivalency that prevents a single set of interests from controlling the development (see, for example, Brown, 1981; Hussein & Ketz, 1991; Orens, Jorissen, Lybaert & Van Der Tas, 2011). It was also noted that some research suggests that accounting standards setters concede to the preferences expressed by a strong majority of lobbyists. This phenomenon is dubbed the “multiplier effect” (e.g., Benveniste, 1972; Puro, 1984, 1985; Dyckman, 1988; McLeay, Ordheide & Young, 2000, 2005).

In contrast, a lobbying elite is believed to exercise power over other lobbyists and/or a policymaker, standard setter, regulator, and so on, when a consistent pattern of agreement exists between the preferences of specific lobbyists and official policy, regulatory or standard setting outcomes. Recall from chapter 2 that some work on accounting standard setting suggests examples of this elitism (see, for example, Andre, Cazavan-Jeny, Dick, Richard & Walton, 2009; Bischof, Bruggemann & Daske, 2013; Bengtsson, 2011; Benveniste, 1972; Dyckman, 1988; Hendriksen, 1998; Hope & Gray, 1982; Kothari, Ramanna, & Skinner, 2010; Kwok & Sharpe, 2005; McLeay & Merkl, 2005; Puro, 1984, 1985; Ramanna, 2008; Zeff, 2002, 2005a, 2005b, 2006).

Admittedly, pluralism and elitism extend well beyond lobbying in relation to observable decision-making. As noted above, Lowi suggests that the phenomenon of “clientism” sees American Congress concede to the demands of a plurality of organized interest groups. Further social network theorists, like Borgatti and Foster (2003), Burt (1992) and Knoke and Yang (2008) regard elites as actors occupying strategic positions in social structures. These positions enable elites to mediate the exchange of resources between actors.

Bearing these points in mind, I acknowledge that pluralism and elitism have been theorized and studied by researchers in many ways. However, in the context of the dissertation (and more specifically in chapter 6) pluralism is taken to mean the opposite of extremism. A pluralistic decision structure is conceived as one that emphasizes and accommodates different preferences expressed by commentators on the development of IFRS. It is a form of decision-making that prevents (or constrains) a single set of observable interests from exercising “power over” (i.e., Pitkin, 1972) other observable interests involved in what the IASB purports to be a “due process.” Expressed in Lukes’s terminology, pluralism is regarded as a type of decision-making that strives to achieve a point of balance “in the making of decisions on issues over which there is an observable conflict of (subjective) interests, seen as express policy preferences, revealed by political participation” (2005, p.19). Conversely, elitism is initially regarded in the dissertation as a type of standard setting, whereby the IASB’s observable decisions strongly resemble the interests of specific groups of actors.
Figure 3.1 Lakes' Multidimensional Model of Power

The Multiple Faces of Power

First Dimension
- Power as Decision-Making
  1. Observable behavior,
  2. Decision-making,
  3. Key issues,
  4. Overt conflict, and
  5. Interests as stated preferences.

Second Dimension
- Power as Agenda Setting
  1. Observable behavior,
  2. Nondecision-making,
  3. Potential issues,
  4. Covert conflict, and
  5. Interests as stated policy preferences.

Third Dimension
- Power as Agenda Setting
  1. Observable and non-observable behavior
  2. Social construction of political agenda,
  3. Potential issues,
  4. Latent conflict, and
  5. Interests as actors' inferred "real interests."
Two chapters predominantly follow an analysis of the first dimension of power. First, a component of chapter 4 will feature some of the early debates that shaped the IASC/IASB’s efforts to develop an accounting standard for business combinations. It will be suggested that overt pressures exerted by the International Organization of Securities Commissions (IOSCO), the U.S. Financial Accounting Standards Board’s (FASB), and the SEC on the IASC/IASB drove much of the IASC/IASB’s work on IAS 22 and IFRS 3. Expressed in Lukes’s terms, American authorities, and their international affiliate, IOSCO, are thought to have exercised power over the IASC/IASB to the extent that the former threatened to recant their support of the IASC/IASB if the IASC/IASB did not develop accounting standards (including a standard on business combinations) comparable to U.S. Generally Accepted Accounting Principles (GAAP). Secondly, I will evaluate, in chapter 6, constituents’ stated preferences on exposure draft (ED) 3 in relation to the IASB’s observable decisions on IFRS 3 (2008). Here, I evaluate the extent to which the IASB’s observable decisions on IFRS 3 reflected the preferences of a lobbying elite or a mix constituents. Interestingly, the findings of chapter 6 suggest neither scenario; that is, in all cases (but one) the IASB’s observable decisions on IFRS 3 followed from its previous decisions on ED 3. This is interpreted to mean that in its Phase II, the IASB operated as an independent standard setting body, and I characterize this mode of standard setting as a form of regulatory elitism.

3.9 The IASB’s Institutional Preferences

Before proceeding to an analysis of the second and third dimension of power, I briefly consider the IASB’s institutional preferences on financial reporting. I consider them here because they are pertinent to my analysis of the second and third dimensions of power. Lukes (1974; 2005) argues that all policymaking bodies exhibit particular institutional preferences that result in the exploitation of specific types of conflicts of interests, while simultaneously subverting the airing of others in the decision arena. In the following passages, Lukes draws on the works of Bachrach and Baratz (1970) and Schattschneider (1960) to elucidate the significance of an institution’s preferences as they relate to public policymaking:

(An institution’s preferences are) a set of predominant values, beliefs, rituals, and institutional procedures (‘rules of the game’) that operate systematically and consistently to the benefit of certain persons and groups at the expense of others. Those who benefit are places in a preferred position to defend and promote their vested interests. More often than not, the ‘status quo defenders’ are a minority or elite group within the population in question (Bachrach & Baratz, 1970, p. 43-44, qtd. in Lukes, 2005, p. 21).

All forms of political organization have a bias in favor of the exploitation of some kinds of conflict and the suppression of others, because organization is the mobilization of bias. Some issues are organized into politics while others are organized out (Schattschneider, 1960, p. 71, qtd. in Lukes, 2005, p. 20).

The IASB’s “rules of the game” are conceived in the dissertation as its predominant values, beliefs, rituals, discourses, and institutional procedures as they relate to getting the accounting right. As Young’s work
(1996) teaches us, one place where the rules of the game are formally codified is in the conceptual framework.\(^{39}\) I suggest that the IASB’s rules of the game tend to benefit stewards of the financial sector and often marginalize the interests of other types of actors, like cooperatives, museums, charities, labor unions, employees, consumer groups, and so on. As noted in the previous chapter, the work of Young (2006) suggests that the accounting standard setting agenda in the United States and internationally has progressively been articulated in recent years in terms of the information needs of the user, and the user is conceived increasingly as investors making “economic” decisions. She argues that this specific understanding of the user has become more institutionalized. To this end, Cooper and Robson (2006) state, “This naturalization suggests the dominance of a pro-capital orientation for those who are involved in accounting rule making” (p. 427). An excerpt from the IASB’s recent Conceptual Framework Project Summary and Feedback Statement seems particularly germane to the conclusion reached by Young, Cooper, and Robson:

> Other parties, such as regulators and members of the public other than investors, lenders and other creditors (my emphasis), may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups (my emphasis) (IFRSF, 2012d, p.8).

As I will discuss in chapter 8, the IASB exhibits an institutional preference for principles-based accounting standard setting (see Bennett, Bradbury, & Prangnell, 2006; Eaton, 2005; Largay, 2003; Nelson, 2003; Nobes, 2005, Nobes & Parker 2008; Street, 2006), fair value accounting (Barth, Hodder & Stubben, 2008; Cairns, 2006; Damant, 2003; Laux & Leuz, 2009; Perry & Nölke, 2006; Ryan, 2009; Walton, 2004), and converging IFRS with U.S. GAAP (see Botzem & Quack 2006; Botzem, 2008, 2012; De Lange & Howieson, 2006; Zeff, 2012). I will analyze how its preferences in these specific regards were associated, over the course of Phase II, with instances of what Lukes calls “covert” and “latent” conflict.

### 3.10 The Second Dimension of Power

While the first dimension of power is crucial to a comprehensive analysis of the politics of accounting standard setting, I concur with Lukes in his assertion that the one-dimensional view should be supplemented by considering other facets of power:

> The one-dimensional view of power cannot reveal the less visible ways in which a pluralist system may be biased in favour of certain groups and against others (Lukes, 2005, p. 39).

Lukes argues that consideration of the second dimension of power is important because it recognizes the power dimensions associated with the construction of the political agenda. His notion of the second dimension of power follows primarily from Bachrach and Baratz’s “qualified critique of behaviorism” (1962

\(^{39}\) As part my work in chapter 7, I will analyze how the secretariat's interpretation of the conceptual frame bore on the construction of the IASB's post exposure draft technical agenda.
and 1970). In their investigation of the “two faces of power,” Bachrach and Baratz argue that the major shortcoming of the first dimension of power (i.e., classical pluralism) is that it overlooks the ways in which power is held by a policymaker, namely, by ensuring that particular covert conflicts of interests are not added to the political agenda and thus not aired in the public debate (1970). Bachrach and Baratz state:

Power is also exercised when A devotes [his or her] energies to creating or reinforcing social and political values and institutional practices that limit the scope of the political process to public consideration of only those issues which are comparatively innocuous to A. To the extent that A succeeds in doing this, B is prevented, for all practical purposes, from bringing to the fore any issues that might in their resolution be seriously detrimental to A’s set of preferences (1970, p. 7).

In the context of accounting standard setting, a standard setter’s (i.e., “A’s”) institutional preferences may be reinforced at the respondent’s (i.e., “B’s”) expense through what Bachrach and Baratz regard as “nondecision-making” (1970). A “nondecision” denotes an observable decision made by a policymaker that results in the subversion of an observable issue (i.e., potential issue) from both the technical agenda and the decision arena. Lukes argues that a policymaker may conceal (often unconsciously) issues that challenge its values, assumptions, ideals, predispositions, and beliefs—that is, issues that are incongruent with its institutional preferences. Bachrach and Baratz state that nondecision-making is a type of power in that it is:

A means by which demands for change in the existing allocation of benefits and privileges in the community can be subrogated before they are even voiced; or kept covert; or killed before they gain access to the relevant decision-making arena; or, failing all these things, maimed or destroyed in the decision-implementing stage of the policy process (Bachrach & Baratz, 1970, p. 44).

Thus, the two-dimensional view is an improvement on the one-dimensional view because the former accounts for potential issues overlooked by the latter. Whereas the first dimension of power fails to consider the role of nondecisions in suppressing potential issues from public debate, the two-dimensional view casts an empirical gaze on these issues. Using the two-dimensional approach, one can understand conflict as encompassing not only disagreements based on issues aired in public debate (i.e., overt conflict) but also what Lukes characterizes as covert conflict, which takes place beyond the scope of public decision-making. Further, we can more comprehensively understand how power manifests by using a two-dimensional approach. Specifically, the approach recognizes that a policymaker, standard setter, regulator, and so on, can sometimes deny (not necessarily consciously) certain groups a voice in the decision arena if their opinions challenge the institutional preferences. To paraphrase Lukes, the second dimension of power sees these agents mobilize the political bias vis-à-vis observable nondecisions.40 Lukes argues that A can exercise power over B by making

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40 Observable nondecision-making can be conceived as the mechanism of power in relation to the second dimension of power, whereas observable “potential issues” can be characterized as the “relevant counterfactual.”
nondecisions. However, A's nondecision, like any decision, is conditioned by what Fairclough (1989, 1992, 2003) and Fairclough and Wodak (1997) characterize as the complex overlapping networks of social structures, social practices, and social events. A can exercise power over B by not attending to B's grievance(s). However, A may not fully comprehend how his or her refusal to address B's challenge(s) amounts to an exercise of power for the reason that A does not comprehend the importance of B's concern(s). Lukes's argument suggests that ideology is so powerful that people may not even perceive how it informs the decisions they make.

3.11 The Second Dimension of Power: Agenda Building

…studies applying what Lukes refers to as the first dimension of power ought to be augmented with analyzes which attend to other power dimensions (including) agenda building (...) What is much harder to establish is how the agenda for accounting rules get determined, and what are seen to be appropriate or feasible rules (Cooper & Robson, 2006, p. 426).

The above comments remind us that more research is needed to shed light on how the technical agenda is constructed. As noted in section 2.5.4, there are multiple reasons why it is necessary to raise awareness on how the agenda for accounting standards gets determined. For one, Young reminds us:

The addition of an accounting problem to the technical agenda of the FASB is a necessary condition for the subsequent issuance of accounting standards. Indeed, FASB chairman Dennis Beresford has indicated that “setting the agenda may be the most important single activity of the Board” (Previts, 1991, p. 71) (Young, 1994, p. 83).

While there continues to be a relative scarcity of work investigating the conditions associated with the construction of the technical agenda, a handful of exceptions were specified in chapter 2 (e.g., Allen, 2013; Hallström, 2004; Howieson, 2009; Leftwich, 1995; Mezias & Scarseletta, 1994; Robson, 1993; Young, 1994, 2006). The work in chapter 7 attempts to build on this research by analyzing the relations between the works of the secretariat and the configuration of the IASB's post ED 3 technical agenda. Although the IASB had already justified the inclusion of Phase II in its formal program of work by citing the need to eliminate diversity in practice, the work of Christiansen (2002) reminds us that the secretariat plays an important role in shaping the technical agenda after specific topics are marked for inclusion. In his exposition of the Council Secretariat’s role in the EU policy process, Christiansen specifies a number of ways in which the secretariat shapes topics that have already been added to the political agenda by the Presidency:

The Council secretariat’s role of assisting the Presidency and providing legal and other assistance facilitates the influencing of Council decisions…(Christiansen, 2002, p. 83).

Once proposals or draft legislation enters ‘the house’, as it were, the secretariat does have opportunities for political influence (ibid, p. 84).

The common practice (especially for the smaller member states) is to leave much of the organisation of Council business in Brussels, and therefore in the hands of the Council secretariat staff (ibid, p. 84).
The management of the vast majority of Council business remains the task of the secretariat. This provides opportunities, for example, to prioritize certain agenda items over others or to suggest changes to proposals in the light of legal opinion (my emphasis) (ibid, p. 84).

The Council secretariat, in ‘advising’ the Presidency on how to run a particular meeting, may be in a much better position to mediate different positions and to assist the search for a compromise (ibid, p. 85).

The forthcoming analyses in chapters 7 and 8 corroborate Christiansen’s findings by showing that the secretariat’s work affected the construction of the IASB’s technical agenda along with the board’s decisions on how to amend IFRS 3. As noted, the analysis in chapter 7 seeks to extend the scholarship of Young (1996), Mete, Dick, and Moerman (2010) and Potter (2002). Drawing on the work of Douglas (1986), Young shows how the FASB’s conceptual framework breeds a type of “institutional thinking” (1996). Her research shows specific ways in which the conceptual framework constrains the potential for accounting change in relation to the construction of the FASB’s technical agenda. Significantly, however, Young argues that the conceptual framework would not in and of itself directly solve what are perceived to be financial accounting and reporting problems (Young, 1996, p. 490). I suggest one reason why it will never “provide all the answers” to accounting standard setters is that it is opaque (e.g., Alfredson, Leo, Picker, Pacter, Radford, & Wise, 2007 and Nobes, 2006). Penno (2008) emphasizes that the conceptual framework is “plagued by the problem of vagueness” (p. 339) while Mezias and Scarseletta recognize that it is a “poorly understood technology” (1994).

Against the backdrop of Phase II, I suggest one way the secretariat tried to moderate the conceptual framework’s level of vagueness was by organizing the rudimentary categories espoused by the conceptual framework as nine principles. Subsequent consideration of the secretariat and board’s deliberations in 2006 and 2007 reveals that the principles were invoked to determine whether specific issues raised in comments letters would be eligible for admission into the decision arena. As an example, the secretariat applied the principles as a template for summarizing concerns expressed in submissions regarding ED 3 during its preparation of the document Agenda Paper 6A (“Comment Letter Analysis”) (IASCF, 2006z). The secretariat used the nine principles as a sorting mechanism, whereby it summarized constituents’ stated concerns in relation to them. To the extent that commentators raised points that extended beyond the secretariat’s principles, the analysis suggests that the points were rendered potential issues; that is, they were marked for exclusion (perhaps unconsciously) by the secretariat in preparing the summary text. Their omission is significant because, the potential issues were in most cases subsequently subverted from the IASB’s technical agenda. Perhaps more significantly, chapter 7 furnishes data indicating that most of the topics addressed during the IASB’s public meetings were based on the secretariat’s nine principles. It is in these specific ways that I suggest that the secretariat’s work over the course of Phase II was instrumental to constructing the IASB’s technical agenda.
Analysis in chapter 8 also suggests the board invoked the staff principles as bases for abjuring consideration of specific potential issues (such as those expressed in cooperatives’ comment letters) and to rationalize specific decisions on how to reconfigure the acquisition model. It also reveals the secretariat carefully advised the board on how to proceed with the amendment of IFRS 3 in situations in which the board confronted different options. To illustrate, the board complied with the secretariat’s recommendation that it would be a serious mistake to add to IFRS 3 instructions the secretariat had prepared on how to measure intangible assets at fair value (see IASCF, 2006ac, 2006e). As I will argue in chapter 8, one reason why the board yielded to the secretariat’s advice can be associated with reinforcement of the IASB’s institutional preference for principles-based standard setting. The IASB didn’t just want to tell producers and preparers how to measure intangibles at fair value; IFRS 3 was intended to “…follow from principles (that) require judgment to apply” (IFRSF, 2011b, p.6). As noted in following text, the pliable nature of IFRS is believed to enable preparers to apply IFRS in a variety of jurisdictions using slightly different methods and thereby reduce the potential to violate deeply entrenched local reporting traditions (see Carmona & Trombetta, 2008).

3.12 The Third Dimension of Power

Bachrach and Baratz’s “qualified critique of the behavioral focus” (1970) is not without its limitations. Lukes states that the two-dimensional approach still:

Confines itself to studying situations where the mobilization of bias can be attributed to individual decisions that have the effect of preventing currently observable grievances from becoming issues within the political process (Lukes, 2005, p.39).

In this way, the second dimension of power, like the first, is overly committed to exploring the mechanisms of power as they relate to observable behavior (i.e., decision making and nondecision-making). For this reason, Lukes adds a third dimension of power to the framework to address the various conflicts of interest that occur beyond the realm of the observable; that is, the latent conflicts of interest. The third dimension of power is an analytical basis for better grasping the ways in which mobilization of the political bias suppresses some conflicts from ever arising in the first place. It concerns the manner in which actors’ preferences are shaped by social structures (i.e., ideology). In his exposition of the third dimension of power, Lukes makes the case that the socially structured and culturally patterned behavior of groups and practices of institutions, along with broader collective forces and social arrangements, may exclude real interests from the public debate. That is, mobilization of the political bias may see some actors self-exclude from debates on polity.

Lukes defines real interests as what we may logically deduce to be actors’ interests in the absence of particular constraints that prevent them from comprehending what their interests are and thus acting to their own maximum benefit. In this way, real interests bear some resemblance to what actors’ interests would be in the
absence of *false consciousness*, which results, at least in part, from *ecclesiastics* who supervise social institutions to propagate a certain worldview as the status quo (see Anderson, 1976 and Gramsci, 2007). Here, Lukes explains how B’s self-exclusion amounts to a form of power A exercises over B:

A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants. Indeed, is it not the supreme exercise of power to get another or others to have the desires you want them to have that is, to secure their compliance by controlling their thoughts and desires (Lukes, 2005, p. 27)?

A significant component of the data utilized in the dissertation come from 158 submissions on the proposed amendments to IFRS 3. Figure 6.3 (see chapter 6) indicates that in response to its formal invitation to comment, the IASB received virtually no comment letters from actors in China (0%), Japan (2.5%), India (0.6%), Russia (0.6%), or Brazil (0.6%). For an *international* accounting standard setter, it is noteworthy that the IASB generally only receives submissions from actors in North America, Europe, Australia, and New Zealand. Larson (2007) argues, “…limited participation by some constituents suggests that the IASB should further promote constituent participation to achieve greater legitimacy” (p. 207). It can also be noted from Figure 6.2 (see chapter 6) that the IASB received virtually no comment letters from particular types of actors, such as NGOS, charities, academics, and so on. Applying Lukes’s third dimension of power, one may deduce that certain actors self-excluded from the IASB’s debates on the amendment of IFRS 3 without ever realizing that the accounting for business combinations affects their lives.

The concept of *real interests* has attracted criticisms (see Clegg, 1989; Vogler, 1998; Malsch & Gendron, 2011) that I must address to successfully apply Lukes’s framework in the dissertation. Clegg (1989), for example, asserts that it is virtually impossible to identify what *real interests* are in any analytically robust way. If actors themselves cannot define their interests, then how could a researcher fare any better? I seek to overcome the limitations of inferring actors’ *real interests* by allowing the actors to speak for themselves. In accordance with Lukes’s “principle of charity” (1994) (see also Townley, Cooper & Oakes, 2003), I do not seek to infer what *real interests* would be in the absence of the IASB’s institutional preferences with respect to financial reporting. Instead, I define the interests of lobbyists by treating seriously what lobbyists define in submissions as their interests. Conversely, the board and the secretariat’s *real interests* are conceived as their stated interests as they were expounded, for instance, in public meetings.

One point warrants emphasis here: My approach of investigating the third dimension of power remains consistent with Lukes’s framework. In his analysis of this dimension, Lukes explains that an institution’s preferences can manifest in *observable inaction*, whereby inaction has the effect of suppressing conflicts of
interest. In this way, the third dimension of power is not limited to cases in which struggles are completely concealed. He states,

The bias of the system is not sustained simply by a series of individually chosen acts, but also, most importantly, by the socially structured and culturally patterned behaviour of groups, and practices of institutions, which may indeed be manifested by individuals' inaction (my emphasis) (Lukes, 2005, p.26).

Individuals and elites may fail to act at all (my emphasis) in such a way as to keep unacceptable issues out of politics, thereby preventing the system from becoming any more diverse than it is (ibid, p.39).

As I have argued, such an exercise (of power) may, in the first place, involve inaction rather than (observable) action (my emphasis) (ibid, p.52).

It is, however, necessary to ask the following: Which non-events matter? Which non-events relate to power and conflict? Which non-events can we attribute to an exercise of power? After all, there are an infinite number of non-events. Lukes (2005) concludes, “One satisfactory answer might be: those outcomes desired by a significant number of actors in the community but not achieved (p. 40-41). In chapter 8, consideration is given to a case of institutional inaction that led to the subjugation of potential issues raised by respondents in comment letters regarding the IASB’s lack of guidance on how to apply the acquisition model. To paraphrase Lukes, the case of inaction led to an outcome that was not desired by a significant number of actors that wanted the IASB to expound the procedures for conducting acquisition accounting. Bearing these points in mind, it is in this specific way that the dissertation investigates the third dimension of power in chapter 8; that is, in terms of institutional inaction that reinforced the IASB “rules of the game.” Here, the relevant counterfactual is the majority of respondents requesting further guidance from the secretariat and the board, while the mechanism of power is the IASB’s not providing it to them, in part, to reinforce the IASB’s institutional preferences.

Lukes maintains, and this is critical to my argument, that if A can logically deduce that his or her actions will have an adverse effect on B, we can safely attribute an exercise of power to A’s actions. He emphasizes that ignorance does not absolve actors from acting irresponsibly; that is, a failure to act responsibly constitutes an exercise of power to the extent that A knowingly does something that somehow negatively impacts B. In the case of the IASB’s amendment of IFRS 3, I suggest the IASB was aware of the challenges confronting preparers in applying the revised acquisition model because a majority of respondents requested further guidance from the IASB on how to account for a business combination.

Chapter 8 is not the only chapter in the dissertation that follows from the third dimension of power. As noted in the introduction, chapter 4 features a brief exposition on the political economy of the convergence project. The analysis suggests that the emergence of the IASC in 1973 can be placed in relation to the demise of the Bretton Woods System (see Germain, 2010). At the time, a systemic reconfiguration of what Wallerstein and Hopkins (1982) and Wallerstein (2004) conceive as the “World System” was undertaken by the global core.
Through its efforts to develop a universal framework of accounting standards (including one standard for accounting for business combinations), the IASB is believed to promote a form of market discipline that turns on the increased transparency of global financial reporting practices, and where transparency is believed to support global trade and investing. I suggest that its development of IFRS supports what Mörth (2006), Jacobsson and Sahlin-Andersson (2006), and Kirton and Trebilcock (2004) conceive as a type of “soft regulation,” which is thought to have supported and deepened a broader project of capital and financial market liberalization. Arnold (2012) suggests that this phenomenon can be linked, in part, with attempts by several Western countries to mitigate economic challenges that first materialized at the dawn of the 1970s.

Further, the work in chapter 5 can also be situated in relation to the third dimension of power. Here, consideration is given to the IASB’s efforts, as a “private authority” (e.g., Hall & Biersteker, 2002) to build democratic legitimacy. The chapter investigates how the discursive construction of the public accountability and governance structures of the IASB along with its mode of “independent expert standard setting” can be related to the IASB’s attempts to establish an impression of democratic legitimacy. Through its efforts in this regard, the IASB, I suggest, endeavors to shape external actors’ perception that it is a “good” accounting standard setter, one that works in what is purported to be the “public interest.” As the work of Zeff (2003a, 2003b) shows, accounting standard setters, like the former U.S. Accounting Principles Board (APB), are dismantled when their legitimacy is eviscerated. That authorities in 124 jurisdictions either permit or require financial statements to be prepared in accordance with IFRS and “IFRS-lite” for domestically listed companies and SMEs, respectively (see AICPA, 2012 and IFRSF, 2012a, 2012c), suggests that the IASB’s efforts in this regard have been fruitful. In the dissertation, legitimacy is conceived as a type of power conferred upon the IASB by actors like the G20 and the Financial Stability Board (FSB) (see Botzem & Quack, 2009) to develop IFRS. It is a more subtle form of power, but without it, the IASB risks losing the requisite authority to carry out its work.

3.13 Theoretical Contribution: Expertise

The dissertation makes a theoretical contribution by applying Lukes’s model to expert-based standard setting at the IASB. For this purpose, I consider the works of Collins (1974, 1975, 1985; 1992, 2000, 2001, 2010) and Collins and Evans (2002, 2007). Specifically, I apply two aspects of Collins’s scholarship to the dissertation. First, the analysis in chapter 5 benefits from Collins’s attempt to delineate the substance of different forms of expertise. (See the forthcoming section entitled: “What is expertise?”) In his pursuit of identifying different types of expert knowledge, Collins develops a periodic table of expertises. One reason for assembling this table is to demarcate which experts are best equipped to contribute to highly technical policymaking. Taking this into account, the argument is advanced in chapter 5 that accounting intellectuals possess a particular type of expertise—that is, they are the bearers of interactional expertise on financial accounting—which they could mobilize to facilitate a more deliberative approach to the
development of IFRS. Secondly, Collins’s research shows experts struggle to communicate knowledge to other experts vis-à-vis written instructions due to the problems issuing from “concealed knowledge,” “mismatched saliences,” “ostensive knowledge,” and “unrecognized knowledge” (e.g., Collins & Evans, 2002, 2007). (See the forthcoming section entitled “The challenges of communicating expert knowledge.”) The work in chapter 8 benefits from Collins’s insights on why it is difficult to teach experts how to do particular things when written instructions are used to transfer knowledge between different groups of experts. Against the backdrop of the IASB’s formal invitation to comment on ED 3, the data show an overwhelming majority of accounting experts contested the draft on the grounds that it did not elucidate how to apply the acquisition due to the problems elaborated in Collins’s work.

3.13.1 What is expertise?

In their recent text Rethinking Expertise (2007), Collins and Evans ask: “Who should contribute to which aspects of technological debate in the public domain?” (p. 113). They conclude that “individuals that know what they’re talking about” – that is, “experts” – should be involved in technical decision-making. Naturally, it is worth asking: What is an expert? Collins (2010) and Collins and Evans (2002, 2007) suggest that expertise is real in spite of the inherent difficulties of pinning down the concept of expertise. They suggest that some individuals know more about how to do specific things than other people do; some people have more expertise than other people have. As an example, a thoracic surgeon has more expertise than, say, a trapeze artist on how to remove the pleural membrane encasing the lung.

In the realm of technical policymaking, Collins and Evans (2007) argue that experts should play a central role. To demarcate the boundaries between experts and those that do not know what they’re talking about, they identify and classify different types of expert knowledge in the periodic table of expertises. (See Figure 3.2.) The table’s organizing principle is specialist tacit knowledge – knowledge that is not widely shared, in part, for the reason that it is not codified. Collins (2000) states: “Tacit knowledge covers those things we know how to do but are unable (or unwilling) to explain to someone else” (p. 117). Perhaps the most influential paradigm of tacit knowledge was developed by Polanyi (1958, 1962 and 1966). Collins (2000) remarks: “Polanyi points out that the physics of bike riding is complex and counterintuitive, that hardly any bike-riders, if any, know the physics, and that even if they did, they would not be able to use their understanding to master the bike” (p. 117). Certainly, an expert on bicycle riding can provide helpful guidance to a novice by telling him or her to stand the bicycle upright, find a level surface to practice on, pedal, hold the handlebars, be tenacious, and so on. Nevertheless, anyone who has mastered the skill of bicycle riding recognizes that following these formalized instructions alone will not amount to success. To acquire the expertise needed to ride a bicycle, one must practice riding a bicycle. Through a process of trial and error, a novice will acquire a sense of balance. Even more importantly, however, the novice rider will need a lot of time to acquire the expertise needed to navigate the bike through traffic.
All individuals possess tacit knowledge. We all speak particular language(s), a skill that requires considerable tacit knowledge. To varying extents, we all observe particular social etiquettes, rituals, norms, traditions, and so forth, which is another skill that is predicated on vast amounts of tacit knowledge. Collins and Evans characterize this type of tacit knowledge as ubiquitous tacit knowledge; it is tacit knowledge that every member of a society must possess to successfully live in it. Collins and Evans argue that “higher-order” experts (i.e., contributory experts and interactional experts) are individuals with a lot of specialist tacit knowledge, whereas “lower-order” experts are those possessing primarily ubiquitous tacit knowledge supplemented with what they call beer-mat knowledge, popular understandings, and primary source knowledge. Collins and Evans suggest that experts are individuals that have a lot of specialist tacit knowledge.

Specialist tacit knowledge is the type of knowledge that is acquired by individuals through prolonged periods of enculturation within a specific field of practice, such as thoracic medicine. The work of Power (1995, 1996, 1997a, 1997b, 2003) shows, for instance, that what is believed to be auditing expertise is acquired/constructed extemporaneously in practice. To learn how to be an auditor requires an individual to be socialized in its practice. Individuals build specialist tacit knowledge by doing things in practice rather than by reading about them. Collins (2000) states, “the mastery of a practice cannot be gained from books or other inanimate sources, but can sometimes, though not always, be gained by prolonged social interaction with members of the culture that embeds the practice” (p. 116). In a similar vein, Burns (1969) maintains that knowledge is the property of people rather than written documents. To return to the case of the field of thoracic medicine, the thoracic surgeon acquires the specialist tacit knowledge on performing a pleurectomy through years of practicing the procedure. Gradually he or she acquires the expertise on how to carefully

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43 From Collins and Evans (2007, p. 15).
remove the pleural membrane encasing the lung. The surgeon does not acquire specialist tacit knowledge on how to perform a pleurectomy by reading books about the thorax. To sum up, Collins argues that an individual acquires expertise (i.e., specialist tacit knowledge”) by doing things through direct social immersion in a specific field of practice rather than by reading instructions on how to do things.

The period table of expertises distinguishes between two types of high-level expertise: (a) contributory expertise, and (b) interactional expertise. “Contributory expertise (...) enables those who have acquired it to contribute to the domain to which the expertise pertains; contributory experts have the ability to do things within the domain of expertise” (Collins & Evans, 2007, p. 24). A professional accountant is commonly regarded as a contributory expert in the domain of financial accounting or auditing: “The overlooked second type of deeply tacit-knowledge-laden expertise is interactional expertise. This is expertise in the language of a specialism in the absence of expertise in its practice” (ibid, p. 28). Academic accountants, for instance, have interactional expertise on financial accounting. They are fluent in its language, and in many cases, they have contributory expertise, having earned a professional accounting designation before commencing academic life.

Collins and Evans argue that a space should be reserved for contributory experts in technical policymaking. Applied to the IASB’s amendment of IFRS 3, for instance, they would argue a space should be reserved for an accountant rather than for a thoracic surgeon. While a thoracic surgeon has contributory expertise on how to remove the pleural membrane encasing the lung, an accountant, in comparison, has more contributory expertise on how to apply the acquisition model, given that he or she has repeatedly applied the model to prepare consolidated financial statements. Collins and Evans (2007) state, “we think that knowing a relevant aspect of Western science should be a precondition for taking part in the technical aspect of the debate” (p. 115). While the development of IFRS is not a “science,” it is technically complex. A logical corollary, I suggest, is that participating in the development of IFRS requires an intimate understanding of financial accounting. Regarding the IASB’s amendment of IFRS 3, for instance, it is difficult to imagine how a thoracic surgeon could participate in the IASB’s deliberations for the reason that they do not understand, for instance, what a step acquisition means.

The question remains as to which individuals “know enough about what they’re talking about” to participate in the development of IFRS. Collins and Evans would suggest two things. First, contributory experts should be involved in the development of IFRS. Professional accountants and business valuators should participate in debates on the development of the acquisition model for the reason that they know a lot about acquisition accounting. Second, contributory experts should not monopolize the development of IFRS. The development of an accounting standard for business combinations is too important to be left to professional accountants and various agents of the financial and banking sectors. Habermas (1981) argues that citizens should discuss matters of public importance. IFRS are of public importance. Accounting has
redistributive effects. It has economic consequences. It ascribes social importance to particular social phenomenon like investing, whilst marginalizing the potential to preserve the natural environment (Cooper & Morgan, 2013). Accordingly, Habermas would argue that citizens affected by the convergence of GAAP should be involved in the convergence project.

While Habermas is an advocate of deliberative democracy, he argues ideal speech situations necessitate citizens possess specific capacities, including discourse. Collins and Evans argue that interactional experts could play an important role in making highly technical debates more comprehensible to citizens lacking the capacity of discourse: “Interactional expertise (can) provide a bridge between the rest of us and full-blown physically engaged experts” (2007, p. 77); “What we would like to bring about is the establishment of a discourse of expertise (…) ‘I do not have contributory expertise in (a specific domain) (e.g., financial accounting) but I do have interactional expertise in that domain (e.g., financial accounting) and this enables me to make a contribution.’ In due course we may imagine it becoming the ordinary occurrence for interactional experts to be allowed to speak alongside contributory experts” (ibid, p. 72).

As noted, interactional expertise is the mastery of the language of a specialist domain in the absence of practical competence. Journalists and social scientists are interactional experts. Collins, a sociologist, is an interactional expert. He doesn’t know how to build a transversely excited atmospheric (TEA) laser, but he knows enough about TEA lasers to have an informed conversation with scientists that know how to build TEA lasers (Collins, 1974, 2000, 2001). Sometimes he has even been able to apply his interactional expertise to make recommendations on how to improve TEA laser building. Similarly, David Cooper, Keith Robson, and Stephen Zeff are not professional accountants, but they have extensive expertise on financial accounting, and this has enabled them to conduct research on accounting regulation. Like Collins, Zeff has also made recommendations on how to improve the IFRS framework, like when he responded to the IASB’s formal invitation to comment on ED 3 (see Zeff, 2005a). I suggest in chapter 5 that interactional experts, conceived as accounting intellectuals, could facilitate a more deliberative approach to the development of IFRS. I propose that their involvement in what the IASB calls a due process for developing IFRS would help the IASB to maintain specific standards of democratic legitimacy.

3.13.2 The challenges of communicating expert knowledge

In their recent text Rethinking Expertise (2007), Collins and Evans apply the concept of “specialist tacit knowledge” to examine public policymaking in the realm of science and technology. They state that expert policymakers may fail to transmit particular knowledge in written policy to other groups of experts. This failure—which is both unintentional and difficult to resolve—is problematic because it makes it difficult for experts in the field to adhere to the requirements set forth by public policymakers.
Collins originally conceived of the problem of specialist tacit knowledge when he studied scientists who struggled to communicate their knowledge to other scientists. Collins’s work has looked at Western scientists’ inability to replicate Russian measurements of the quality factor of sapphire up to $4 \times 10^8$ seconds at room temperature. The Russian scientists published their findings in academic journals, and they presented their results at conferences to help the Western scientists replicate the measurements. Nevertheless, Collins observed that Western scientists were unable to re-create the Russians’ measurements.

In a more unusual scenario, Collins studied Dr. Harrison’s work. Harrison built a transversely excited atmospheric (TEA) laser in 1974; however, he struggled to build another just 5 years later, despite having a meticulous set of instructions that he drafted when building the first one (see Collins, 1974, 1992 and Collins & Harrison, 1975).

Collins’s research on the science of measuring the quality of sapphire and building the TEA laser led him to formulate his thesis that it is difficult for experts to relay knowledge via written instructions to other experts (including themselves) on replicating experiments or technologies, particularly ones on the periphery of what Kuhn conceives as “normal science” (1962). Collins suggests several reasons why individuals often struggle to acquire expertise from reading formalized instructions. He argues that formalized instructions are inadequate because they often do not provide the specialist tacit knowledge that experts require to build technologies that other experts have built. Collins maintains that experts need to meet face-to-face with other experts to convert specialist tacit knowledge into explicit knowledge. However, even though such meetings are fruitful, personal interactions do not necessarily clarify tacit knowledge. Recall the example of bicycle riding. As Polanyi asserts, we sometimes know more than we can say. In a similar vein, Collins argues that experts may not be aware of their own tacit understanding of certain things. (Recall Dr. Harrison’s struggles!)

Collins’s work suggests that it is difficult for experts to build technologies by following other experts’ written instructions. He states that some of the most established technologies, such as TEA lasers, are difficult to build even though instructions on how to build them are widely available. Collins argues that written instructions are insufficient, given that they obscure specialist tacit knowledge. One reason why they are insufficient is due to the problems issuing from concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge. I will analyze each of the problems in chapter 8, particularly how they obfuscate knowledge that experts need to operationalize particular technologies, such as the IASB’s acquisition model. Further, I will suggest that written instructions fail to relay knowledge from one group of experts to another due to the problem I conceive as “logical inconsistencies.” This problem extends beyond Collins’s work, and I add to his thesis by suggesting that written instructions are confusing if they are inconsistent with other instructions.
Given this context, the work in chapter 8 shows a majority of senior executives, financial accountants, auditors, analysts, and so forth contested ED 3, in large part because they did not understand how to operate the draft’s instructions to account for a business combination. I suggest that their confusion can be linked with the above problems. I argue that the IASB’s subsequent failure to clarify how to perform acquisition accounting can be related to at least two factors.

First, I argue that the draft instructions’ lack of precision can be linked with several of the IASB’s institutional preferences, including its preference for principles-based accounting standard setting. As will be discussed in chapter 8, the IASC/IASB has long preferred rudimentary standards as compared to highly prescriptive standards (see, for example, Camfferman & Zeff, 2007 and Botzem, 2012). One reason that it has preferred principles-based standards is that it hoped that the inherent flexibility of IFRS would help preparers apply the accounting standards in a variety of jurisdictions, using slightly different methods, without violating local GAAP. In this vein, Carmona and Trombetta state, (The) global acceptance of IAS/IFRS, we argue, largely rests on its principles-based nature. These ideas are instrumental in accommodating diverse institutional settings and traditions under a common set of standards. (p.457) (...) We argue that the inner flexibility of the principles-based approach enables the application of IAS/IFRS in countries with diverse accounting and institutional environments (2008, p.459).

Not ameliorating the draft instructions when a significantly abridged version of IFRS 3 was released in 2008 is taken to be partially related to the mobilization of the IASB’s bias for developing somewhat pliable standards, which in turn, as Carmona and Trombetta (2008) argue above, is thought to better facilitate the global diffusion of IFRS. In the forthcoming analysis, I suggest that in certain cases the IASB did not enhance its instructions in a reinforcement of its institutional preferences (third dimension) for principles-based accounting standard setting, FVA, and its mandate to converge IFRS with U.S. Generally Accepted Accounting Principles (GAAP). Several members of the IASB did not “just want to tell” preparers how to measure a noncontrolling interest at fair value, for instance. The IASB preferred to establish a measurement attribute (i.e., fair value) and then require preparers to exercise professional judgment in applying the measurement attribute to account for a partial acquisition. To this end, Collins argues that in some cases, experts intentionally conceal knowledge by withholding it from written instructions. In his analysis of concealed knowledge, Collins (2001) states: "A does not want to tell ‘the tricks of the trade’ to (B), or journals provide insufficient space to include such details" (p.72). He states that concealed knowledge is weak tacit knowledge:

Weak tacit knowledge is knowledge that is tacit for reasons that are not philosophically profound but have to do with the relations between people that arise out of the nature of social life. The reasons range from deliberate secrecy to failure to appreciate someone else’s need to know. A characteristic of weak tacit knowledge is that, in principle, with enough effort, any piece of it could be rendered explicit. That not all of it can be rendered explicit at any one time has to do with logistics and the way societies are organized (Collins, 2010, p. 11).
Second, and perhaps more significantly, my analysis of the secretariat and the board’s discussions in 2006 and 2007 suggests that in certain cases the IASB could not illuminate the specialist tacit knowledge on applying the acquisition model, being as they had yet to construct the expertise themselves. It would not be until 2011, for instance, that the IASB would develop its initial standard on how to do fair value accounting (i.e., IFRS 13). Recall, however, that in Lukes’s discussion of the third dimension of power, he states that if A can logically deduce that his or her actions will have an adverse effect on B, we can safely attribute an exercise of power to A’s actions (or inactions). Also recollect that a significant majority of respondents asked the IASB for further guidance. So while the IASB had yet to construct the expertise on applying all aspects of the acquisition model, I argue that it held power over accounting experts by requiring them to construct the expertise extemporaneously in the field. The case of Phase II is a powerful example of Lukes’s third dimension of power since it shows how ideology works: beyond the consciousness of the actors but nevertheless powerful in terms of the way in which the board and the secretariat sustained a specific logic of regulation. It is also a good example of Collins’ ideas about how expertise works and reproduces expert power; that is, not by deliberate evasion or strategies, but by highlighting the importance (and difficulty in sharing) tacit knowledge.

**Part III: The Data**

The data in the dissertation comes from texts. The material and analysis presented in chapters 4 and 5 are derived primarily from an extensive review of various literatures along with official reports, consultation documents, and related responses, as well as information available on the IASB’s website (www.ifrs.org) and those of other key regulatory players in the global financial arena, like the U.S. FASB (www.fasb.org), IOSCO (www.iosco.org), and the IMF (www.imf.org). What follows does not encompass all of the material used, but it does provide details on the source of data. The analysis in chapter 4 is primarily based on a literature review. Specific attention has been given to works regarding transformations in the global financial architecture, particularly ones in the 20th century (e.g., Annisette, 2004; Arnold, 2005, 2009, 2012; Djelic & Sahlin-Andersson, 2006a, 2006b; Germain, 2010; Humphrey, Loft & Woods, 2009; Loft, Humphrey & Turley, 2006; Neu, Gomez, Graham & Heincke, 2006; Suddaby, Cooper & Greenwood, 2007; and so on) along with historical accounts of the IASC and the IASB (e.g., Botzem & Quack, 2006; Botzem 2008, 2012; Camfferman & Zeff, 2007; Hallstrom, 2004; Perry & Nöelke, 2005, 2006; Zeff, 2012; and so on). In addition, the analysis has taken stock of the literature on the accounting for business combinations (e.g., Aboody, Kasznik & Williams, 2000; Anderson & Louderback, 1975; Copeland & Wojdak, 1969; Dunne, 1990; Gagnon, 1957, 1971; Hopkins, Houston & Peters, 2000; Krug & Shill, 2008; Nathan & Dunne, 1991; Ramanna, 2008; Zeff, 2012; and so on). I reviewed this work to make better sense of some of the early debates on the application of purchase accounting versus the pooling method along with debates on the various methods for accounting for acquisition goodwill.
Beyond my investigation of these literatures, I also consider the business press between 2002 and 2013. I have gathered and analyzed approximately 1,000 news clippings about the IASB. A majority of the articles were collected from the Financial Times Historical Archive. Key texts that I retrieved from the IASB's website include (but are not limited to) the organization's annual reports from 2002 to 2012, various versions of its constitution, and its due process handbook. Further consideration has been given to 40 speeches delivered by the Trustees in public addresses to various constituents. A total of 132 issues of IASB Update have been carefully reviewed. Each month the IASB publishes a summary of its public deliberations, and I have investigated all of them to learn more about Phase I of the Business Combinations Project, Phase II, the secretariat and the board’s work on other projects, and the IASB’s relations with the FASB and other national accounting standard setters. My review of the business press has also shed light on the IASB’s dealings with various national, regional and international regulatory and quasi-regulatory bodies. An invaluable resource has been Deloitte’s website (www.iasplus.com). Not only does it provide comprehensive analysis on the IASB’s work (including its project on the accounting for business combinations), but it also imparts a rich source of historical material concerning the IASC and the IASB’s projects since the early 1970s. Moreover, it provides various reports on developments at the FASB, including how the developments relate to the IASB’s work. Some of the highly pertinent regulatory texts that I have investigated include (but are not limited to) the Canadian Accounting Standards Board’s discussion paper entitled “Methods of Accounting for Business Combinations: Recommendations of the G4+1 for Achieving Convergence” (1999), the European Financial Reporting Advisory Group’s (EFRAG) “Study Report of IFRS 3 and IAS 27” (2007), the Norwalk Agreement (2002), and the subsequent Memorandums of Understanding (2006 and 2009) and the European Central Bank’s working paper entitled “Cross-Border Mergers and Acquisitions” (2009).

Chapters 6, 7, and 8 follow from a modified content analysis of texts. Each of the empirical chapters provides specific details on how the data are analyzed, particularly in relation to my exploration of the three dimensions of power. Here the discussion is limited to a description of the primary data that were utilized. It has comprised 158 letters submitted to the IASB in response to its formal invitation to comment on ED 3. The comment letters were retrieved from the U.S. FASB. As I will discuss in chapter 5, while the IASB asserts that all comment letters are available on its website, I was not able to retrieve them from its website. The FASB’s archives, however, include duplicates of submissions made to the IASB. One point warrants emphasis here: Senior accountants and other financial and corporate executives drafted the letters. Their letters offer very perspicacious analysis of the IASB’s draft instructions. This point is worth stressing, given that in chapter 8, I will apply Collins’s work, which deals with some of the factors that make it difficult for experts to communicate knowledge to other experts.

While the work in chapters 6, 7, and 8 will focus on the IASB’s amendment of IFRS 3, I have also carefully
analyzed 124 comment letters submitted to the FASB as part of its amendment of SFAS 141 ("Business Combination"). Further consideration has been given to APB 16 ("Business Combinations"), the original version of SFAS 141 (2001), and the amended version of SFAS 141 (2007). Recall that Phase II was a joint project. While the boards conducted separate deliberations and ultimately released significantly different standards, I have judiciously examined the FASB’s amendment of SFAS 141 to better understand the relations between the IASB and the FASB’s work on the accounting for business combinations. It is also worth noting that the amendment of IFRS 3 saw the release of an amended version of IAS 27 ("Consolidated and Separate Financial Statements"). Therefore, I thoroughly reviewed 94 comment letters submitted to the IASB with respect to its exposure draft of proposed amendments to IAS 27.

Further consideration has been given to the original versions of IAS 22 ("Business Combinations") (1983, 1993, 1998), the initial version of IFRS 3 (2004), ED 3 ("Proposed amendments to IFRS 3") (2005), and the amended version of IFRS 3 (2008). In my attempt to analyze the organizational basis of standard setting, I have evaluated all of the secretariat and the board’s public deliberations in 2006 and 2007 as they bore on the amendment of IFRS 3. Audio podcasts of their 14 meetings have been retrieved from the IASB’s website (www.ifrs.org). Consideration has also been given to 60 agenda papers prepared by the secretariat. (As will be shown in chapter 7, the agenda papers were used to frame the secretariat and the board’s deliberations over the course of the post exposure draft process.) The agenda papers were retrieved from the IASB’s website. Additional consideration has been given to some of the secretariat’s agenda papers constructed in separate projects. I reviewed the texts to better understand how the secretariat’s work in Phase II compares to its work in other projects. As noted above, a handful of preliminary interviews were also conducted with one member of the board. Further the head of the business combinations project was interviewed. The resulting data are not used in the dissertation, but the interviews enriched my understanding on some of the key debates that occurred during Phase II.

Having discussed the dissertation’s methodology, I continue now to chapter 4, which provides a broad contextualization of the emergence of the IASC/IASB and a number of the early debates on the accounting for business combination.
Chapter 4 A Political Economy of the Convergence Project

The accounting literature has been concerned with examining the connection between accounting and globalization in a variety of contexts and issues (Cooper & Ezzamel, 2013, p. 289).

4.1 Introduction

A comprehensive analysis of convergence project politics necessitates consideration of the linkages between broader social developments and institutional specificities and the work of the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB). Proper cognizance needs to be given to the power dimensions associated with agenda building (see chapter 7) and the more systemic forms of power that shape the harmonization project. The chapter considers the emergence of the IASC, its subsequent transformation into the IASB, and the IASC/IASB’s efforts to harmonize the accounting for business combinations. The chapter locates these factors in relation to (a) economic globalization, (b) the financialization of the market economy, and (c) the IASC/IASB’s relationship with the U.S. Financial Accounting Standards Board (FASB), the U.S. Securities and Exchange Commission (SEC), and the SEC’s international affiliate, the International Organization of Securities Commissions (IOSCO).

The chapter features three sections. The first section comprises a cursory overview of economic globalization since the resolution of World War II (WWII). Of particular significance, I suggest that the 1970s bore witness to the restructuring of the global economy, whereby capital and financial market liberalization was undertaken to rejuvenate economic prosperity in the Global Core. I argue that the IASC’s emergence in 1973 can be associated with what Germain characterizes as “…the incessant march of capital account liberalization” (2010, p. 54)—a phenomenon that became more pronounced following the collapse of the Bretton Woods System. The work of the IASC/IASB is believed to reinforce economic globalization by increasing the transparency of markets. That is, its development of global accounting standards is perceived to better enable investors and creditors to evaluate financial statements prepared in different jurisdictions.

The second section attends to the IASC’s early struggles to build legitimacy (see also chapter 5), particularly its determination to increase compliance with International Accounting Standards (IAS). Particular attention is given to how a series of unexpected developments, like the East Asian Crisis, helped to propel the IASC to the forefront of what is commonly regarded as the global financial architecture. Significantly, the discussion considers the IASC’s relationship with the SEC and IOSCO to shed light on some of the factors associated with the IASC’s reconfiguration into the IASB, which is a self-described “independent expert body.” The final section looks at some of the early debates concerning the IASC/IASB’s efforts to develop a universal accounting standard for business combinations. I consider these debates because the empirical-theoretical focus of chapters 6, 7, and 8 is the IASB’s amendment of International Financial Reporting Standard 3 (IFRS 3, “Business Combinations”). My exposition suggests that the IASC/IASB’s attempts to promote a universal
model for accounting for business combinations occurred in conjunction with escalating levels of cross-border mergers and acquisitions (M&A) activity, the integration of global markets, the financialization of the market economy, and specific developments in the United States. The third section also elaborates key details on Phase II to set the stage for the subsequent work in chapters 6, 7, and 8. Having outlined the chapter’s three sections, I now consider economic globalization as it was set into motion during the second half of the 20th century.

Part I: Economic Globalization

4.2 Economic Globalization

At the outset of the millennium, the International Monetary Fund (IMF) released a staff paper entitled “Globalization: Threat or Opportunity?” (2012). The staff paper defined economic globalization as the increasing integration of economies around the world as suggested by rising levels of international trade, foreign direct investment, portfolio investment, and income payments to foreign nationals. Before proceeding to an abridged overview on the association between the economic globalization in the 20th and 21st centuries and the works of transnational authorities and quasi-authorities (such as the IASB), five points warrant clarification. First, globalization extends well beyond economic globalization. Steger (2001, 2005) recognizes that globalization comprises economic, political, and social aspects (see also Cooper & Ezzamel, 2013, p. 290), with political globalization involving the diffusion of particular government policies, ideas, values, discourses, norms, and so on, while the work of Robertson (1992, 1995) provides insights on cultural globalization. Giulianotti and Robertson state,

Globalization in part features the critical construction and reinvention of local cultures vis-à-vis other cultural entities (Giulianotti & Robertson, 2006, p.172).

Glocalization describes the parallel shifts towards global and local scales of political relationship, such as in the rising influence of the EC (European Commission) and the G8, on the one hand, and the proliferation of local economic initiatives and partnerships, on the other (...) glocalization is marked by social actors’ fluid and critical engagement with, and reconstruction of, local and global phenomena (ibid, p.173).

In summary, glocalization means that cultural globalization is not unidirectional; that is, the “local” and the “global” constantly interact, and they are mutually informing. Although the chapter focuses on the IASC/IASB in relation to economic globalization, I recognize that globalization is multifarious. It manifests in a plethora of ways that extend well beyond economic globalization.

Second, it is worth dispelling the myth that globalization is a relatively recent phenomenon. In fact, Hirst and Thompson (1996) show that the global economy was more integrated in the late 19th century than it is today. In a similar vein, Harlan and Rahschulte (2011) reveal how the history of globalization spans
centuries. The work of Abu-Lughod (1995), for instance, indicates that an incipient “world system” predated
the rise of the West by nearly 300 years. Her work shows that by the 12th century there were eight
overlapping “circuits of trade” that connected four core regions in Eurasia. Although I focus on economic
globalization since the resolution of WWII, I realize that international commerce covers several hundred
years. With this being said, I have decided to focus on contemporary globalization because the dissertation’s
topic is the IASB. The IASB’s forerunner organization, the IASC, was established in the wake of the collapse
of the Bretton Woods System.

Third, I suggest that economic globalization is neither categorically desirable nor inevitable. As noted in
chapter 2, one of the shortcomings of historical accounts on accounting standard setting (see, for example,
the works of Stephen A. Zeff) is the tendency to depict economic globalization as commonsensical and good.
However, it is patently clear that economic globalization is not necessarily our manifest destiny. There is
good reason to suggest that it is neither equally desirable nor value neutral. In his text Globalism: The New
Market Ideology, Steger, for instance, characterizes market integration in the 20th and 21st centuries as
“globalism” (2001). He argues that globalism is an inherently ideological project. It sees the application of the
Chicago School’s variety of laissez-faire economics to global markets. In a similar vein, a recent IMF staff
paper suggests “free” markets promote efficiency and expansion of the production possibility boundary. In
spite of the ongoing global financial crisis, the paper concludes, “International markets promote efficiency
through competition and the division of labor—the specialization that allows people and economies to focus
on what they do best.” But several actors contest economic globalization. Acclaimed political commentator
Noam Chomsky (2002, 2010), for instance, associates expansion of the neoliberal project with increased
global financial instability, pronounced economic inequality in both the global core and periphery, and
degradation of the natural environment. No less than the Organisation for Economic Co-operation and
Development (OECD) recently concluded that economic globalization since the dawn of the 1960s is partly
responsible for the 60% spike in greenhouse gas emissions since then (see Hiert & Verdier, 2013, p.112).
Taking these points into account, the forthcoming analysis on the IASC/IASB should not be regarded as an
endorsement of economic globalization.

Fourth, transnational regulatory bodies like the IASB encroach upon the sovereignty of the state and
national agencies. However, international authorities and quasi-authorities, like the IASB, have not displaced
state or local authorities such as the U.S. FASB or the SEC. Local organizations and institutions continue to
contribute to the definition and regulation of market relations both domestically and internationally. The
work of Jessop (2000) reminds us that the rise of transnational regulatory regimes does not mean that we are
living in a world where the state and national authorities/organizations are antediluvian institutions. As
noted in chapter 2, transnational regulation manifests at the confluence of national and international
regulatory structures. Kobrin (2002) says that transnational regulatory measures are forged in the midst of a

sort of “patchwork” of national, regional, and international political structures. A case in point: multinational accounting firms are increasingly implicated in the transnational regulation of financial reporting practices (see Cooper & Robson, 2006). It is commonplace for the firms to assert themselves as “international and unitary organizations” (Cooper, Greenwood, Hinings, & Brown, 1998, p. 532). However, Cooper et al. show: “…nationalism is a significant part of the organizational landscape of the big international accounting firms, with most of these firms still reflecting their national histories and allegiances” (1998, p.532). Although the forthcoming analysis emphasizes the importance of transnational authorities in creating the requisite infrastructure to facilitate growth in international commerce, it is worth stressing that national systems of regulation and the nation state are not obsolete. This point is particularly germane in the forthcoming analysis with regard to what some might consider the somewhat tumultuous relationship of the IASC/IASB with the U.S. SEC and the FASB.

Finally, the ongoing global financial crisis has seen changes in the regulation of the World Economy. No less than Williamson, the author of what is commonly called the “Washington Consensus” (1990), was quoted in the Washington Post as saying that the neoliberal tract is over (Lozada 2009). Williamson’s comments followed British Prime Minister Gordon Brown’s declaration at a G20 summit that the Washington Consensus needs to be critically revisited in light of the current turmoil. I acknowledge that both the global financial architecture and the project of liberalizing capital and financial markets are in a state of flux. Given that a central preoccupation of the dissertation is the IASB’s amendment of IFRS 3 (2002–2007), however, much of my analysis relates to the period prior to recent economic and financial unrest. I now turn to a consideration of the significance of the type of economic globalization that was precipitated in the wake of WWII.

4.3 Bretton Woods

In his text “Global Politics and Financial Governance” (2010), Randall Germain investigates what might be regarded as a “Great Transformation” (i.e., Karl Polanyi, 1944) of the World Economy following the resolution of WWII. The Great Depression and WWII resulted in a systematic reversal in the internationalization of global trade, a phenomenon that had previously gained momentum during the economically prosperous 1920s. In the 1930s and the 1940s, however, national authorities reverted to policies of isolationism and protectionism to counteract the collapse of the World Economy and to later finance the massive war effort.

After WWII, a concerted effort was undertaken by 29 countries to reinvigorate global trade vis-à-vis the establishment of the Bretton Woods System. By ratifying the Agreement, each country agreed to cooperate on local currency production to preserve fixed international exchange rates. It was thought that the resulting monetary and financial stability would promote sustainable international trade. The Bretton Woods System
was predicated on a set of policies promoting Keynesian economics. One reason why the Allied Nations established the framework was to mitigate the economic instabilities that contributed to the outbreak of WWII. Although certain proponents of economic liberalism like Stigler (1971) assert that unregulated markets possess superior efficiency for the allocation of goods and resources, a coordinated infrastructure is regarded by many people to be necessary to moderate economic and financial instability. Joseph Stiglitz, the former World Bank Chief Economist, has long emphasized that it is only under exceptional circumstances that unregulated global markets perform efficiently. Accordingly, he is an outspoken advocate for stringent global regulation (Stiglitz 2000 and 2003). In summary, the resolution of WWII bore witness to the reinvigoration of international trade. Significantly, however, the Bretton Woods System imposed monetary and fiscal restrictions on international trade to curb volatility in international commerce.

Political economists like Eichengreen (2008), Helleiner (1994), and Weaver (2011) argue that the establishment of the International Bank for Reconstruction and Development (now the World Bank) in 1944 and the formation of the IMF in 1945 were the fundamental building blocks of the Bretton Woods System. The World Bank’s initial mandates were to foster growth in world trade and to finance the postwar reconstruction of Europe by making loans to European countries. One way the World Bank financed loans was by raising funds in credit markets. The IMF’s initial mandate was to administer a convertible currency system based on fixed exchange rates [See Copelovitch (2010) for a comprehensive analysis of the IMF’s work.] Underpinning the fixed-exchange rate system was the gold-pegged U.S. dollar. IMF membership required payment of annual quotas. The IMF then used its reserve funds to advance credit to member countries facing short-run balance of payment deficits. It was believed that the IMF’s system of international payments would mitigate the potential for abrupt currency depreciation and sporadic exchange rate fluctuations—both of which were believed to have the potential to undercut stable international trade. While the IMF and the World Bank endeavored to fulfill different roles, both institutions were created to nurture international trade.

The Americans played a pivotal role in maintaining the Bretton Woods System. Germain (2010) argues that the IMF and the World Bank lacked the resources to carry out their respective mandates. For example, the IMF did not have the requisite reserves to remedy Western Europe’s balance of payment deficits. To complicate matters, the IMF’s articles of agreement prevented the IMF from granting loans to countries for capital reconstruction. The IMF and the World Bank’s inability to fulfill their respective mandates created a vacuum that was filled by the U.S. administration. Hogan (1987), for instance, indicates that the United States provided approximately US$13 billion in financial aid to Western Europe through the Marshall Plan to facilitate post-war reconstruction. In return, Europe agreed to organize its economies on a continental basis, in part, to better enable American multinationals to access European markets in the 1950s. It can be noted, that “The launching of the Marshall Plan (…) set the scene for intensified discussions among
politicians and accounting professionals about national accounting harmonization” (Botzem & Quack, 2006, p.269).

Eventually it became clear, however, that the American administration was unable to maintain the Bretton Woods System, namely the gold-dollar peg, in the wake of several challenges in the 1960s and the 1970s, including spiking energy prices and declining productivity and profitability, not to mention soaring inflation and unemployment. America’s role in the Vietnam War, for instance, made it increasingly difficult for American authorities to maintain its balance of trade position. The rise of the European Economic Community (E.E.C.) and Japan marked a shift in economic power towards a more pluralistic system, whereby the E.E.C. and Japan controlled more of the IMF’s reserves, making it more onerous for the United States to preserve international liquidity. Another challenge that confronted the United States was the establishment of Euromarkets in London towards the close of the 1950s (see Burn, 1999), making regulation of American dollars circulating in Europe more problematic for U.S. authorities. Euromarkets grew exponentially in the 1960s, and they contributed not only to the erosion of the par value of the American dollar but also diminished confidence in the gold-dollar peg. For these and several other factors that extend well beyond the scope of the chapter, U.S. President Nixon declared in 1971 that America would unilaterally terminate the gold-dollar peg (see, for example, Hawly, 1987 and Gowa, 1983). Shortly thereafter, the country abandoned many capital controls, prompting other countries, like the United Kingdom, to abandon them in the 1970s as well.

4.4 A Systemic Reconfiguration of the World System

The precise factors associated with the collapse of the Bretton Woods System are difficult to pin down. Nevertheless, policies promoting Keynesian economics came to be less revered in the early 1970s. Djelic (2006) argues that a series of oil shocks, stagflation, uneven development, overproduction, and diminishing returns in the West (see also Brilof, 1972; Bryer & Brignall, 1986; Cooper, 1980; Miller, 1991; Robson, 1991, 1992; Stamp & Marley, 1970; etc.) fostered conditions of possibly that saw economists like Milton Friedman, George Stigler, and Allen Wallis push what is regarded as a liberal economic agenda from obscurity to the center stage. Djelic states,

The Keynesian stop-go machine appeared to be jammed. The “sleeping beauty” was out there, ready to be awaken through the search for alternative toolkits. Inspired by the liberal intellectual revival, economists and policy-makers came to blame excessive regulation and government intervention for structural rigidities. (…) A starting proposition was that economic growth depends upon market efficiency and the smooth allocation of resources for production. The policy recommendation was to remove impediments to free markets and to reduce in particular state involvement. This translated into privatization, deregulation, a scaling back of welfare benefits and tax cuts. Supply-side economics also recommended free trade as a means to “healthy” competition (Djelic, 2006, p. 64-65).
In a similar vein, Germain states,

The break between the Bretton Woods era and what follows runs along a different track, that of capital account liberalization (Germain, 2010, p. 53). The main storyline of the post-Bretton Woods period is the incessant march of capital account liberalization (ibid, p. 54).

This incessant march of capital account liberalization has been regarded as a systemic reconfiguration of what Wallerstein and Hopkins (1982) and Wallerstein (2004) call the “World System.” The restructuring has also been perceived as part and parcel of what Williamson originally called the “Washington Consensus” (1990). The Washington Consensus promoted trade liberalization, deregulation, liberalization of foreign direct investment, privatization, and so forth as prescriptions for moderating many of the economic difficulties of the day. However, the concept of the Washington Consensus is often invoked by political scientists like Chomsky (2002, 2010), Rodrik (2006), Serra, Spiegel and Stiglitz (2008), and so on to characterize the wave of reforms implemented by the Reagan and Thatcher administrations to promote a type of market fundamentalism. These administrations went to great lengths to liberalize regulatory controls on their respective capital and financial markets. Germain argues that the reforms had a snowball effect, whereby other national authorities quickly followed suit. He states,

From Argentina to South Africa to India and China, country after country opened up their economies and ultimately their financial systems to liberalization, deregulation and privatization (Germain, 2010, p 58).

Renewed reverence for the efficiency of free markets (including international markets) manifested in a number of phenomena, one of which is believed to be higher levels of economic integration. Figure 4.1 is based on data collected from the Swiss Federal Institute of Technology. It depicts the relationship between international flows of goods and services and capital restrictions on them. Figure 4.1 follows from Dreher’s index of economic integration (2006), which is an aggregate measure of economic integration for the 207 largest national economies. A country’s index of economic integration is the difference between its actual flows (i.e., trade, foreign direct investment, portfolio investment, and income payments to foreign nationals) and its capital restrictions (i.e., hidden import barriers, mean tariff rates, taxes on international trade, and capital account restrictions). Dreher states, “The data on actual flows and on restrictions are aggregated into two sub-indexes and (then) one overall index” (p. 1093). The “overall index” is depicted on the figure’s y-axis. Figure 4.1 suggests that levels of global trade (including international business combinations) rose steadily from 1970 to 2010. And perhaps more significantly, it shows that global trade rapidly outpaced capital controls encumbering global trade.
In addition to the increased interconnection of the advanced economies, the work of Arnold (2012) shows that in the wake of the Bretton Woods System collapse, the West also sought to enhance economic prosperity vis-à-vis the financialization of the market economy. She states that the reduction of capital controls better enabled Western nations, such as the United States and the United Kingdom, to stimulate growth by enabling them to transition away from regimes of capital production to ones based on financialization. She defines financialization along the following lines:

Economic historians and political economists use the term “financialization” to describe the transformation that occurred in the international political economy during the last quarter of the 20th century. The 1980s and 1990s saw significant changes in the world economy which included not only the widely studied phenomenon of globalization, but also financialization, which has been defined as a “pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production” (Krippner, 2004, p. 14) (Arnold, 2012, p. 369).

The increasing financialization of the market economy is apparent, for instance, in a consideration of the extent to which the earnings of nonfinancial companies in the Global Core have shifted from producing physical goods and/or providing services to undertaking financial transactions. On average, 40% of the reported earnings of nonfinancial companies in the Core were derived from financial transactions at the dawn of the 20th century. In comparison, only 10% of their reported earnings came from financial transactions during the Bretton Woods era (see Duménil & Lévy, 2004 and Krippner, 2005). More recently, the International Labour Organization released data indicating that “…national income accounts data in 17 countries shows that the financial sector's share of profits increased from 32 per cent in 1990 to over 40 per cent in 2005, while the ratio of financial-sector profits to the wages and salaries of all private-sector workers rose from 25 to 38 per cent” (Freeman, 2010, p. 167).
Against the backdrop of economic globalization and financialization, a multitude of transnational regulatory and quasi-regulatory institutions emerged. Djelic and Sahlin-Andersson (2006a) state that we are living in what Levi-Faur and Jordan conceive as a “golden era of regulation” (2005) as evidenced by the “exponential growth of international organizations” that both “issue rules” and “monitor adoption and implementation of those rules” (p. 1). Djelic and Sahlin-Andersson (2006) and Djelic (2006) state that transnational regulatory patterns reflect and modulate particular logics associated with expansion of the marketization of the World Economy. To illustrate, the IMF amended its “Articles of Agreement” in 1995 by adding a clause requiring its members to work towards full capital account liberalization (see Copelovitch, 2010). The OECD attempted to enact the Multilateral Agreement on Investment to reduce the level of regulation imposed on foreign investors (Stiglitz, 2003). Further the World Trade Organization was established in 1995 with stated “…commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets.”

Further Germain states that the “golden era of regulation” increasingly turns on the work of a number of “sectorally specific” (2010) regulatory bodies. He argues that these bodies cut across a range of financial activities, and in doing so, they deepen and extend international regulatory oversight (ibid, p.62). Critically, however, he states that these sectorally specific regulatory bodies advocate a type of regulation based on transparency as opposed to coercive oversight. Arnold characterizes this form regulation as soft regulation, and she states that it has been conducive to “…the spread of Anglo-American style capitalism” (Arnold, 2012, p. 364). I suggest that the IASC/IASB is a “sectorally specific” regulatory body. It is believed to regulate global financial reporting practices by developing a uniform set of accounting standards (but see Eberlein & Richardson, 2012; Ray, 2012; Nguyen & Gong, 2014). These standards are presumed to enhance market transparency by allowing investors to evaluate and compare financial statements prepared around the world (but see Trombetta, 2001). On this note, I now turn my attention to the emergence of the IASB’s forerunner organization, the IASC.

Part II: The rise of the IASC and its transformation into the IASB

4.5 The International Accountings Standards Committee

Between 1973 and 2000 the task of developing global accounting standards was undertaken by the IASB’s precursor, the IASC (e.g., Haller, 2002; Flower, 1997; Hallström, 2004; Kwok & Sharp, 2005; Martinez-Diaz, 2005; Wallace, 1990; Zeff, 2012). Founded in London in 1973 by Sir Henry Benson, the IASC’s inaugural membership included Canadian, American, and British accountants involved in the short-lived Accountants International Study Group (see Kircsh, 2007 and Thomas, 1970). Later, Benson invited national delegations
from Australia, France, Germany, Japan, Mexico, the Netherlands, and Ireland to join the IASC, and membership eventually grew to include countries South Africa, Italy, and Taiwan. Initially, representatives were audit firm partners, audit practitioners, national accounting standard setters, and a handful of academics. Eventually, the IASC requested financial executives, users, and capital market authorities to participate in the development of IAS. All members served on a part-time basis, and the bulk of standard setting took place in steering committees chaired by IASC board members. The committee’s initial mandate was to issue basic standards containing numerous reporting options. The IASC hoped the inherent flexibility of IAS would help preparers apply them in various jurisdictions, using slightly different methods, so as to not violate local Generally Accepted Accounting Principles (GAAP) (see, for example, Carmona & Trombetta, 2008).

Initially, compliance with IAS was low in practice and generally limited to preparers on the global periphery (see Botzem, 2008, 2012; Botzem & Quack, 2006; Flower, 1997; Hallström, 2004; Martinez-Diaz, 2005; Ramanna, 2013; Wallace, 1990). The literature suggests a number of factors associated with this low compliance. For one, most national delegates did not converge local GAAP with IAS, perceiving the former to be a superior standards framework. In other cases, as in Japan, IAS were incompatible with the country’s tax-based accounting model. Recall that the works of Puxty, Willmott, Cooper, and Lowe (1987) and Willmott, Puxty, Robson, Cooper and Lowe (1992) show that even among advanced capitalist societies, accounting regulation and accounting practices vary substantially. Further a perception existed that IAS were developed by a body that lacked independence from the accountancy profession, given that the committee was composed of accountants and auditors from the nine countries of its founding membership. Also, the IASC’s steering committees, wherein the bulk of standard setting took place, were staffed by appointees chosen by national professional accountancy associations, like the Canadian Institute of Chartered Accountants, along with the International Federation of Accountants (IFAC). Perhaps a more formidable obstacle to the widespread acceptance of IAS was the view held by many actors that U.S. GAAP were global accounting standards. The world’s largest capital and financial exchanges are based in the United States. In their attempts to raise capital on American markets, non-American firms have been mandated by the SEC to prepare financial statements in accordance with U.S. GAAP.

However, the IASC’s perceived authority was bolstered when both the FASB and European Commission (EC) sent members to participate in the IASC’s work in the late 1980s. A status report issued by the FASB at that time suggests the FASB’s heightened awareness of the apparent need for the internationalization of accounting standards:

By the late 1980s, the need for a common body of international standards to facilitate cross border capital flows had generated a high level of worldwide interest. The FASB decided that the need for international standards was strong enough to warrant more focused activity on its part. FASB Chairman Dennis Beresford expressed his support for “superior international standards” that would
gradually replace national standards and identified new initiatives to get the FASB more directly involved in the drive to improve international standards (Status Report No. 195, June 27, 1988). IAS gained additional acceptance in the 1990s, as demonstrated by the increasing number of European multinationals applying IAS (see Cuijpers & Buijink, 2005). Some multinational auditing firms demonstrated their willingness to “sign-off” on financial statements prepared in accordance with IAS.

Most significantly, however, the IASC received a considerable vote of confidence in 1987 when IOSCO approached the IASC with a proposition stating that if the IASC reworked its standards, IOSCO would consider endorsing them for use by its regulator members. IOSCO’s requests included reduced accounting alternatives, enhanced disclosure requirements, and more detailed, prescriptive pronouncements. In response, several initiatives were spearheaded at the IASC, including ones proposed before the release of the Statement of Intent (“Comparability of Financial Statements”), the establishment of the “Improvements” steering committee, and the creation of two-dozen core standards (see Camfferman & Zeff, 2007). I suggest that the IASC’s burgeoning relationship with IOSCO in the 1980s is not happenstance. The works of the IOSCO started to gain purchase in the 1980s—a time period that saw the exponential rise of international flows of goods, services, and investments (including international acquisitions). (See Figure 4.1.)

The SEC is widely regarded as the most influential member of IOSCO. Botzem states, “In the early 1990s, IOSCO was under the dominant influence of the U.S. securities commission (...) the SEC (...) proved successful in pushing for major revisions of IAS and establishing that standards must be deemed appropriate before formally recognizing IAS” (Botzem 2012, p. 65). (See, for example, Securities and Exchange Commission, 1997.) Acting through the IOSCO, the SEC took a keen interest in the harmonization of financial accounting standards. One may logically surmise that one reason why the SEC wanted the IASC to develop a program of accounting standards patterned after U.S. GAAP was to better enable foreign firms to list on American exchanges. Prior to 2007, the SEC permitted foreign companies’ stock to trade on American markets; however, the SEC required the companies to reconcile their financial statements to comply with U.S. GAAP. The reconciliation process was onerous. Many foreign firms elected not to raise capital in the United States, and the SEC felt that this deprived U.S. investors of fruitful investment opportunities. Conversely, American investors were looking abroad for prospects, but it would have been difficult for them to evaluate financial statements prepared in accordance with foreign GAAP. Botzem (2012) argues that the SEC put pressure on the IASC to develop an accounting standards framework comparable to U.S. GAAP. One may deduce that the IASC conceded to the demand in part because it depended considerably on the SEC and the IOSCO’s endorsement of IAS.

However, the work of Arnold (2012) suggests that one of the most significant turning points in the history of the internationalization of accounting standards can be associated with the East Asian financial crisis (see also Walter, 2008). In the aftermath of the crisis, finance ministers and central bankers from the G7 created a new international financial architecture (see also Botzem & Quack, 2009). Arnold explains that the architecture was erected to moderate the “…problem of systemic instability within the international financial system that had been exposed by the crisis” (ibid, p. 362). The Financial Stability Forum (now called the Financial Stability Board [FSB]) was created to administer the new architecture. The FSB is composed of finance ministers and central bank governors from twenty major economies (i.e., the G20). The FSB asserts that one way it is trying to avert another global financial crisis is through its endorsement of a set of twelve financial standards and codes. The widespread application of these standards and codes is believed to increase market transparency. Recall from the preceding discussion that market transparency is increasingly revered by financial elites as the appropriate basis for mitigating systemic volatility. Initially, the Financial Stability Forum endorsed the application of IAS. Today the FSB promotes worldwide use of International Financial Reporting Standards (IFRS).

In spite of the apparent inroads made by the IASC in the 1980s and 1990s, members of the IASC had good reason to believe that unless the IASC was restructured into an “independent expert body,” American authorities and their international affiliate IOSCO would not recognize IAS. Zeff states,

> The IASC leadership had reason to believe that IOSCO would be reluctant to endorse its standards unless it were to restructure itself so that regulators, including especially the SEC, could have confidence that the Board, going forward, would be a high quality standard setter. (...) In September 1999, the SEC’s chief accountant, Lynn E. Turner, sent a letter to the (IASC), making known the SEC’s insistence that the restructured body, in order to possess “authority and legitimacy,” had to be relatively small, independent, full-time, assisted by a large research staff, and with a robust and open due process. The predominant criterion for Board membership, the SEC said, was technical expertise, not geographical origin. Without saying so in the letter, the SEC argued for a body similar to the FASB (Zeff, 2012, p. 819).

In response, the IASC undertook an extensive consultation process in the mid-1990s, wherein it met with members of national and international regulatory organizations (such as IOSCO and the SEC), accounting standard-setting bodies (such as the FASB and the G4+1), and legislators, including the EC and the U.S. Congress. During the meetings, the IASC aimed to determine how it could restructure itself to secure the formal endorsement of IAS by capital market regulators like IOSCO and the SEC and regional authorities, most notably the EC.

4.6 The International Accounting Standards Board

IASC board’s consultations led to the reconfiguration of the IASC into the IASB, and the IASB now implements what it calls an “independent expert model” for the development of IFRS (IFRSF, 2013a) (recall
chapter 1). The reconfiguration of the IASC into the IASB is often depicted as a “success story.” The EC published a Communication in June 2000 entitled “EU Financial Reporting Strategy: The Way Forward,” which contained the proposal that all publicly traded companies in the 25 European Union (EU) member states prepare consolidated financial statements in accordance with IFRS (European Communities, 2000). This proposal was formalized in July 2002 when the European Parliament issued Regulation (EC) No 1606/2002 (European Communities, 2002) (see also Haller, 2002), and two years later, the Commission formally ratified all but one of the IASB’s Stable Platform of Standards (Parker, 2004a; Walton, 2004), paving the way for convergence in the EU on 1 January 2005 (see IASCF, 2005a, Nobes, 2006; Nölke, 2005; Parker, 2004a, 2004b). At the time of writing, over 7,000 companies based in the EU are said to prepare financial statements in accordance with IFRS.

Another significant milestone for the IASB was the ratification of the Norwalk Agreement (2002), whereby the FASB and the IASB agreed to align IFRS and U.S. GAAP, in part through a series of joint projects (FASB and IASB, 2002). They have since renewed their pledge by signing successive Memorandums of Understanding (“MoU”) (FASB & IASB, 2006; IASCF, 2006a; FASB, 2009). (But see Fearnley and Sunder, 2012; Jones, 2010; Sanderson, 2010; World Accounting Report, March, 2014.) Further, the SEC approved a plan in November 2007 to remove its reconciliation requirement for European firms listed in New York reporting under IFRS (Bruce, 2007; Jamal, Benston, Carmichael, Christensen, Colson, Moehrle & Watts, 2008; IASCF, 2008a; SEC, 2008). In May 2008, the Council of the American Institute of Certified Public Accountants amended its Code of Professional Conduct, designating the IASB as the authority for developing international financial accounting and reporting principles (IFRSF, 2013b). Therefore, in some cases U.S. Certified Public Accountants conduct audits in line with IFRS instead of U.S. GAAP. IFRS have also gained some acceptance in parts of Asia. For example, Japan’s Financial Services Agency has decided to permit listed companies operating internationally to use IFRS (Zeff, 2012).

Since its restructuring, the IASB is also increasingly perceived as a key actor in the dispersed networks associated with the transnational regulation of the World Economy. As noted in chapter 1, authorities in over 120 jurisdictions either permit or require the preparation of financial statements in accordance with IFRS for domestically listed companies (IFRSF, 2012c). Further, the IASB has garnered support from some of the world’s most influential organizations in economic and financial spheres. The IASB states,

The vision of global accounting standards has been publicly supported by many international organisations, including the G20, World Bank, IMF, Basel Committee, IOSCO, and IFAC.49

Further, IOSCO made a recommendation to its members in May 2000 to permit multinational enterprises to use IAS in financial statements contained in cross-border listings and offerings of securities without

reconciliation to local GAAP (IOSCO, 2000). Four years later, IOSCO extended its endorsement to the IASB’s Stable Platform of Standards (see IASC, 2004a; Kirsch, 2007; Ramanna, 2013). And as already noted, the FSB continues to endorse the worldwide application of IFRS. This means that the IASB is one of twelve transnational institutions developing standards/codes formally approved by the FSB at the G20 (see Helleiner, 2010; Helleiner & Pagliari, 2010). The IASB’s authority was further enhanced when loans and other forms of support from the World Bank and the IMF to countries on the global periphery were granted conditional on the countries’ implementation of IFRS (see Arnold, 2012; Cooper & Robson, 2006; Marcussen, 2006; Stiglitz, 2003; Suddaby, Cooper & Greenwood, 2007).

Through these developments, the IASB is increasingly regarded as the institution responsible for what Ahrne and Brunsson (2006), Botzem (2008, 2012), Botzem and Quack (2006, 2009), Djelic and den Hond (2014), Djelic and Sahlin-Andersson (2006a, 2006b) and Graz and Nölke (2008) call the transnational regulation of financial reporting. Cooper and Robson (2006, p.430) state,

> The prominence of international regimes of accounting regulation is partly the result of the increasing financialization and inter-connection of the advanced economies, and the crucial role of financial flows, which dominate, by several orders of magnitude, flows of goods and services. This expansion in financial flows both assists and is predicated upon consistent regimes of accounting disclosure. Thus international organizations such as the IASB (…) have become more salient.

In conclusion, globalization is commonly thought to be associated with transnational regulatory measures. [But see Chua and Taylor (2008) who “…offer an alternative explanation for the origin and diffusion of IFRS” (p. 426).] As far as the regulation of financial reporting is concerned, the IASB’s primary role is to promulgate IFRS. Through their application of IFRS, accountants are said to play an important role in regulating financial reporting practices. The IASB asserts that the application of IFRS in over 120 jurisdictions enhances market transparency by enabling investors and creditors to readily evaluate financial statements, which is thought to be particularly important when one organization acquires another organization. On this note, I now turn my attention the IASC and the IASB’s efforts to harmonize the accounting for business combinations. The discussion is intended to set the stage for the theoretical-empirical work in chapters 6, 7, and 8 regarding the IASB’s recent amendment of IFRS 3 (“Business Combinations”).
4.7 Harmonizing the accounting for business combinations and accelerating cross-border M&A activity

Figure 4.2 and the following excerpts suggest that one manifestation of contemporary globalization is increased M&A activity:

While (the) increase in FDI (i.e., foreign direct investment) can partly be traced back to “greenfield” investments, the major driver has been cross-border merger and acquisition (M&A) activities (my emphasis), in which Western Europe has been the most active region (Haller, 2002, p. 160).

![Figure 4.2: Global FDI vs. Cross-Border M&A Activity (1979–2010)](image)

We have witnessed an explosion of liquidity on the world’s capital markets, fueled by growing levels of international trade and foreign investment (including cross border M&A) (…) a spike in integration between markets that allows firms to operate globally in a nearly seamless manner (Germain, 2010, p. 54).

The 1960s were marked by frequent international mergers and acquisitions, especially American corporations taking over European companies, and once-domestic companies began to redeploy their production operations as well as their management team internationally. In April 1963, Business Week ran a special report on the new form of business organization called “multinational companies.” “Multinational,” the magazine wrote, “serves as a demarcation line between domestically oriented enterprises with international operations and truly world-oriented corporations” (Zeff, 2012, p. 809).

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50 See the works of Evenett (2004) and Zenner, Matthews, Marks, & Mago (2008), which pinpoint what are purported to be the factors associated with the increasing number of international mergers and acquisitions at the close of the 20th century.

51 The data depicted in Figure 4.2 was collected from the World Bank archives.
No less than the IASB recently related its amendment of IFRS 3 (2008) with the growing number of international M&A transactions when it stated,

In 2006 there were more than 13,000 M&A transactions worldwide. (…) Business combinations are an important feature of the capital markets. (…) Over the last decade the average annual value of corporate acquisitions worldwide has been the equivalent of 8–10 per cent of the total market capitalisation of listed securities. (…) When we started the project we were observing rapidly accelerating movement of global capital flows—there has been a five-fold increase in the volume of transatlantic deals between 2003 and 2006 (IASCF, 2008b, p. 4).

To paraphrase Young (1994, p. 87), there are data suggesting that the IASB constructed diversity in practice as a problem. The IASB emphasized the importance of developing a unified model of accounting for business combinations (i.e., eliminating points of divergence with respect to the preparation of the group accounts) as a basis for facilitating the information needs of investors when they evaluate the financial statements of organizations involved in the M&A arena:

The objective of the project (i.e., Phase II) was to develop a single high quality standard of accounting for business combinations that would ensure that the accounting for M&A activity is the same. (…) Investors and their advisers assess how the activities of the acquirer and its acquired business will combine, which is challenging enough when entities use the same accounting. It is more difficult to make comparisons when acquirers are accounting for acquisitions in different ways, (my emphasis) whether those differences are a consequence of differences between US GAAP and IFRSs or because IFRSs or US GAAP are not being applied on a consistent basis (IASCF, 2008b, p. 4).

Taking this into account, the IASB’s ongoing efforts to harmonize the accounting for business combinations are believed to facilitate one of the most substantial components of global capital flows. Zeff asserts that the rapid acceleration of international acquisitions has “…heightened the desire to compare financial statements prepared in different countries (2012, p. 809). The common narrative depicts the IASB’s efforts to unify the accounting for business combinations as a concerted attempt to facilitate the single greatest share of global FDI (see Figure 4.2) and more broadly the crucial role financial flows play in the interconnection of the advanced economies.

4.8 Pooling versus Purchase/Acquisition Accounting

Traditionally there have been two principal ways of accounting for a business combination: the pooling-of-interests method and the purchase method (now called the acquisition method). Pooling means that the acquirer measures and recognizes the target’s net assets at their historical cost in the consolidated accounts. In contrast, the acquisition method involves the acquirer accounting for the acquirer’s net assets at what is believed to be their “fair value” in the group’s financial statements. [See Crawford (1987) and Walter (1997) for more comprehensive analyses on their differences.] Accounting standard setters such as the FASB, the IASC, and the IASB have long endeavored to eliminate the pooling methodology because they assert that
true mergers rarely (if ever) occur in practice. Instead, they affirm that business combinations are transactions in which one organization acquires control of another organization. Accordingly, various Anglo-American accounting standard setters and market regulators affirm that business combinations are economic rather than legal transactions. The logical corollary, they suggest, is that a new measurement basis is required to recognize the acquiree and its net assets. Consistent with the acquisition methodology, the optimal measurement basis is understood to be “fair value” as opposed to historical cost.

However, some accounting researchers argue that expansion of the fair value accounting (FVA) paradigm is associated with the increasing financialization of the market economy (see, for example, the works of Mennicken & Millo, 2012; Müller, 2013; Nölke & Perry, 2007). Recall that the IASB’s standard on business combinations necessitates the acquirer measure and recognize the acquiree, in its entirety, at fair value. As I will discuss further in chapters 6 and 8, this requirement even applies in the case of a partial acquisition. Perry and Nöelke expound on why FVA is commensurate with the broader phenomenon of financialization:

The IASB’s introduction of fair value accounting reflects and reinforces changed relations of production in which the financial sector increasingly dominates the productive sector, nationally institutionalized economic systems are undermined, and new forms of economic appropriation are validated. (…) The newly instituted accounting techniques for defining and valuing business assets, chief among them fair value accounting (FVA), are integral to the ongoing reorientation of the international political economy (…) the new standards represent a shift in power from production to finance (Perry and Noelle, 2006, p. 559-560).

The actions of marginal buyers and sellers, driven by the views of dominant market analysts and pundits who do not necessarily make the long-term calculations which reflect broader societal interests. Thus, we replace the term ‘market’ with the term ‘financial analyst.’ (…) Under FVA, financial analysts gain power and traders/fund managers pay more attention to them; enterprise managers lose power. (…) Most of the real principals in the financial system – i.e., investors, savers, pensioners and future pensioners (workers) – are not in the picture (ibid, p. 566).

While the IASC/IASB’s efforts to harmonize the accounting for business combinations since 1978 are believed to help expansion of global FDI, Perry and Nöelke’s comments also suggest that the measurement principle of IFRS 3 (i.e., fair value) may also be a concomitant feature of what researchers such as Collison, Cross, Ferguson, Power, and Stevenson (2014), Duménil and Lévy (2004), Froud, Haslam, Johal, and Williams (2000), and Krippner (2004, 2005) regard as a world in which financial markets increasingly dominate (or displace) traditional industrial and agricultural economics.

4.9 Early Debates on the Accounting for Business Combinations

A line of enquiry exists that explores the history of the development of accounting standards for business combinations. Admittedly much of this work focuses on developments in the United States. However, as the following discussion suggests, debates in the United States shaped the IASC and the IASB’s works on
International Accounting Standard 22 (IAS 22, “Business Combinations”) and IFRS 3, respectively. The following exposition suggests several reasons why producers resisted reforms intended to reduce the potentialities for pooling in practice. Subsequent consideration is given to measures taken by the SEC and the FASB (along with their international affiliates the G4+1 and IOSCO) to first clamp down on the possibilities for pooling and then to eliminate the pooling methodology altogether.

A portion of the accounting lobbying literature suggests that one reason why the accounting for business combinations has been fiercely debated is that it bears on firms’ reported earnings. Ceteris paribus, the pooling method yields higher reported earnings because the depreciation charges associated with the target’s net assets are lower. Much of the lobbying literature asserts that management has traditionally sought to pool in order to maximize reported earnings (e.g., Anderson & Louderback, 1975; Baker, Biondi & Zhang, 2010; Copeland & Wojdak, 1969; Dunne; 1990; Gagnon, 1967, 1971; Krug & Shill, 2008; Nathan & Dunne, 1991; Rayburn & Powers, 1991; Wyatt, 1965; etc). Further Hopkins, Houston, and Peters (2000) reveal that the method of accounting for business combinations has also influenced analysts’ forecasts on the value of conglomerates (see also Hamberg, Paananen, & Novak, 2011). Their work indicates that analysts traditionally assigned a lower post-combination value to purchase combinations, whereby the parent recognized and then amortized acquisition goodwill as compared to combinations in which either the acquisition premium was expensed or the transaction was structured as a pooling-of-interests.

The accounting for business combinations also affects a group’s cash flows. The work of Aboody, Kasznik, and Williams (2000), for instance, shows that CEOs with earnings-based compensation plans were more likely to incur the monetary costs to structure a transaction as a pooling-of-interests rather than to absorb the “earnings penalty” associated with a purchase transaction. Other research indicates that the accounting for business combination impacts both the type and the amount of consideration exchanged by the acquirer for control of the acquiree. Robinson and Shane (1990) furnish data suggesting parent companies often paid a premium to acquire targets because they sought to better ensure targets’ compliance in structuring transactions to qualify for a pooling treatment under Accounting Principles Board Opinion No.16 (APB 16). Similarly, Nathan (1988) shows that American firms demonstrated a propensity to acquire targets via an exchange of cash and/or common stock (as opposed to preferred stock) to qualify for a pooling treatment under APB 16. The U.S. FASB issued APB 16 in 1970. APB 16 specified business combination must satisfy twelve requisite conditions to qualify for a pooling treatment. However, the conditions were pliable and therefore open to interpretation. Consequently, the practice of pooling continued to be pervasive in the United States after the release of APB 16 (see Hamberg, Paananen, & Novak, 2011).

This literature helps to illuminate why many U.S. firms often abandoned merger talks when a business combination could not be structured as a pooling-of-interests. Former SEC Chief Accountant Michael Sutton claimed that before the release of Statement of Financial Accounting Standards No. 141 (SFAS 141,
“Business Combinations”) (2001), his staff spent approximately 40% of its time determining whether particular business combinations qualified for a pooling treatment (see Beresford, 2001 and Ramanna, 2008). Testimonial evidence supports Sutton’s claim. A Lehman Brothers managing director, for instance, was quoted as saying that he spent as much as half his time fielding questions from clients on how to avoid accounting for goodwill as a result of applying the purchase method: “Managements care about this issue intensely. They'll try to avoid goodwill at all cost” (McGoldrick, 1997, p.5).

Presumably, since the SEC didn’t want to expend valuable resources determining whether particular transactions could be structured as poolings, the SEC eventually instructed the FASB to replace APB 16 (1970) with SFAS 141 (2001), whereby SFAS 141 has since prohibited pooling in the United States. But the FASB’s elimination of pooling created a problem for American conglomerates involved in the international M&A arena. American managers complained that they were at a competitive disadvantage because not all national accounting standard setters had abolished pooling under local GAAP. This meant that some foreign buyers continued to avoid the “earnings penalty” associated with using purchase accounting. In its effort to build a level playing field for American firms competing in the international M&A arena, the FASB, acting through the G4+1, released a paper in 1998 that called for an end to the practice of pooling around the world (see APB, 1999; Ramanna, 2008 and Zeff, 2012).

The FASB also eventually terminated the practice of amortizing goodwill under SFAS 142 (“Goodwill and other Intangible Assets”) (2001) largely due to concerns raised by U.S. managers. American managers argued that the amortization of goodwill (something that was initially proposed by the FASB leading up to its release of SFAS 141 and 142) would further stymie the competitiveness of American conglomerates on the international stage. In particular, they asserted that the amortization of goodwill would create a serious impediment when bidding against foreign buyers, such as ones based in the United Kingdom that did not have to amortize goodwill at the expense of earnings. Conversely, it would be difficult for American buyers to compete with ones situated in Japan, West Germany, and Canada because write-offs were cushioned by tax breaks in those jurisdictions. However, this was not the case in the United States (see Nobes & Parker, 2008).

In the end, the FASB bowed to political pressures from lobbyists (including pressure from U.S. Congress and the Senate) and suspended its original proposal that would have seen goodwill amortized under the soon-to-be-released SFAS 142. In its place, the FASB added the goodwill impairment test to SFAS 142 (see Zeff, 2002). The IASB quickly followed suit when it released its initial version of IFRS 3 in 2004. Hamberg, Paananen, and Novak (2011) state, “The reasons why IASB turned to an impairment-only approach instead of amortization is not obvious. But the move parallels the development promulgated by the FASB” (p. 267). IFRS 3 replaced the IASC’s previous accounting standard for business combinations known as IAS 22 (1998). Under IAS 22 preparers were required to amortize goodwill over a period not exceeding 20 years. One may
surmise that the IASB abandoned the practice of amortizing goodwill to appease the SEC and IOSCO. IOSCO was slated to formally endorse the IASB’s stable platform of standards in 2004, which included the initial version of IFRS 3. As Botzem’s work (2012) teaches us, IOSCO is widely regarded as the international mouthpiece of the SEC. It is conceivable that IOSCO would have been reluctant to endorse IFRS 3 unless the IASB followed the FASB’s lead by incorporating the goodwill impairment test in IFRS 3.

Its abolishment of the practice of amortizing goodwill is not the first instance in which the IASC/IASB submitted to the SEC and the FASB’s demands as they were relayed to the international accounting standard setter by IOSCO. In fact, after the IASC released the initial version of IAS 22 in 1983, it made subsequent amendments to IAS 22 in 1993 and 1998 largely at the behest of IOSCO, which is believed to have been acting on behalf of the SEC and the FASB. As already noted, 1987 marked a major turning point for the IASC. It fell to IOSCO to permit multinational enterprises to use IAS in financial statements contained in cross-border listings and offerings of securities without reconciliation to local GAAP. But recollect that IOSCO stated that its formal endorsement of IAS would require the IASC to make fundamental revisions to the IAS framework. IOSCO’s requirement saw the IASC initiate the Improvements Project in 1987, and the purpose of the project included reduced accounting alternatives, enhanced disclosure requirements, and more detailed, prescriptive pronouncements.

The IASC’s work on the Improvements Project gave rise to the release of an amended version of IAS 22 in December 1993, whereby the IASC sought to clamp down on the practice of pooling. Specifically, IAS 22 limited the pooling methodology to a transaction deemed to be a uniting of interests, which is “…a business combination in which the shareholders of the combining enterprises combine control over the whole, or effectively the whole, of their net assets and operations to achieve a continuing mutual sharing in the risks and benefits attaching to the combined entity such that neither party can be identified as the acquirer” (Choi, 2003, p. 19). Further IAS 22 required preparers to amortize goodwill, in most cases over a five-year time horizon.

The IASC subsequently amended IAS 22 in 1998 in conjunction with its work on the Intangible Assets Project, which commenced in April 1989. The project was implemented in part by the IASC to reflect reforms being proposed by the group of Anglo-Saxon standard setters, including the FASB, which constituted the nucleus of the G++1. Increasingly they observed that producers and preparers were expensing intangible assets or amortizing them over significantly abbreviated time periods (see Hamberg, Paananen, & Novak, 2011). The SEC was particularly vocal that the IASC needed to amend standards on the accounting for intangible assets—including IAS 22, being as IAS 22 dealt with the accounting for goodwill. The IASC released an amended version of IAS 22 in April 1998. While the IASC did not make significant revisions, the new version of IAS 22 sought to establish a closer alignment between the time horizons over which goodwill and other intangible assets were amortized.
However, the IASC would need to make further amendments to IAS 22 (1998) following the release of the G4+1 discussion paper in 1998, which was drafted by senior FASB officials. This said, at the close of the 20th century, the IASC was in the midst of a restructuring process. Therefore, it would not be until 2001 that the topic of business combinations would be added to the IASB’s inaugural agenda. The IASB was set to replace IAS 22 (1998) with IFRS 3 (2004) as part of Phase I of the Business Combinations Project, which I turn my attention to now.


The IASB replaced IAS 22 (1998) with the original version of IFRS 3 (2004) following the IASB’s completion of Phase I of the Business Combinations project. Its primary objective in releasing IFRS 3 was to align IFRS 3 with SFAS 141. As noted, the IASB and the FASB formally ratified the Norwalk Agreement in 2002, whereby the boards agreed to align IFRS and U.S. GAAP (FASB and IASB, 2002). In the wake of the G4+1’s release of a discussion paper in 1998 that called for the end of the pooling method (ASB, 1999; FASB, 1998), the FASB issued SFAS 141 in 2001, which mandated the application of purchase accounting. By 2001, the IASB had already eliminated the pooling method through IAS 22 (1998). Significantly, however, at the request of the SEC, the IASB had agreed in the late 1990s to implement a requirement in IAS 22 for preparers to amortize goodwill over a period not exceeding twenty years to achieve a better match between the accounting for goodwill and intangible assets (see Zeff, 2002). Yet, as noted, SFAS 142 did not require goodwill to be amortized for the reasons already elaborated. The net result of the FASB’s decision was that IAS 22 (98) and U.S. GAAP lacked congruency. Over the course of its Phase I, the IASB sought to align its standard on business combinations with SFAS 141. In March 2004, the IASB released IFRS 3 as part of its platform of standards that was intended to facilitate convergence in the EU nine months later (see Nobes, 2006; Noelle, 2005; Parker, 2004a, 2004b).

4.11 Phase II (2002–2007)

The IASB decided to add a second phase to its work on the accounting for business combinations. The IASB’s stated purpose for undertaking Phase II was to expand the scope of purchase accounting (now called acquisition accounting). The IASB, for instance, set out to adopt the whole-entity model and to increase the range of FVA for business combinations. To this end, a key proposal was to change the accounting for partial acquisitions. One suggested amendment was to have the acquirer measure the acquiree as a whole at fair value, including the non-controlling interest’s share of goodwill. Phase II was formally added to the IASB’s technical agenda in April 2002. Phases I and II, therefore, ran in parallel with each other until the IASB completed Phase I in early 2004. Figure 4.3—which is located in the chapter appendix—provides a timeline of key events related to the Business Combinations Project.
Phase II was the IASB and the FASB’s inaugural joint project, which they agreed to undertake following the boards’ ratification of the Norwalk Agreement in 2002 (see, for example, Baudot, 2014). Accordingly, another purpose of Phase II was believed to be to align the accounting for business combinations under the IFRS framework and U.S. GAAP. To this end, the boards decided to coordinate their work to address certain aspect of the accounting for business combinations and to eliminate a number of inconsistencies between their standards. As an example, IFRS 3 (2004) elaborated provisions on the measurement and recognition of liabilities concerning the termination or reduction of the activities of the acquiree, and the provisions were not incorporated in SFAS 141 (2001). One point warrants emphasis here: Although the IASB and the FASB claimed that their amendment of IFRS 3 and SFAS 141 was a joint project, the boards conducted separate deliberations and ultimately issued different standards on the accounting for business combinations, standards that diverged more significantly than the original IFRS 3 (2004) and SFAS 141 (2001) did. While it is a limitation not to fully analyze the FASB’s role in the project, I have focused on the IASB’s amendment of IFRS 3 because the dissertation is about the IASB. To complicate matters further, I recognize that the project also involved contributions from seven national accounting standard setters and the Big Four. What I have been able to do is to examine the myriad of national accounting standard setters and other actors that formed links in the development and enactment of the amended standard on business combinations.

In closing, this chapter has tried to situate the IASB—including its work on the accounting for business combinations—in relation to the phenomenon of economic globalization, particularly as it has materialized since the 1970s. I suggested that the IASC emerged in the context of the liberalization of the global economy. Djelic and Sahlin-Andersson (2006a) state, “Greater interdependence and entanglement foster the need for systematic comparisons and benchmarks and thus make it necessary to increase coordination across countries and regions” (p. 4). The work of the IASC/IASB is believed to reinforce economic globalization by elevating levels of market transparency; that is, the IASB promulgates what is purported to be a uniform basis of financial reporting. Subsequent consideration was given to the burgeoning relationship between the IASC/IASB and IOSCO. I argued that, in certain cases, the SEC has utilized IOSCO as a conduit through which to promote the internationalization of U.S. GAAP. Specific attention was given in the final section to how the relationship with IOSCO and the SEC bore on the IASC and the IASB’s work on IAS 22 and IFRS 3, respectively. In summary, the chapter provided details on the IASC’s and the IASB’s work on the accounting for business combinations, including some of the early debates surrounding their work in this regard, as a pretext for the forthcoming theoretical-empirical work in chapters 6, 7, and 8, whereby specific consideration will be given to how various power dimensions can be associated with the secretariat and the board’s amendment of the acquisition model. However, before advancing an analysis of Phase II, I first explore the discursive construction of the IASB as an organization, and more specifically how the configuration of the IASB’s organization is believed to promote the IASB’s adherence to standards of input, throughput, and output legitimacy.
Chapter 5: Transnational Regulation in its Organizational Context

What seem to be the basic building blocks from which to begin an analysis is an examination of the processes of organizing and the patterns of organization that emerge. Regulation does not just happen; it is produced by organizations, and is often directed towards other organizations. Hence regulation and its dynamics need to be understood through studies of specific organizational settings (Jacobsson & Sahlin-Andersson, 2006, p. 248).

The above statement reminds us that to elucidate broader developments in transnational regulation, it is important to study the organizations that develop that regulation. A common focus in accounting research is to examine how accounting governs and regulates organizations (e.g., Burchell et al., 1980, 1985; Hines, 1988, 1991; Miller & Rose, 1990; Loft, 1986; Tinker, Merino, & Neimark, 1982; etc). Financial accounting is highly constitutive. It draws attention to particular organizational realities (e.g., revenues, assets, cash-flows), and it pushes others beyond the realm of action (e.g., child labor practices, carbon dioxide emissions, policies on gender equality). Financial accounting shapes what is deemed socially and organizationally valuable—what is legitimate—and, conversely, what is believed to be irrelevant and irrational. As Cooper succinctly puts it: “Accounting may be viewed as a means of sustaining and legitimizing the current social, economic and political arrangements” (1980, p. 164). In the chapter, the focus is to analyze how the IASB’s organization bears on the construction of its democratic legitimacy, a concept analyzed shortly. The organization is conceived as the public accountability and governance structures of the IASB and its reliance on a model of using “independent expert standard setting.”

Before proceeding, it is worth emphasizing that the works of organizational theorists, like Clegg (1989, 2009), Clegg and Haugaard (2009), Clegg, Courpasson, and Phillips (2006), Cohen, March, and Olsen (1972), March and Olsen (1983, 1988), Phillips and Hardy (2002), Phillips, Lawrencè and Hardy (2004), and Phillips and Malhotra (2008), and so on suggest that organizations exhibit a type of agency that extends beyond the people working in them or the broader institutional environments. Organizations are actors. Their structures, discourses, ceremonies, logics, myths, rituals, symbols, etc. shape human behavior, organizational processes, and the world. Notwithstanding this point, I suggest it would be a mistake to sidestep what Fairclough would characterize as the IASB’s “observable social events” (2003) as part of an investigation on the IASB’s perceived legitimacy. With this in mind, the chapter can be conceived as a preliminary step to shed light on how the IASB’s organizational structure and manifest practices relate to its perceived authority in relation to the transnational regulation of financial reporting.

Further the argument made is that to better understand developments in the transnational regulation of financial reporting, it is important to study the IASB, wherein IFRS are produced and directed towards actors in over 120 jurisdictions. Specifically, the chapter investigates the relations between: (a) the public accountability and governance structures of the IASB and its specific model of standard setting, and (b) the IASB’s democratic legitimacy, which is a concept drawn from recent debates regarding European governance
The IASB’s democratic legitimacy is conceived as the degree to which it fulfills standards of input, output, and throughput legitimacy. Quack (2010) would characterize IASB’s input, output, and throughput legitimacy as its “inclusiveness of participation, expertise-based effectiveness and procedural fairness” (p. 7).52

Consideration will be given to how the IASB’s organization has been discursively constructed to maintain a semblance of legitimacy. The IASB can be juxtaposed with national government bodies developing hard law, meaning these bodies have the authority to impose legal sanctions on actors breaching laws. In the absence of coercive authority, the IASB endeavors to maximize its legitimacy so that some of the most influential institutions in economic, financial, and political spheres authorize the application of IFRS. Although chapter 4 specified the IASB appears to be garnering support from transnational regulators like the G20 and the Financial Stability Board (FSB) (see, for example, Botzem & Quack, 2009), the IASB’s legitimacy remains contested by U.S. Congress, the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) (Dye & Sunder, 2001; Hughes & Sanderson, 2010; Jones, March 2011; Jones, April 2011; Zeff, 2012). Their wavering commitment to the adoption of IFRS in the United States fosters many doubts about the IASB’s future. I suggest the organization of the IASB has been constructed to appeal to specific normative prescriptions of input, throughput, and output legitimacy.

A further notable point is that the chapter analyzes and evaluates the IASB’s democratic legitimacy. To this end, Buchanan and Keohane state,

> Legitimacy has both a normative and a sociological meaning. To say that an institution is legitimate in the normative sense is to assert that it has the right to rule—where ruling includes promulgating rules and attempting to secure compliance with them by attaching costs to non-compliance and/or benefits to compliance. An institution is legitimate in the sociological sense when it is widely believed to have the right to rule (2006, p. 405).

The chapter will evaluate the IASB’s democratic legitimacy by juxtaposing its discourses of public accountability, governance, and independent expert standard setting with its observable organizational practices. The analysis is of a normative kind. The IASB’s discourses are identified by examining the texts (namely its constitution and due process handbook) that articulate its claimed organizational rules, policies, and procedures. The data are then analyzed in relation to the standard-setting practices made manifest in other IASB texts, such as annual reports, audio webcasts, staff reports, monthly Board meeting updates and summaries, Trustee speeches, consultation documents and related responses, a range of official reports available on the IASB’s web site, and ones found on the websites of other key regulatory players in the global financial arena. Discrepancies are observed. To invoke the terminology of neo-institutional theorists like Meyer and Rowan (1977), DiMaggio and Powell (1983) and Scott (2001), I argue that the IASB’s practices

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52 I analyze the three standards of legitimacy in the section entitled “Legitimacy.”
are *decoupled* from its discourses. Expressed in terms of Goffman’s theatrical metaphor, accounting standard setting at the IASB has both a “front stage” and a “backstage” (1959, 1971, 1974). I suggest that on its backstage, actors govern the IASB and develop IFRS in ways that diminish its democratic legitimacy.

As an example, the IASB asserts that it follows a “due process” for developing IFRS. While the IASB claims to have increased its responsiveness to the public’s concerns about IFRS by maximizing the inclusion of potentially affected stakeholders in its decision arena, I suggest a significant function of its “due process” is to establish legitimacy. The IASB’s recent amendment of IFRS 3 (“Business Combination”), for instance, suggests that “due process” is more of a *ceremonial myth* (Meyer & Rowan, 1977), intended to convey the IASB’s adherence to institutional prescriptions of democratic standard setting. As discussed in chapters 6, 7 and 9, the IASB formally invited the public to comment on exposure draft 3 (ED 3) (“Proposed Amendments to IFRS 3”), which contained suggested changes to the acquisition model. The IASB received 158 submissions from the public, and it consulted the public during five roundtable meetings. The public overwhelmingly rejected the proposals. However, the IASB released IFRS 3 in 2008, and it was identical to ED 3 apart from one minor variation. In this specific case, the IASB’s involving the public in the decision arena is conceived as a ceremonial myth given that the IASB reserved the right to develop IFRS 3 in specific ways despite the concerns that the public raised about it.

As previously explained in chapters 2 and 3, research on accounting regulation has attempted to situate accounting in relation to the “interests” of both the state (Bengtsson, 2011; Miranti, 1986; Previts & Merino, 1998; Puxty, Willmott, Cooper, & Lowe, 1987; Zeff, 1972b, 1978) and business (Hussein & Ketz, 1980; McLeay, Ordelheide, & Young, 2000; Perry & Noelle, 2005; Ramanna, 2008; Tandy & Willburn, 1992; Watts & Zimmerman, 1978, 1979, 1986). However, Young’s work (e.g., 1994, 1996) reveals, the politics of accounting standard setting occur in *regulatory space* where numerous actors interface in their attempts to influence the construction of the standards. Amongst such actors, Young argues, some of the most significant in the search for “appropriate” accounting standards are standard-setting organizations like the FASB. Young’s scholarship has given rise to a body of work that treats seriously the formal political organizations of the accounting and auditing standard setting project (e.g., Allen & Rammana, 2013; Chantiri-Chaudemanche & Kahloul, 2010; Hoffman, 2012; Loft, Humphrey, & Turley, 2006; Humphrey, Loft, & Woods, 2009; Mezias & Scarselletta, 1994). This chapter seeks to build on this literature by locating the discursive construction of the IASB’s organization in relation to its project for building legitimacy. To this end, the forthcoming work tries to extend a nascent line of enquiry, which assesses the IASC/IASB’s legitimacy (e.g., Hallström, 2004; Larson, 2002, 2007; Richardson & Eberlein, 2011; Stenka, 2014). I try to build on these works in the three ways specified in section 2.5.2 (“Building Legitimacy”). Also recollect from section 2.5.2 why it is important to critically assess the IASB’s legitimacy.

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53 Although as I will note in chapter 9, the IASB actually released a substantially abridged version of the standards.
Before outlining the sections of the chapter, two points warrant clarification:

First, the IASB is called an expert body. This does not mean that members of the IASB are conceived as experts. For instance, although many of the members hold a professional accounting designation, that does not make them experts. The concept of expertise is fragile and tenuous; expertise has multiple faces. Accountants have invoked a rhetoric of expertise to build legitimacy in the context of inter-occupational competition for work jurisdictions (Abbott, 1988; Armstrong, 1985; Power, 1997b), to travel into new domains (Gendron, Cooper & Townley, 2007; Power, 2003), and to promote and operationalize technologies of government (Power, 1997a, Radcliffe, 1999). I recognize that the concept of expertise is multifarious and difficult to pin down. The final section of the chapter draws on the work of Collins and Evans (2002, 2007) and Collins (2010) (as discussed in section 3.13) to provide details on how experts are conceived in the dissertation and what types of experts could be involved in the IASB’s “due process” for developing IFRS to enhance the IASB’s democratic legitimacy. I recognize that sociologists have conceived of expertise differently. No less than the accountancy literature suggests that the notion of expertise remains ever elusive (see, for example, Dezalay, 1995; Fogarty & Radcliffe, 1999; Hanlon, 2010; Kurunnäki, 2004; Malsch, 2013; Miller & O’Leary, 1993; Morris & Empson, 1998; Power, 1992, 1995, 1996; etc). I have decided to apply Collins’s concepts on expertise to the final discussion and analysis because his work seeks to demarcate the experts best equipped to contribute to public policymaking in the realm of science and technology.

Second, an auxiliary purpose of the chapter is to explore a number of issues that bear on the next 3 chapters on the IASB’s amendment of IFRS 3. As an example, the chapter reveals that the IASB asserts itself as an independent body, and this suggests one potential reason why the IASB recently released IFRS 3 in spite of the public’s overwhelming rejection of it. Throughout the chapter, numerous references are made to the IASB’s amendment of IFRS 3 to develop the chapter’s thesis.

In the next section, the concepts of input, output, and throughput legitimacy along with democratic legitimacy are carefully dissected and analyzed. The 2 subsequent sections examine how the recent establishment of the IFRS Foundation Monitoring Board (MB) is seen to support the public accountability structures of the IASB. Given that the MB comprises capital market authorities, consideration is given to recent speeches by Hans Hoogervorst, the IASB Chairman, to shed light on what type of public interest the IASB addresses. Consideration is then given to the IFRS Foundation Trustees (FT), a group that ostensibly supports the governance structures of the IASB. In contrast to its discourse of governance, the remit of the FT extends neither to the MB nor to multiple quadrants of the IASB. Moreover, the boundaries between the IFRS Foundation’s governance structures and its “independent” standard-setting arena are porous. Subsequently, the analysis shifts to the IASB’s reliance on a model of using “independent experts.”
reliance on self-described experts typifies *cultural rationalization*, whereby the ethos of science is applied to the social world. That the IASB is a highly homogenous “expert” body, I suggest, bears on its delineating the boundaries of accounting standard setting in terms of specific conceptions of the market economy and investment decision-making. Consideration is also given to how the IASB’s claimed independence remains contested. The final section, argues that *interactional experts*, conceived as accounting intellectuals, could play a public role in the IASB by facilitating a more inclusive approach for developing IFRS. The argument is in step with Neu, Cooper, and Everett (2001) and Sikka, Willmott, and Puxty’s conviction (1995) that accounting academics/intellectuals have a responsibility to render accounting’s institution and practices more visible than they are. I suggest that one way they can encourage this end is by promoting more democratic participation in the development of IFRS.

5.1 Legitimacy

Before the concept of legitimacy is analyzed, two points warrant clarification. First, the rise of the IASC/IASB is believed to be linked to economic globalization, which is reflected in the liberalization of capital controls and rising levels of cross-border trade and investment, international financial transactions, and offshoring (recall chapter 4). These developments are claimed to be associated with transnational regulatory measures. The IASB appears to play a key role in the transnational regulation of financial reporting as shown most recently by the FSB and the G20’s appeals for national authorities to adopt IFRS or converge GAAP with IFRS (see Botzem & Quack, 2009). Through this support, the IASB appears to have emerged in the twenty-first century as a key actor in the global financial architecture. In short, the IASB’s success is not entirely related to its legitimacy.

Second, an analysis of legitimacy suggests contestation. While the IASB is believed to be supported by several institutions, like the International Organization of Securities Commissions (IOSCO), G20, FSB, Big Four\(^54\), International Monetary Fund (IMF), the World Trade Organization (WTO), the World Bank, other institutions, like the European Union (see Buck & Jopson, 2005; Jopson, 2005a, 2005b, 2005c, 2006), contest the IASB’s legitimacy. American authorities, like U.S. Congress, the SEC and the FASB, also continue to challenge the IASB’s jurisdiction over the development of global accounting standards. To illustrate, in late 2008, Mary Shapiro was slated to replace Christopher Cox as Chairman of the SEC as part of the incoming Obama administration. In her confirmation hearings, Shapiro stated she “would not be prepared to delegate standard setting or oversight responsibility to the IASB” (Hughes & Sanderson, 2010, p. 8). One reason for Shapiro’s position, argued Hughes and Sanderson (2010), was that the SEC sought to preserve its accounting sovereignty in the wake of the highly publicized bankruptcy of Lehman Brothers.\(^55\) Amidst the public fallout, Shapiro wanted to ensure that the FASB could amend GAAP without first having to cut through the red

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\(^54\) The Big Four auditing firms include Deloitte, KPMG, Ernst and Young, and PricewaterhouseCoopers.

\(^55\) Lehman used an accounting procedure called *repo 105* to temporarily exchange around $876 billion of assets for an equivalent amount of cash on the balance sheet to maintain its appearance of liquidity.
tape of convergence. Then, in 2011, the SEC announced it would abstain from making any decision on whether to adopt IFRS in the United States (Jones, March 2011, April 2011). One may surmise that the mandated application of IFRS in the United States would have created a political controversy given America’s frail economy, and the administration probably wanted to avoid this in an election year. One year later, a staff report was presented to the SEC that signified the greatest setback to convergence to date. While the report did not provide a recommendation on whether the SEC should adopt IFRS, it explicitly acknowledged that the SEC should not cede authority from the FASB to the IASB (see Alloway, 2012; Jones, 2012; Staff of SEC, 2011, 2012).

With this said, legitimacy is conceived here as democratic legitimacy. Cutler (2010) explains that liberal political theories regard legitimacy as democratic legitimacy (p. 174). Dahl (1994, 1999) equates democratic legitimacy with the right to rule. Legitimacy is a status conferred upon a ruler by the public, provided that the public regards the ruler as appropriate, acceptable, and morally correct. As noted above, legitimacy has at least two connotations (see Buchanan & Keohane, 2006, p. 405). On the one hand, the IASB is seen to be legitimate in a sociological sense. National, regional, and transnational authorities are claimed to support convergence; IFRS are said to be applied in over 120 jurisdictions. I argue that one reason why the IASB “is widely believed to have the right to rule” (ibid, p. 405) is related to the configuration of its organization, particularly how it is seen to enhance the IASB’s apparent democratic legitimacy.

On the other hand, democratic legitimacy has a normative underpinning. The legitimacy criteria of traditional liberal theories of democracy specify that rulers have the right to set and enforce binding rules provided that they remain accountable to citizens through elections, party competition, votes of nonconfidence, and so on. However, there is a growing realization that the criteria of traditional liberal theories of democracy are ill suited for evaluating the democratic legitimacy of transnational regulators like the IASB. Dahl (1994, 1999) asserts it to be virtually impossible to re-create the democratic model of governance at the transnational level. Likewise, Zürn (2000) affirms: “Majoritarian decision making is hardly achievable beyond the national level since it requires some form of collective identity that includes trust and solidarity” (p. 195). It is difficult, for instance, to conceive of a transnational demos of financial reporting. It is also difficult to imagine how the IASB might involve a global public in the development of IFRS. For one, the development of IFRS is highly technical, somewhat complicating the feasibility of many actors participating in the IASB’s due process. Equally true, the IASB is not part of a world government raising world taxes to subsidize elections, party competition, or referendums.

Given these and other challenges confounding the IASB’s direct accountability to global citizens, the chapter analyzes the IASB’s democratic legitimacy specifically in terms of its input, output, and throughput.

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56 With this underpinning, the staff report proposed an arrangement dubbed condorsement, which means that the SEC will only move ahead with convergence if two conditions are satisfied: (1) the FASB must be directly involved in the development of IFRS, and (2) the FASB must have veto authority on any IFRS proposed for application in the United States.
legitimacy. The standards are not mutually exclusive. They overlap. And they remain in possible tension with each other. However, for the purposes of analytical clarity they are initially considered separately. Scharpf (1997, 1999) and Zürn (2000) originally developed the three standards to analyze the democratic legitimacy of European governance. Recently, the standards have been applied to investigate the legitimacy of private transnational actors (see, for example, Cutler, 2010). I suggest that the three standards are appropriate for my purposes since they provide a more realistic basis for assessing the democratic legitimacy of what Hall and Biersteker (2002), Cutler, Haufler and Porter (1999), and Porter (2005) conceive as a “private authority” operating beyond the nation-state. Put differently, I evaluate the IASB’s democratic legitimacy by assessing its input, output, and throughput legitimacy out of a realization that fundamental differences exist, for instance, between transnational regulators and national parliamentary bodies. Zürn expresses this point well:

It is necessary to be ‘realistic’ about setting democratic criteria, and to avoid falling victim to the myth of ‘democratic omnipotence’ (Scharpf, 1997). Political systems always had to take external restraints into account. But from a political perspective it is equally vital not to simply resign and adjust normative standards to political reality. There is unquestionably a ‘need to re-set the standards by which we assess legitimacy’ (Majone, 1998: 1). However, the new concept must derive from normative standards that adequately reflect new circumstances, and not be purely the result of empirical observations (2000, p. 189).

Input legitimacy is closely associated with the legitimacy criteria of traditional liberal theories of democracy. Risse and Klein (2007) state: “Input legitimacy refers to the probability that those being ruled have some say in the process of rule-making itself. Notions of input legitimacy that stem from models of representative democracy are generally based upon the assumption of a congruence between rulers and the ruled through mechanisms of representation and public contestation” (p. 72). In a similar vein, Gerstenberg (2002) affirms: “From the input-perspective, political choices are legitimate if and because they can be derived from the authentic preferences of the members of a community” (p.565). One way the IASB purportedly involves the public in its work is by following a “due process” for developing IFRS. However, Risse and Klein (2007) state that it can be difficult for the public to be directly involved in the work of transnational regulators. Consequently, they argue international and/or regional regulators should make a concerted attempt to enhance their accountability to the public in the way the IFRS Foundation MB was recently established to connect the IASB to “public authorities.” “Input legitimacy and accountability, thus, are closely linked concepts” (ibid, p.72). Grant and Keohane (2005) state accountability means particular actors “…have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards and to impose sanctions if they determine that these responsibilities have not been met” (p.29). In the section entitled “Governance Structures,” consideration is given to how the IFRS FT are believed to hold members of the IASB accountable to specific standards of “good practice.”
In contrast, a regulator’s throughput legitimacy relates to the overall quality of its decision-making processes. "The most prominent criteria for validating the legitimacy of transnational governance from a throughput-oriented perspective are procedural fairness and impartiality” (Quack, 2010, p.7). Also important is that decision-making follows prescribed rules and procedures in the way the IASB claims to abide by rules, policies, and procedures outlined in the IFRS Foundation Constitution. A regulator’s transparency is another defining feature of its throughput legitimacy. Risse and Klein (2007) remark that transparency is a complement of accountability. Transparency enables citizens to hold decision-makers accountable for their choices. One way the IASB is thought to be highly transparent is in how its regulatory texts are readily retrievable from its website. Finally, deliberative decision-making is a vital component of throughput legitimacy. Habermas (1981) argues matters of public importance should be addressed by citizens in *ideal speech situations* whereby the following are emphasized: arguing, reason giving, mutual learning, and consensus making.

From an output perspective, Scharpf (1999) states political choices are legitimate: “…if and because they effectively promote the common welfare of the constituency in question” (p. 10). Scharpf goes so far as to argue that output legitimacy should be the sole criterion used to evaluate the democratic legitimacy of the European Commission (EC) given that a European demos does not exist. Mördh (2006) compares output legitimacy to effective problem solving, which Moravcsik (2004) defines as a regulator’s capacity to formulate solutions mitigating public policy problems. In a similar vein, Risse and Klein (2007) state: “Politics and governance is about collectively regulating social issues and solving political and social problems. A political order that does not perform well will ultimately be considered illegitimate no matter how democratic the policy-making process” (p.74).

Bearing these points in mind, output legitimacy has two dimensions. On the one hand, regulators are believed to have output legitimacy when they are efficient and effective problem solvers. Quack (2010) notes optimal decision-making is commonly regarded as “…a direct function of the technical, professional, epistemic and bureaucratic expertise involved in decision-making” (p. 7). To this end, the IASB is maintained by “technical experts” that are claimed to exhibit: “…the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global financial reporting standards” (IFRSF, 2013a, p. 10). On the other hand, regulators are seen to have output legitimacy when they develop public goods. Cutler (2010) defines public goods as policies having non-excludable benefits. IFRS are regarded as public goods given that they are thought to benefit everybody equally. IFRS Trustee, Harvey Goldschmid (2011) recently remarked: “When a country adopts IFRSs (…) the overall prosperity of a country is likely to increase – raising living standards for all (my emphasis)” (p. 3).

Having specified how the IASB’s democratic legitimacy is analyzed and evaluated in terms of three specific standards, consideration is now given to the public accountability structures supporting the IASB. The structures are believed to enhance the IASB’s input and throughput legitimacy.
The diagram depicted in Figure 6.1 indicates the MB supports the IFRS Foundation’s public accountability structures. The establishment of the MB is a recent development at the IASB and is claimed to enhance the IASB’s accountability to the public interest. The relationship between the MB and the IFRS Foundation is intended to duplicate the relationship between the SEC and the FASB. The FASB is said to be accountable to the SEC. Similarly, the IFRS Foundation is stated to be accountable to the MB—a group composed of representatives of IOSCO, the Japanese Financial Services Agency, the SEC, the EC, and the Basel Committee on Banking Supervision:

The primary purpose of the IASCF Monitoring Board is to serve as a mechanism for formal interaction between capital market authorities and the IASCF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. The IASCF Monitoring Board will help ensure the public accountability of the IASCF by monitoring and reinforcing the public interest oversight function of the IASCF (my emphasis), as well as to promote the continue development of IFRS as a high-quality set of global accounting standards (IASCF, 2009d, p.3).

In an application of what Mörth (2006) calls network building, the IASB is seen to address the public interest by forging institutional ties with some of the most influential organizations in economic and financial spheres, and the institutions claim to serve the public interest by formally governing the operations of the IASB:

Since 2009, a Monitoring Board (…) has provided a public accountability mechanism. (…) The appointment of only securities regulators to the Monitoring Board represents a determination that transparency, integrity, and investor protection must be the core values of the standard setting process. The faithful presentation of an entity’s financial position and performance – for investors and other users – is the driving force (Goldschmid, 2011, p. 9–10).

From a throughput perspective, the work of the MB appears to enhance the quality of the IASB’s decision processes. The MB claims to evaluate: “…procedures relating to the due process and general oversight of the IASB”; “the IASB’s agenda setting-setting process and work program”; and “the adequacy of the IASB’s procedures to ensure prompt and fair consideration of changes to IFRS accounting principles and standards” (IFRSF, 2013a, p. 4). Further, the MB purportedly plays a role in holding the IFRS FT accountable to standards underpinning its constitution. As examples, the MB asserts to participate and approve individuals appointed to the Group of FT, to evaluate the IASB’s financing arrangements, and to “…refer matters of broad public interest related to financial reporting for consideration by the IASB through the IASCF” (IASCF, 2009d, p. 3). That the MB is involved in the appointment of individuals to the Group of FT, for instance, may provide a degree of reassurance to the public that the Group of FT is not an island unto itself. Previously, the FT appointed their successors. One may surmise that the MB’s making appointments reduces the potential for the Group of FT to become highly insular. However, it can be noted: “The Chair of the
Trustees, and up to two Vice-Chairs, shall be appointed by the Trustees from among their own number” (IFRSF, 2013a, p. 7). While the IASB states its Trustees are accountable to “public authorities,” in practice, some of the most influential members of the Group of FT continued to be self-appointed by the FT.

An analysis of additional IASB texts suggests other weaknesses in its public accountability structures. For one, there are no lines of accountability between the IASB and ordinary citizens. The MB is composed entirely of capital market regulators and a central banker. I suggest the composition of the MB obstructs the IASB’s accountability to the majority of civil society, and this frustrates the IASB’s input and throughput legitimacy. As an alternative, its public accountability structures could connect it to nationally elected officials. The G20, another international body involved in the global financial architecture, for instance, comprises twenty democratically elected national finance ministers. Conversely, the European Parliament is a directly elected parliamentary institution.

Another potential challenge that the MB confronts is that it comprises individuals from multiple external institutions. The MB’s claim to sponsor the public interest is likely confounded by the fact that individual members of the MB must balance multiple pressures in their role. Individual members simultaneously hold numerous institutional and regional affiliations. Former SEC Chairman Shapiro stated that she would not transfer authority from the FASB to the IASB on the development of accounting standards (Hughes & Sanderson, 2010, p. 8), yet she also served on the MB, formally pledging “…to cooperate to promote the continued development of IFRS as a high-quality set of global accounting standards” (IASCF, 2009b, p. 1). There is a potential tension between the manner in which individuals like Shapiro rise to become involved in the public accountability structures of the IASB and how they respond to certain expectations in their home environments. As the case of Shapiro suggests, the MB is not monolithic, and this leads to ambiguity in the public interest sponsored by particular individual members. While deliberative democracy benefits from a plurality of perspectives, it is difficult to conceive how the MB can serve the global public interest when its members are representatives of national institutions jockeying for control over the development of IFRS.

57 This is not to suggest that the G20’s legitimacy is not contested.
Most significantly, the MB is composed of capital market regulators. Undoubtedly, capital market authorities provide an important service to society by mitigating accounting fraud, insider trading, corruption, violations of securities law, and bribery. Nevertheless, the public accountability structures of the IASB are sustained by a homogenous coalition of actors, at least with respect to a shared belief in certain principles of economic and political globalization, market liberalization and free trade, and the basic assumption that the public interest is best served by convergence. While Gerstenberg (2002) states that output-oriented arguments: “…show how specific institutional arrangements are conducive to (…) consensual notions of the public interest” (p. 566), I suggest that regarding the public interest as tantamount to the interests of investors would be an error. Collison et al. (2012), for instance, provides empirical data indicating a negative correlation between strong investor protections and several proxies of social well-being (e.g., child welfare, gender equality, equitable distribution of wealth in society).

Given that the MB’s mandate is stated as being the “protection of investor interests” (IASCF, 2009d, p. 1), the findings by Collison et al. suggest that the public accountability structures of the IASB might paradoxically undermine the public interest. It also seems unlikely that the MB will treat seriously public issues extending beyond or contradicting those of the investor, such as preservation of the environment, the rights of employees, or reductions in the financialization of the market economy. In other words, the membership of the IFRS Foundation likely bears on what is deemed socially and organizationally valuable within the IFRS framework. One may surmise that the MB’s mission to “effectively discharge (its) mandates relating to investor protection, market integrity, and capital formation” (IASCF, 2009d, p. 1) reinforces and deepens what Young (2006) has characterized as the construction of the investor and creditor as the users of financial accounting.

5.2 The Public Interest

The recent establishment of the MB is one example of the IASB’s increasingly visible commitment to the public interest. IASB texts are replete with a discourse of the public interest: “The objectives of the IFRS Foundation are: (…) to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles (IFRSF, 2013a, p.5); “The Trustees shall be required to commit themselves formally to acting in the public interest in all matters” (ibid, p.6); “The members of the IASB shall be required to commit themselves formally to acting in the public interest in all matters” (ibid, p.10). Since capital market authorities maintain the IASB’s public accountability structures, it is worth considering what type of public interest the IASB addresses. For this purpose, consideration is given to a handful of recent speeches by Hoogervorst, the IASB Chairman. While the scope of the data is limited, it illuminates how the most senior member of the IASB regards the public interest.
In an address to the European Commission in Brussels, Hoogervorst emphasized that the IASB regards the public broadly. While acknowledging the centrality of the investor to the public interest, Hoogervorst also asserted that a wider range of interests are relevant to the IASB’s conception of the public interest in today’s global economy. In a world where a multitude of actors handle “other people’s money,” the IASB takes its public interest responsibility seriously:

The first question that always pops up, is to which audience financial reporting should primarily be directed: should they primarily be targeted towards investors, or should they address a more general public? (...) While it remains undeniable that financial statements are of primary importance to investors, in our modern economy so many entities are working with “other people’s money” that financial reporting is of importance to much wider interests. High quality financial reporting is of essential importance to depositors and their protectors, the prudential regulators, to suppliers, to creditors in general. Indeed, reliable financial reporting is such an important ingredient for building trust in our global market economy, that it can be said to be of public interest (Hoogervorst, 2011, p. 1–2).

However, the IASB’s recent completion of Phase A of the Conceptual Framework project implies Hoogervorst’s notion of the public is decoupled from the IASB’s definition of the user. The IASB’s Conceptual Framework Project Summary and Feedback Statement affirms the information needs of noninvestors remain ancillary to IFRS reporting:

Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups (my emphasis) (IFRSF, 2012d, p. 8).

In spite of Hoogervorst’s commitment to “much wider interests,” the conceptual framework mandates that preparers apply IFRS to convey information pertinent to the needs of institutional investors. In fact, during the Board’s public deliberations on the amendment of its conceptual framework, the conclusion was reached that the information needs of secondary users58 can, in all cases, be satisfied by the information used by institutional investors (IFRSF, 2012c). However, as 37 cooperatives argued in response to proposed amendments to IFRS 3, financial statements prepared in accordance with IFRS provide scant information of value for cooperatives seeking to achieve broader social mandates (see chapter 7).

Hoogervorst recently expounded on the IASB’s notion of public interest in separate addresses to the London School of Economics and the American Institute of Certified Public Accountants (AICPA). He emphasized that the IASB’s commitment to the public interest is underpinned by particular values and beliefs about the world, one of which is economic globalization being universally desirable, and another is global convergence promoting a type of “economic modernization,” whereby preparers’ application of IFRS enhances the transparency and liquidity of market-based economies worldwide:

58 Defined as non-institutional investors and all other users of statements prepared in accordance with IFRS.
High quality financial information is the lifeblood of market-based economies. If the blood is of poor quality then the body shuts down and the patient dies. (…) If investors cannot trust the numbers, then financial markets stop working. (…) It is an essential public good for market-based economies (Hoogervorst, 2012b, p. 2).

IFRS is an engine for economic modernization (…) It can make an enormous contribution to economic growth by enhancing transparency and liquidity around the world. This is a global public interest which I will be proud to serve (Hoogervorst, 2011, p. 3).

Hoogervorst’s comments are based on two assumptions. First, his comments suggest economic globalization supports the public interest. But recall from chapter 4 there is research suggesting that economic globalization continues to have an egregious impact on the natural environment, economic and financial stability, equitable distribution of wealth in society, etc. Secondly, Hoogervorst’s comments suggest that IFRS reporting supports the public interest given that it is believed to bolster market efficiency by reducing information asymmetries. Put differently, IFRS reporting maintains the public interest by helping to coordinate supply, demand, and prices. The implicit view is that the efficiency of the market economy is equally beneficial. Yet as Polanyi argues in his seminal work “The Great Transformation” (1944), it is actually a recent myth that capitalist economic institutions maintain the well-being of society. For this reason, it is worth questioning that the public interest is supported by the market economy. Prior to England’s great transformation, Polanyi states, the market economy played an extremely minor role in people’s lives. Market society, he stated, was upheld primarily by economies of reciprocity and redistribution. Cooper and Morgan (2013) remind us: “Accounting policy-makers might believe that what is good for the capital market will be good for society and meet the needs of government. However, what is good for one segment of society may not produce optimal social benefit” (p. 423). Further, the assumption that the public interest is fulfilled by investor protections is also worth re-examining, given the empirical findings of Collison et al. (2012).

Two points are worth emphasizing in closing the section. First, the IASB’s claim to serve the public interest presupposes the existence of what Scharpf (1999) characterizes as “a range of common interests that is sufficiently broad and stable” (p. 11). In the absence of what he calls a strong we identity, a transnational regulator’s claims to serve the public interest are questionable. Serving the public interest, he reasons, involves “effectively (promoting) the common welfare of the constituency in question” (ibid, p. 10). It requires a framework of a demos. Zürn (2000) argues a demos is difficult to pin down beyond the nation–state. However, he argues that the absence of a demos does not prevent a transnational regulator from trying in earnest to serve the public good. Habermas (1981) would argue, for instance, that the IASB could better serve the public interest by promoting ideal speech situations in which ordinary citizens from around the world could express their views equally and openly on how to develop IFRS to achieve specific ends.
Second, it is worth acknowledging that the IASB’s growing deferment to the Big Four (Botzem, 2012; Chantiri-Chaudemanche & Kahloul, 2010; Ramirez, 2012) may marginalize the IASB’s capacity in serving the public interest. Gendron, Suddaby, and Lam (2006) and Suddaby, Gendron, and Lam, (2009) provide empirical data, for instance, indicating that individuals employed in the Big Four adhere more to a logic of commercialism than to a logic of professionalism (also see Hanlon, 1994 and Wyatt, 2004). In the transnational field of financial reporting regulation, Suddaby, Cooper, and Greenwood (2007) state that members of the Big Four display an overt commitment to this logic of commercialism as opposed to “…a direct concern with citizens’ rights and the public interest” (p. 357). Having explored the public accountability structures of the IASB, and how its chairman regards the convergence of GAAP to be of public interest, the analysis now turns to the governance structures of the IASB, which are believed to further enhance the IASB’s input and throughput legitimacy.

5.3 Governance Structures

The diagram in Figure 6.1 illustrates the IFRS FT support of the governance structures of the IASB. Established in late 2000, the Group of FT comprises individuals employed by the Big Four, capital market regulators, multinational corporations, international regulatory bodies, and stewards of the financial and banking sectors (see Botzem, 2012; Chantiri-Chaudemanche & Kahloul, 2010). The Group of FT assumes the role of governing the work of the IASB, which the International Federation of Accountants (IFAC) had previously carried out (Camfferman & Zeff, 2007). The substitution was made to increase the appearance that the IASB operates independently of the accountancy profession to mitigate concerns of potential partisanship. The creation of the Group of FT appears to promote the IASB’s input legitimacy by preventing professional accountants from monopolizing the development of IFRS. In a further attempt to convey that the IASB includes more than just accountants in its work, the FT claim to facilitate public dialogues on the appointment of individuals to the IASB, the IASB’s consultative arrangements and due process, and amendments to the constitution (IFRSF, 2013a, p. 8). In practice, however, the FT’s “public consultations” involve national and international organizations of auditors (including IFAC), national accounting standard setters, and national and regulatory authoritative bodies “with an interest in IFRS” (ibid, p. 6).

Grant and Keohane (2005) state that accountability means certain actors hold other actors accountable to specific standards, whereby the former have the authority to impose sanctions on the latter if they breach standards. The FT claim to hold members of the IASB accountable to standards specified in its constitution. The FT assert to (a) “review (the IASB’s) compliance with the operating procedures, consultative arrangements and due process” (IFRSF, 2013a, p. 8), and (b) “terminate the appointment of a member of the IASB, the Interpretations Committee or the Advisory Council, on grounds of poor performance, misbehavior, incapacity or other failure to comply with contractual requirements” (ibid, p. 8).
A cornerstone of effective internal governance is a separation of responsibilities. The IFRS Foundation’s governance structures and its standard-setting arena are stated to be mutually exclusive: “the Trustees shall be excluded from involvement in technical matters relating to financial reporting standards” (ibid, p.8). The separation is believed to enable the FT to govern the IASB in an impartial manner. However, in practice, IFRS Foundation’s governance structures commonly intersect with its “independent” standard-setting arena. For one, former members of the IASB, like Thomas Jones, serve as advisors to the FT (Deloitte, 2013). More significantly, the IASB exhibits a high degree of embedded oversight (i.e., Loft et al., 2006), which is reflected in the way actors from the same organizations (e.g., Deloitte, IOSCO, UBS, and the Under Secretary of the U.S. Treasury for Domestic Finance) are involved in the work of both the Group of FT and the IASB. That individuals throughout the IFRS Foundation are actively employed by the same external organizations may undermine the IASB’s claim of the Trustees not being involved in the decision arena. It also likely means Trustees must balance multiple pressures in their roles. An individual serving as a Trustee, like James Quigley, is said to appoint the most technically proficient individuals to the IASB. However, Quigley, a senior partner at Deloitte, may also face pressure from his firm to appoint members of Deloitte to the Board, the IFRS Interpretations Committee, the IFRS Advisory Council, and so forth. Such pressures are not unidirectional. It is equally conceivable that Deloitte seeks to limit its costs. However, Deloitte’s increasing involvement in the IASB may suggest Deloitte regards the benefits of active involvement in the IASB to outweigh the related costs.

There are further limitations in the IASB’s governance structures. Notably, the remit of the FT does not extend to the entire organization of the IASB. Another cornerstone of effective internal governance is that the entirety of the object of governance is subject to scrutiny. In spite of the FT’s claim to appoint all members to the IASB (IFRSF, 2013a, p. 8), Figure 6.1 shows that the FT do not appoint members to the Emerging Economies Group (EEG), the Capital Markets Advisory Committee (CMAC), or the Global Preparers Forum (GPF). The EEG, CMAC, and GPF appoint their own members, chair separate meetings, and develop distinct technical agendas. In his analysis of independent policy agencies operating beyond the nation-state (i.e., expertocracies), Zürn (2000) states self-selection of the members of a deliberative decision-making effort must be ruled out to prevent an “elite group” from capturing the decision process (p. 206). The establishment of the EEG, CMAC, and GPF has in some ways explicitly given voice to an elite group in the IASB. The GPF, for instance, provides a forum for executives of multinational corporations to provide guidance to the IASB. The creation of the GPF creates a bit of a contradiction, given that preparers are the object of the IASB’s regulation. In more extreme cases, the advisory bodies provide a vehicle for direct nomination to the Board, which was the case when Stephen Cooper, who had originally been appointed by the GPF, later transitioned to the Board in 2007. While the FT apparently govern the IASB by appointing all individuals to the IASB, in practice, conduits have been institutionalized through which an elite group enters the IASB and then assumes the most senior positions on the Board.

Figure 6.1 also shows that the remit of the FT does not extend upwards to the MB. While the MB asserts that its role is limited to connecting the IASB to public authorities, the MB also provides a vehicle for direct nomination to the Board as evidenced by the recent appointment of the IASB Chairman, Hoogervorst. He served as Chairman of the MB before he assumed the chairmanship of the Board in 2010. Although, it should be noted that the IASB stated that in an effort to mitigate a potential conflict of interest, “Mr. Hoogervorst resigned as chairman of the IFRS Foundation Monitoring Board before being considered as a candidate for the position of chairman of the IASB” (IFRSF, 2010c). Further, the remit of the FT does not extend to numerous actors involved in the development of IFRS. In many cases, the IASB exhibits what Lamont (2009) characterizes as a sort of deferment of expertise. The IASB, for instance, relies on guidance from FASB staff members. During the IASB’s amendment of IFRS 3, for instance, FASB Technical Director Stephanie Tamulis, a professional business valuator, carefully guided the Board and the secretariat through valuation principles relevant to the application of the acquisition model. Further, the IASB commonly outsources “detailed research” to the Big Four (see Ramirez, 2012), such as research by PricewaterhouseCoopers (PwC) on the accounting for pharmaceuticals and life sciences companies (PwC, 2009). Having investigated the IASB’s public accountability and governance structures, the analysis now turns to the IASB’s reliance on a model of using independent expert standard setting. The IASB’s deference to self-described experts is believed to enhance its throughput and output legitimacy.

5.4 Expert standard setting

As depicted in Figure 6.1, standard setting in the IFRS Foundation takes place in the IASB, which claims to be an expert standard setter. A procedural change was made to its constitution in 2000, specifying that Board appointments were to be made exclusively on the grounds of technical expertise: “The Trustees shall select members of the IASB (…) so that it will comprise a group of people representing, within that group, the best available combination of technical expertise and diversity of international business and market experience in order to contribute to the development of high quality, global financial reporting standards (IFRSF, 2013a, p. 10). Members of the IASB are regarded as experts in that they are claimed to exhibit qualities like: “Demonstrated technical competence and knowledge of financial accounting and reporting”; “Ability to analyse”; “Communication skills”; “Judicious decision-making”; “Ability to work in a collegial atmosphere”; “Integrity, objectivity and discipline”; and so forth (ibid p. 16). From both a throughput and output perspective, the IASB’s legitimacy is grounded largely in its claims of technical expertise, which means the IASB’s apparent proficiency at producing effective financial reporting standards is believed to validate its “complete responsibility for all IASB technical matters including the preparation and issuing of IFRS” (IFRSF, 2013a, p. 12). As noted, in the final section, I draw on the work of Collins and Evans (2002, 2007)

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60 However, its amended constitution (2009) now sees the board comprise a certain number of representatives from specific jurisdictions.
and Collins (2010) to raise questions about what it means to be an expert and to explore what types of experts could be involved at the IASB to enhance its democratic legitimacy.

The IASB’s reliance on technical experts is not happenstance. The IASB is a private authority developing what Kirton and Trebilcock (2004) and Jacobsson and Sahlin-Andersson (2006) call “soft regulation.” It lacks coercive authority to enforce the application of IFRS. It relies on institutions like the Big Four, IOSCO, EC, SEC, WTO, IMF, G20, FSB, and others, to voluntarily promote convergence. Gerstenberg (2002) states: “Output-legitimacy (…) allows for a much wider variety of legitimizing mechanisms, such as ‘independent expertise’” (p. 566). Similarly, Cutler (2010) emphasizes: “The legitimacy of private transnational governance is usually linked to the special governance capacities of private actors with technical knowledge and expertise” (p.159). The implicit assumption is that experts possess the obligatory knowledge to formulate optimal policy solutions for public-policy problems. Applied to the IASB, the Board claims output legitimacy in that its technical experts possess the requisite knowledge to procure IFRS as effective policy pronouncements to reduce information asymmetries, enhance market efficiency, lower the cost of capital for listed companies, improve investment decision-making, facilitate foreign direct investment, increase the comparability of corporate financial reports, and so on.61

The IASB’s growing deference to technical experts exemplifies what Drori and Meyer (2006) characterize as the worldwide wave of scientization. While social theorists like Latour and Woolgar (1979) show how scientists create facts in the laboratory and how legitimate scientific knowledge is socially produced and fragile, science has nevertheless garnered extraordinary authority pertaining to wide-ranging issues in an increasingly rationalized world. Science is appealing because it appears sensible, responsible, modern, and apolitical. Experts making claims based on highly rationalized knowledge are perceived as acting separately from money and politics (but see Latour, 2004 and Malsch, 2013); thus, they are seen as serving the public interest. The reach of science now extends to the construction of the social world (i.e., cultural rationalization), including public policymaking. As Drori and Meyer (2006) explain: “Such rule-making is governed and guided by the professional ethics of science and by the certification authority of higher education institutions; it is, therefore, conceived as value-neutral and as based on specialized expertise” (p. 31-31). The IASB’s reliance on a model of using technical experts contributes to a display of output legitimacy because technical experts purport to abide by high standards of ethics, behavior, and work conduct, thereby enabling them to achieve “genuine” progress in the accounting standard-setting arena by putting the public good above narrow self-interests. In discussing the role of experts in public policymaking, Cutler (2010) remarks: “Few analysts question just whose interests these private actors represent, to whom they might be accountable or the nature of the goods they supply” (p. 159).

61 The work of Daske, Hail, Leuz, and Verdi (2011), for instance, associates mandatory IFRS adoption in 26 countries with such phenomena as increased market liquidity, decreases in firms’ cost of capital, enhances equity valuations, etc.
The development of accounting standards benefits from the knowledge of professional accountants. However, I suggest the IASB’s obeisance to professional accountants and financiers diminishes its democratic legitimacy. Recall from chapter 2 that Chantiri-Chaudemanche and Kahloul (2010) argue that its veneration for specific types of experts has rendered the IASB what Haas calls an “epistemic community” (1992). As noted, board member Stephen Cooper recently emphasized that the IASB is a highly homogenous body, whereby the IASB affords its members the opportunity to discuss how to develop IFRS with other “like-minded people (qtd. in O’Brien, 2012, p. 1).

From an output perspective, Risse and Klein (2007), Scharpf (1997, 1999), and Schmidt (2010) maintain that high-quality decision-making necessitates a highly deliberative approach in which arguing, contestation, communication, and logical reasoning are encouraged to achieve consensus. It is difficult to conceive how a group of “like-minded people” would stimulate new ways of addressing issues that bear on IFRS, particularly ones that would resonate with most citizens that are not institutional investors. Zürn (2000) argues: “a biased selection of participants contradicts democratic principles” (p. 193). I suggest that the IASB’s capacity to produce high-quality IFRS would benefit from extending what Collins and Evans (2002, 2007) and Collins (2010) would call the IASB’s *locus of legitimate interpretation*. The IASB’s locus of legitimate interpretation is the range of different types of experts having a legitimate right to contribute to debates on the development of IFRS. Currently, professional accountants and stewards of the financial and banking sectors participate in the IASB. I suggest the IASB’s ability to serve the public interest would increase by including members of the public, like members of charities, environmental groups, cooperatives, international aid agencies, think tanks, human rights organizations, charities and national governments and economists, philanthropists, intellectuals, sociologists and elected government officials.

To illustrate this point, the IASB recently released a self-contained 230-page standard (“IFRS lite”) for small- and medium-sized private entities (i.e., SMEs). SMEs are private corporations, small businesses, international aid agencies, nongovernmental organizations, cooperatives, governments, charities, not-for-profits, museums and so on. In the IASB, however, there are no individuals with expertise on SMEs. Further the SME Implementation Group, which claims to “support the international adoption of the IFRS for SMEs and monitor its implementation”[^63], does not include individuals that have worked in SMEs. Its ability to develop IFRS lite would likely increase by involving individuals with knowledge on SMEs. The IASB could, for instance, appoint co-op members or owners to the Board or the SME Implementation Group to develop IFRS lite that would convey valuable information to co-op members and owners. It might, for instance, consult the 37 cooperatives that submitted comment letters to the IASB in response to its formal invitation to comment on ED 3 (see chapter 7). The analysis now turns to the IASB’s claim to operate as an independent body. Its stated independence is believed to promote its output legitimacy, in the way the IASB

[^62]: Although current board member Prabhakar Kalavacherla, a former partner at KPMG, is said to have served on the board of Food for Life.
asserts: “Members vote in accordance with their own independent views, not as representatives voting according to the views of any firm, organization or constituency with which they may be associated (IFRSF, 2013a, p. 14).

5.5 Independent Standard Setting

At the IASB, standard setting is taken to be independent in at least three ways. First, potential members of the IASB, before joining the IASB, claim to sever all external employment ties: “Members of the IASB shall sever all employment relationships with current employers and shall not hold any position giving rise to economic incentives that might call into question their independence of judgment in setting financial reporting standards” (ibid, p. 11). Second, the IASB claims to have full authority to develop and amend IFRS: “the IASB shall have complete responsibility for all IASB technical matters including the preparation and issuing of IFRSs (…) and it shall have full discretion in developing and pursuing its technical agenda” (ibid, p. 12). Third, IFAC is said to have ended its involvement in the IASB (Camfferman and Zeff, 2007).

The IASB’s independence is seen to enhance the quality of its work (see, for example, Zeff, 2002, 2006). The view is based on the belief that accounting standard setting is a “technical” activity. The IASB’s independence is thought necessary to ensure technical standard setting is appropriated from the realm of politics so that narrow self-interests do not trump the development of standards promoting the public good. As mentioned in chapter 2, there is an extensive body of work that alerts us to episodes in which lobbyists have pressured accounting standard setters to remove or modify accounting standards containing “objectionable” features (see, for example, Benveniste, 1972; Dyckman, 1988; Hope & Gray, 1982; Kwok & Sharpe, 2005; McLeay & Merkl, 2005; McLeay, Ordelheide, & Young, 2000, 2005; Puro, 1984, 1985; Ramanna, 2008; Zeff, 1978, 2002, 2010, 2012). Zeff (2002) suggests that political lobbying is “detrimental to the interests of investors and other users” (p. 43). Zeff (2010) argues, that the IASB must maintain its independence to avoid “(modifying its) positions and running the risk of diluting or abandoning the principles implicit in (its) standards” (p. 207); the IASB must: “preserve its independence so that it can somehow determine when, and to what extent, political lobbying raises valid issues which, in the light of its conceptual framework, require attention in the fashioning of a standard, and when it does not” (ibid, p.208). The IASB’s claim of independence is thought to enhance its ability to promulgate high-quality IFRS in the way Loft et al. (2006) state a perception exists that: “standard setters produce the best and the most efficient results if they are organized through the principles of expertise and independence, and far away from politics” (p. 437) (also see Hallström, 2004).

I suggest that the IASB’s claim of operating independently of the realm of politics is tenuous. For one, the politics of accounting standard setting extend beyond overt lobbying. As noted in chapter 4, the development of IFRS is believed to reinforce and deepens a broader project of economic integration – what Puxty, Willmott, Cooper, and Lowe (1987) characterize as neo-liberal principles of market economics. Further,
accounting is constitutive. It delineates the boundaries between what is socially important and what is not. Notwithstanding the fact that accounting standard setting is nothing in the absence of politics, an analysis of IASB texts suggests several of its practices do not follow from its discourse of independence. To illustrate, the Board reserves several positions for part-time Board members who work for external organizations. John Smith served as both a member of the Board and partner of Deloitte and Touche between 2002 and 2007. Stephen Cooper served as both a member of the Board and the Managing Director of UBS Investment Bank between 2007 and 2009. Although the Board retains a number of seats for individuals employed outside of the IASB, none of its current members acknowledge their external employment ties in their personal biographies, one may surmise, to reinforce the IASB's suggested “independence.”

Beyond the Board itself, the vast proportion of the IASB is employed elsewhere. All members of the IFRS Interpretations Committee work for other organizations, such as Mary Tokar, who simultaneously led KPMG’s International Financial Reporting Group and served on the IFRS Interpretations Committee between 2001 and 2007. Currently, multinational audit firms employ five members of the IFRS Interpretations Committee. All of the IASB’s advisory bodies are staffed by external organizations. Significantly, the IASB’s public accountability and governance structures are supported exclusively by people working in other organizations. From a throughput perspective, Risse and Klein (2007, p. 73) argue that decision processes must be guaranteed by explicit rules and procedures; the IFRS Foundation Constitution mandates: “Members of the IASB shall sever all employment relationships with current employers and shall not hold any position giving rise to economic incentives that might call into question their independence of judgment in setting financial reporting standards (IFRSF, 2013a, p. 11). Yet in practice, it is the rare exception that members of the IASB abide by the constitution in this regard.

The IASB also asserts its independence in its claim to have full authority to develop and amend IFRS (IFRSF, 2013a, p. 12). Yet the IASB relies entirely on external institutions to fund its operations. Forty-seven percent of its current funding comes from the EC and the Big Four (IFRSF, 2012c) (see also Perry, 2002), suggesting a form of client capture that might frustrate the IASB’s claimed independence. Notably, the IASB lacks a formal jurisdiction. It remains dependent on external authorities to mandate the application of IFRS. Its dependence on external institutions undermines any meaningful claim to develop IFRS in an independent manner. The conclusion seems particularly germane given that the IASC/IASB has acceded in the restructuring of both its organization and IFRS at the behest of institutions like Congress, IOSCO, SEC, EC, FASB, and other lobby coalitions (e.g., Bengtsson, 2011; Botzem 2012, Camfferman & Zeff, 2007; Hallström, 2004; Kwok & Sharpe, 2005; Zeff, 2002, 2010, 2012). For example, the EC carved out nine paragraphs of International Accounting Standard (IAS) 39 (“Financial Instruments”) (e.g., Walton, 2004). In response, the IASB replaced IAS 39 with IFRS 9 (“Financial Instruments”) but then delayed formally ratifying it reportedly due to the EC’s “desire to see related rule changes first” (Jones, 2011c, p. 17). Further,
the IFRS Foundation constitution was recently changed, largely due to pressure applied by the EC on the IASB to include more Europeans on the Board and the Group of FT (see Jopson, 2005a, 2005b, 2005c, 2006).

As a final point, I suggest that the IASB remains firmly embedded within particular segments of the accountancy profession. Since the 1970s, the traditional regulatory bargain (i.e., Cooper, Puxty, Robson, & Willmott, 1994; Robson, Willmott, Cooper, & Puxty, 1994) between the state and professional accounting associations has been terminated in several jurisdictions, like the United States and the United Kingdom. One reason that the bargain ended is associated with concerns that the accountancy profession was developing GAAP to satisfy important clients (see, for example, Suddaby et al., 2007; Wyatt, 2004; Zeff, 2003a, 2003b). To invoke the terminology of Johnston (1972), the accountancy profession’s escalating corporate patronage saw national professional accountancy associations lose their jurisdiction to develop GAAP. One may surmise that in an attempt to deflect similar concerns regarding the accountancy profession’s hegemony over the development of IFRS, the IASB claims to operate independently of IFAC.

However, the FT is formally mandated to consult IFAC before appointing individuals to the Group of FT (IFRSF, 2013a, p. 6). The Big Four are also granted privileged access to the Group of FT: “Normally, two of the Trustees shall be senior partners of prominent international accounting firms” (ibid, p.6). Botzem’s longitudinal analysis of the composition of the IASB (2012) actually reveals that 60% to 100% of multinational firms served in the Group of FT during the IASB’s first decade of operations (p. 151). The data support the claim by Suddaby et al. (2007): “…that the historical regulatory bargain between professional associations and nation states is being superseded by a new compact between conglomerate professional firms and transnational trade organizations” (p.334). It can also be noted that professional accountants and/or members of the Big Four staff the vast majority of the IFRS Foundation. Ninety percent of Board members involved in the amendment of IFRS 3, for instance, were professional accountants. However, fewer than one third of them self-identified as such in their biographies, opting instead to legitimize their claims to expertise by highlighting their policy experience, academic credentials (e.g., PhDs, masters degrees), and/or experience at prestigious postsecondary institutions, like Stanford University. As Marcussen (2006) underscores in his analysis of central bankers – who are also self-described independent experts – academic credentialing is an important source of social capital that central bankers draw on to “present themselves as representatives of objectivity and factual correctness” (p. 198).

5.6 The Problem of Legitimacy

A regulator’s input, output, and throughput legitimacy are not mutually exclusive; they remain in possible tension with each other. The previous section examined how the IASB’s independence is believed to enhance

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64 Only half of the big four firms employed Trustees in 2005.
65 All but one member of the project team was a professional accountant.
the IASB’s output legitimacy by deflecting political pressures away from technical decision-making. However, its discourse of independence controverts its input and throughput legitimacy. Collins and Evans (2007, p.7) would argue that the IASB must remain accessible to ordinary citizens to mitigate the problem with legitimacy:

The Problem of Legitimacy is about how we can continue to introduce new technologies in the face of the widespread and growing distrust of certain areas of science and technology. The proper and sensible solution has been to extend the involvement of the public in the decisions. Greater dialogue between the science “establishment” and the public is now routinely demanded along with increased participation in science and technology decision-making (p. 7).

The IASB claims to have done three things to bolster its apparent responsiveness to the public’s concerns on IFRS. First, it purports to follow due process for developing IFRS, whereby the public is afforded the opportunity to submit comment letters on proposed reforms (but see Larson, 2007), participate in roundtable discussions and education seminars, contribute to field visits, and engage the FT concerning proposed revisions to its constitution (IFRSF, 2010c). Recently, IFRS Foundation Trustee, Goldschmid (2011), explained how its due process maximizes the inclusiveness of potentially affected stakeholders in the decisions arena:

As an organisation that serves the public interest and promotes economic progress, our main output (...) must be developed following a robust process that takes into consideration the requirements of those who use them, and must be recognised, understood and accepted internationally (p. 3).

I suggest a significant function of the IASB’s due process is one of legitimacy. For one, recent amendment of the constitution by the FT indicates that the IASB’s due process is sometimes unfeasible:

The Trustees shall use their best endeavors to ensure that the requirements of this Constitution are observed; however, they may make minor variations in the interest of feasibility of operation if such variations are agreed by 75 per cent of the Trustees (IFRSF, 2013a, p.5).

The IASB shall: (...) in exceptional circumstances, and only after formally requesting and receiving prior approval from 75 per cent of the Trustees, reduce, but not dispense with, the period for public comment on an exposure draft below that described as the minimum in the Due Process Handbook (ibid, p. 12).

The IASB shall: (...) consider holding public hearings to discuss proposed standards, although there is no requirement to hold public hearings for every project (ibid, p.13).

One may surmise that such exceptions were recently invoked by the IASB when it suspended all due process under heavy pressure from Brussels by agreeing to permit European banks to retroactively reclassify debt holdings at the apex of the global financial crisis (see Andre, Cazavan-Jeny, Dick, Richard & Walton, 2009; Bischof, Bruggemann, & Daske, 2013 and World Accounting Report, 2008). Gipper, Lombardi, and Skinner (2013) state:
The IASB was forced to take this action to avoid imminent action by the EU, which was preparing legislation that would have carved out the relevant portion of IAS 39, something the IASB viewed as potentially damaging to its credibility as the standard-setter responsible for global accounting standards (p.39).

Another reason the principal function of the IASB’s due process appears to be one of legitimacy relates to comments made by a Board member, Geoffrey Whittington, regarding the IASB’s due process for amending IFRS 3. As part of its amendment of IFRS 3, the IASB received 158 comment letters on proposals outlined in ED 3. However, Whittington explained that the IASB was already pretty clear in its approach to IFRS 3 before reviewing the public’s feedback:

At that (rather late) stage you are pretty clear in your ideas and you have taken a lot of evidence already and it would be in some ways surprising if some startling new evidence available emerged that would make you change your mind (…) When we were taking comment letters, we were seeking evidence. We weren’t doing an opinion poll. It wasn’t a Gallop poll. We weren’t saying 51 percent of the constituency think that what we were doing on business combination is wrong so we shouldn’t do it. It is not a general election. We don’t set standards that way. We make the judgment, but we do it on the basis of evidence. So when the Board says no new ideas were advanced, that is often true (from Botzem, 2012, p. 121).

As the analysis in chapter 6 suggests, the public overwhelmingly rejected ED 3. But the IASB released IFRS 3 in 2008, and IFRS 3 was a virtual duplicate of ED 3. (Although it is worth emphasizing that IFRS 3 was a significantly abbreviated version of ED 3.) Whittington’s remarks suggest that the IASB’s due process in the development of IFRS is not tantamount to democratic decision-making in which all citizens may participate equally. I suggest the IASB’s due process is highly ceremonial. The IASB asserts to abide by particular normative prescriptions of democratic legitimacy. However, Whittington’s comments suggest that in practice the IASB ultimately “makes the judgment” regardless of concerns expressed by the public concerning IFRS. From an input perspective, I argue that the IASB’s amendment of IFRS 3 lacks democratic legitimacy because its decisions were not “derived from the authentic preferences of the members of (the) community” (Scharpf, 1999, p. 6). Its failure to treat seriously concerns raised by the public also marginalizes the IASB’s ability to effectively develop IFRS as public goods. As explained in chapter 8, the majority of the public did not support ED 3 because it felt ED 3 was incomprehensible. From an output perspective, Scharpf (1999) notes policy decisions are legitimate only “if and because they effectively promote the common welfare of the constituency in question” (p. 10). One may guess that the preparer community’s claim of serving the common welfare is weakened by its applying a standard that lacks clarity.

Risse and Klein (2007) state a regulator’s output legitimacy is also diminished when its standards are marred by left-overs (p. 77). Left-overs are policy issues that must be resolved at a future point in time before a specific policy can be applied in practice. In a recent release from the IASB entitled “Feedback Statement:
Agenda Consultation 2011,” the public again requested guidance on how to apply IFRS 3, particularly on how to apply the acquisition model to business combinations involving common control and group restructurings (IFRSF, 2012d, p.11). Clarification was also requested on whether it is permissible to apply push-down accounting and the fresh-start methodology (ibid p.11) – two queries that had already been brought to the IASB’s attention via comment letters on ED 3 seven years earlier. To invoke the terminology of Lukes (1974, 2005), the potential issues were not added to its technical agenda through practices of non-decision-making and institutional inaction. While the IASB is said to follow due process, an analysis of its amendment of IFRS 3 suggests the IASB’s mode of standard setting bears more of a resemblance to scientism—that is, experts making decisions—rather than artism – that is, everyone having a legitimate right to contribute to technical decision-making.

A second way the IASB is seen to address the problem with legitimacy is in its claims to be a highly transparent organization. IASB Chairman Hoogervorst (2013) recently proclaimed: “Never before in my long career in public policymaking have I worked in such a transparent environment. All our board papers and all our board meetings are accessible to the public” (p.3). Transparency is increasingly argued to be a basic interest of civil society. Risse and Kleine (2007) characterize transparency as a fundamental cornerstone of deliberative democracy: “Publicity and transparency are pre-conditions for the ability of citizens to hold their representatives accountable for their decisions” (p. 76). The IASB asserts that anybody with an Internet connection can read IASB texts, including comment letters, discussion papers, and exposure drafts, Board meeting summaries, and staff papers. It also suggests the public can listen to audio webcasts of the IASB’s monthly deliberations.

However, the IASB’s transparency is limited. For one, all ballots are conducted privately. While its website provides many IASB texts to the public, they are written in English. And despite its claim to provide all IASB texts, many of them must be purchased, including ones translated from English into other languages. While the IASB asserts: “In fulfilling its standard-setting duties the IASB follows a thorough, open and transparent due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component”66, in practice, it does not distribute many of its original texts. Instead, the public is provided summaries, such as staff paper summaries. And many of the summaries are partial. As an example, the secretariat presented Agenda Paper 2E ("Measurement Attribute") to the IASB as part of its discussion on the fair value measurement principle underpinning the accounting for a business combination. The paper stated:

Part of Agenda Paper 2E is a non-technical discussion of the strategies available to the Board for achieving the objective of the business combinations project (to develop a converged standard on applying the acquisition method). As a result, more paragraphs have been omitted from the observer note

than usual (my emphasis). Because the omitted paragraphs are non-technical in nature, the staff believes that this will not hinder observers from following the discussion (IASCF, 2006s, p.1).

Other texts are not publicized by the IASB. The IASB, for instance, did not distribute comment letters on ED 3. Many of its audio podcasts are inaudible, and contrary to the claim that “All meetings of the IASB are held in public and webcast”67, audio podcasts of many of its meetings are irretrievable. As an example, it never webcast any of its deliberations concerning either Phase I of the Business Combinations Project or the pre-exposure draft stage of Phase II of the Business Combinations Project, and this was a point mentioned in comment letters that the Swedish Enterprise Accounting Group (2005, p.5) and the Swedish Financial Accounting Standards Council (2005, p.7) submitted to the IASB’s in response to the IASB’s formal invitation to comment on ED 3:

The project summaries play a vital role in order for us preparers to join the discussion at an early stage. Unfortunately, the project summary for Business Combination II has not been kept updated, where the last version on the home page still is dated November 1, 2004. Moreover we found it difficult to work with and fully understand the positions taken by the Board. The progress can of course be followed in IASB Update, but to have a good and updated summary of decisions and open questions is very helpful.

Business Combinations, Phase II, is an extensive project, which has been underway for a considerable period of time. (…) We would have welcomed fairly comprehensive updates in the project summaries, at more frequent intervals, concerning the status of the total project, based upon the decisions made to date. This would have considerably facilitated the reader's ability to more easily establish a complete overview of the project.

While the IASB conveys an appearance of openness and transparency to the public, in many respects its decision arena remains sequestered, hidden from public observation.

A third way the IASB is seen to have benefited its democratic legitimacy is through its integration of multiple advisory bodies. “The IASB's formal advisory bodies provide an important channel for the IASB to receive input on its work and to consult interested parties from a broad range of backgrounds and geographical regions in a transparent manner.”68 Its incorporation of a broad range of parties suggests the IASB is the recipient of a more holistic perspective on issues pertinent to the development of IFRS. Yet as Botzem (2012) and Chantiri-Chaudemanche and Kahloul (2010) observe, the IASB’s advisory bodies are microcosms of the IFRS Foundation; that is, they comprise accountants and agents of the financial and banking sectors. As an example, the EEG was created in 2011 “with the aim of enhancing the participation of emerging economies in the development of IFRSs”69. Emerging economies, like Africa’s, are significantly supported by cooperatives. The International Labor Organization recently issued a working paper that stated: “Recent research indicates that approximately seven per cent of the African population are affiliated to

68 www.ifrs.org/The-organisation/Advisory-bodies/Pages/About_advisory_bodies.aspx (accessed 06 November 2013).
69 www.ifrs.org/The-organisation/Advisory-bodies/EEG/Pages/About-the-EEG.aspx (accessed 06 November 2013).
cooperatives (Pollet, 2009). The research indicates that while cooperatives are large in number and represent an organized movement, the movement suffers constraints that are related to lack of voice or effective representation in society” (Allen & Maghimbi, 2009, p.14). The assertion made in the staff paper resonates with the membership of the EEG in that the EEG does not include one member of the co-op sector. The chapter now concludes vis-à-vis a discussion on what types of experts could be involved in the IASB to enhance its democratic legitimacy.

5.7 Discussion and Conclusion

The argument made in this chapter was that to better understand developments in the transnational regulation of financial reporting, it is important to study the IASB, wherein IFRS are produced and directed towards actors in over 120 jurisdictions. In particular, this chapter analyzed the IASB’s input, throughput, and output legitimacy vis-à-vis an investigation of the public accountability and governance structures underpinning the IASB and its reliance on a model of using independent expert standard setting. The work juxtaposed the discursive construction of the organization of the IASB with its organizational practices. The conclusion was reached that it exhibits a democratic deficit in that it often does not fulfill standards of input, output, and throughput legitimacy. Specifically, consideration was given to how its organizational practices are frequently inconsistent with its claimed rules, policies, and procedures. Several examples were provided: a narrow band of expertise bears on the development of IFRS; its public accountability structures do not connect it to the majority of citizens; governance over the IASB is fragmented and incomplete; and its due process in some cases bears little resemblance to its claim to fully engage the public. As a corollary, I suggested its democratic deficit bears on the orientation of the IFRS framework. That most members of civil society are excluded from the IASB, I argued, reinforces and deepens what Collison et al. (2014) would call the ascendency of the shareholder perspective in the IFRS framework.

Throughout the chapter, consideration was given to how the IASB could enhance its democratic legitimacy. I argued that its development of IFRS lite could involve individuals with expertise on SMEs or that the EEG could include members actively involved in emerging economies, such as the approximately 800 million co-op members and owners worldwide (see CPA, 2012). To close, I draw on the work of Collins and Evans (2002, 2007) and Collins (2010) to suggest another way to bolster the IASB’s democratic legitimacy. Interactional experts (see chapter 3), conceived as academic accountants, could play an instrumental role in fostering a more deliberative approach for developing IFRS. Building on the work of researchers like Cooper (2005) and Neu, Cooper, and Everett (2001), I suggest academic accountants could play a public role in the transnational regulation of financial reporting by applying theory to accounting standard setting with the aim of integrating theoretical perspectives on financial accounting and praxis.
Accounting researchers like Cooper (2005) and Neu et al. (2001) argue that accounting academics should play a more active role in public debates on problems confronting contemporary societies. Cooper (2005) argues that they should be directly involved in social movements by “speaking truth to power” (i.e., Said, 1994). Accounting academics, she suggests, are well equipped to act as stewards of the public interest in public debates on accounting and finance. In fact, she states they have a competitive advantage, compared with other public intellectuals, given that academic accountants are fluent in the languages of accounting and finance (i.e., they have interactional expertise), and they often have contributory expertise on the application of their technologies. Notwithstanding the fact that academic accountants tend to avoid participating in the development of accounting standards (see Tandy & Wilburn, 1992 and 1996), I close the chapter by offering a few suggestions on how academic accountants could apply their expertise to foster a more deliberative approach for developing IFRS.

For one, academic accountants could translate highly technically complex discourse on accounting standard setting into more comprehensible terms. Presumably, a portion of the public self-excludes from the development of IFRS due to its sheer lack of understanding of the technical complexities of the IASB’s work (third dimension). I suggest accounting academics could assist the public, including accountants, to make sense of the Board’s work. Having studied the IASB’s amendment of IFRS 3, for instance, I recognize how complex its work is. In many cases, the IASB uses a highly specialized vocabulary that is perplexing to outsiders, including accountants, as I determined when I discussed the Board’s deliberations on IFRS 3 with accountants. To my surprise, they expressed confusion on the IASB’s proposed amendments to IFRS 3. I have concluded that to a significant extent, one must actually acquire interactional expertise on the IASB’s standard setting to understand how it develops IFRS.

One measure academic accountants could take to avoid being “locked into a jargon fuelled world sealed off from what is happening outside” (Cooper, 2005, p. 593) would be to assist actors with an interest in IFRS to make sense of the IASB’s deliberations. As noted, I acquired interactional expertise on the IASB’s discourse of acquisition accounting by fully immersing myself in the Board’s deliberations. I acquired the expertise not by working in public practice or industry or by completing advanced course work on financial accounting. Rather, I acquired it through an extended period of enculturation, whereby I fully submerged myself in the work of the IASB for a prolonged period of time. I argue that this expertise could be used to make the IASB’s work more accessible to citizens that lack the time and resources to be socialized into the IASB’s world. Bearing this in mind, I could use my interactional expertise on the IASB’s discourses of accounting standard setting to enlighten the public on developments in the IASB. And I could use it to alert the IASB to cases in which the public does not comprehend the IFRS framework before the IASB releases more standards. Put differently, academic accountants could help the IASB to avoid left-overs (i.e., Risse & Klein, 2007, p. 77), an objective that seems particularly worthwhile given concerns recently expressed by the public concerning IFRS 1 through 9:
Many (…) respondents expressed a view that after a period dominated by joint projects focused on convergence, now is the time for the IASB, and its Interpretations Committee, to be more active in addressing matters related to the practical application of IFRS (my emphasis)” (IFRSF, 2012d, p.6).

Accounting historians could also play a public role in the transnational regulation of financial reporting by emphasizing differences in local financial reporting practices, which Young (1994) argues are associated with local “social and historical contexts” (p. 84). Currently, the IFRS framework turns on a capital market logic, which researchers like Botzem (2008, 2012) and Botzem and Quack (2006, 2009) and Perry and Noelle (2005, 2006) suggest has been quite foreign in civil-law countries like Germany, at least until very recently. In civil-law countries, authorities have traditionally advocated a tax-oriented approach to financial accounting. Tax assessments are based largely on cash flows as opposed to estimated gains and losses associated with assets and liabilities. This might be one reason why fair value accounting continues to be controversial in continental Europe, as demonstrated by the current hostility of European insurers against the IASB’s proposal that current interest rates be used to measure and recognize insurers’ liabilities at fair value (Financial Times, 2013).70 (See also Magnan, 2009; Walton, 2004.)

While the IASB’s efforts to increase the comparability of financial statements may be beneficial in certain respects, I suggest that it would be mistaken to disregard local reporting traditions. Even Zeff, a staunch supporter of convergence, acknowledges that the global diffusion of IFRS undermines distinctive local cultures and even comparability:

Proper cognizance must be taken in the development of standards and interpretations of the differences in the fundamental way in which business is done in different countries. For example, how can a standard on consolidated financial statements be designed to reflect the substantive relationships in Japan’s keiretsu and Korea’s chaebol, the networks of affiliated companies that may not have a parent company? In China, most business is done by state-owned entities, not by private-sector enterprise. To what degree should accounting standards make explicit provision for the different way that business is done in Islamic countries? An insistence that a single accounting method in a standard be used in all countries may, in some instances, do no more than accentuate these differences, not promote genuine worldwide comparability (Zeff, 2012, p. 834).

Returning to the case of the IASB’s amendment of IFRS 3, accounting sociologists, like Norio Sawabe at Kyoto University, could give proper cognizance to Japanese customs that bear on the accounting for business combinations. The Accounting Standards Board of Japan (ASBJ) has fiercely resisted IFRS 3, in part because it is based on the acquisition model. Recognizing the following is a simplification – it is dishonorable in Japanese culture for one company to be acquired by another one. In order “to save face,” for lack of a better phrase, Japanese organizations do not acquire organizations. Rather, they engage in mergers of equals. A merger suggests a mutually beneficial relationship, whereas an acquisition is: “a transaction or other event in

70 Admittedly, concerns are being raised over fair value accounting in the U.S.A. and the U.K., particularly in the context of the current financial crisis. Notwithstanding this point, fair value continues to be the measurement attribute underpinning many IFRS and U.S. GAAP.
which an acquirer obtains control (my emphasis) of one or more businesses” (IASCF, 2005b, p. 6). Currently, IFRS 3 prohibits merger accounting.

Although convergence of national GAAP may be beneficial in specific respects, I suggest convergence should not eviscerate local reporting customs, in part because it would frustrate the IASB’s stated commitment to serve the public interest. Pragmatically, it is difficult to imagine why national authorities, like the ASBJ, would consent to the adoption of IFRS until the IASB treats seriously Japanese culture as it bears on commerce and financial accounting. I suggest academic accountants from around the world could play a public service role by raising awareness about the varieties of financial accounting with the broader aim to problematize the myth that the sole implication of financial reporting is providing information to investors and creditors. While emphasizing points of difference diminishes the potential for convergence, suppressing them is even less likely to foster meaningful convergence – which Eberlein and Richardson (2012) suggest is the case in practice: “There is ample - although not systematic - evidence in the area of global finance (…) that implementation of and compliance with one-size-fits-all type of global standards is fraught with numerous pitfalls and is uneven and partial at best” (p.14-15).

Another way academic accountants could engage in public debates on IFRS is by facilitating an ardent dialogue between actors that want to participate in the IASB but struggle to do so for the reason that they lack the technical knowledge to make sense of debates concerning the configuration of IFRS. Returning to the IASB’s amendment of IFRS 3, for instance, 37 cooperatives submitted comment letters in response to the Board’s formal invitation to comment on ED 3. The submissions were based on a template. All the letters expressed similar claims and invoked comparable phrases and arguments. One may surmise that the cooperatives used a template for the reason that they lacked the interactional expertise on the IASB’s discourse of acquisition accounting. One consequence of their application of a template was that their letters – viewed in their entirety – are unconvincing because they express the same points repeatedly. This may be one reason why the IASB did not discuss concerns expressed by cooperatives on ED 3 (see chapter 7).

I suggest that academic accountants, like J.S. Toms, are knowledgeable about the fundamental differences between cooperatives and other types of organizations. Toms has interactional expertise on cooperatives and financial accounting. He is the current chair of accounting in the Leeds University Business School, and he has conducted extensive research on the accounting practices of cooperative cotton mills of Lancashire (Toms 1998, 2002, 2012). Cooperatives play an instrumental role in the World Economy as recently suggested in Critical Perspectives on Accounting:

Today, the cooperative world counts on 800 million members, employs 100 million workers in 96 countries worldwide and aids 150 million people. As voluntary and autonomous organisations, cooperatives are mostly active in the development of local communities. For all these reasons, the
United Nations is appealing to the international community to recognise, promote and foster the growth of this important segment of our society (2012, p. 493).

While more research is needed to better understand “the conceptual and theoretical foundations of cooperative practices” (CPA, p. 493), I suggest that accounting academics could also play a public role by speaking on behalf of cooperatives in the transnational regulation of financial reporting. Accounting academics, like Toms, are well equipped to raise awareness that IFRS reporting does not convey information pertinent to co-op members and owners seeking to achieve social mandates. Returning to the IASB’s amendment of IFRS 3, accounting academics could disrupt the myth that mergers of cooperatives are undertaken for the purposes of: “providing either: (1) a return to investors, or (2) dividends, lower costs, or other economic benefits” (IASCF, 2005b, p. 6). Academic accountants could raise public consciousness that in their attempts to comply with IFRS 3, cooperatives expend valuable resources that would otherwise be used, for example, to ensure that specific communities have access to resources such as electricity, food, medicine, clean drinking water, and affordable credit and housing.

Finally, and perhaps most significantly, in the wake of the synchronized collapse of national and regional economies worldwide, academic accountants could “challenge, for want of a better word, ideologies which serve to hide power relations” (Cooper, 2005, p. 593). The IMF (2012) recently proclaimed: “In normal times when real supply and demand shocks are dominant, financial linkages facilitate the efficient international allocation of capital. They shift capital where it is most productive”71. As noted, however, there are compelling reasons to question the IMF’s taken-for-granted view that economic integration/liberalization is desirable for everybody. No less than the IMF has recognized that in recent decades, around 20% of the world population has regressed (from Palast, 2000), whilst the World Economy, in its entirety, has grown exponentially in conjunction with the liberalization of capital controls. Further there are good reasons to question the IMF’s assentation that, in the real world, unregulated markets approximate the discourse of efficient markets (see, for example, Stiglitz, 2000 and 2003). However, it seems unlikely that the IASB will regard economic convergence as potentially undesirable for the reason that its stated mandate is “the convergence of national accounting standards.”72

Academic accountants could raise public awareness that the convergence of GAAP is related, in part to expansion of economic and political globalization. From the comprehensive literature on accounting regulation, which, for reasons of space, cannot be reviewed here, it is evident that the IASB and its work provide another instance of how the development and transformation of accounting rules and regulatory structures support and expand specific social mandates. As an example, the IASB’s recent push to converge the accounting for business combinations has seen escalating levels of global mergers and acquisitions (World Bank, 2012). In close, I suggest that perhaps there has never been a greater need for accounting

intellectuals to actively engage in public debates on economic globalization by drawing attention to the ways in which the IASB's project for converging GAAP reinforces and extends the liberalization of world markets – a phenomenon that has seen adverse consequences in both the market economy and the material world. Academic accountants could elevate the public’s understanding that the convergence of GAAP is not benign; it is a project that is deliberate and purposeful. To this end, Camfferman and Zeff (2007) state that the IASC was established for the express purpose of developing IAS to decrease barriers to foreign trade and investment. By imparting knowledge to the public on how the IASB’s work is associated with specific transformation in the World Economy, the public would be better capable of making determinations on whether the public interest is best served by convergence or by applying local GAAP in a reinforcement of distinct local cultures. The dissertation now turns to an analysis of the IASB’s recent amendment of IFRS 3 (“Business Combinations”).
Chapter 6 Power as Observable Decision-Making

6.1 Introduction

In an address to individuals attending a recent International Financial Reporting Standards (IFRS) Foundation conference in Amsterdam, International Accounting Standards Board (IASB) Chairman, Hans Hoogervorst, stated that the IASB follows a “due process” for developing IFRS in order to serve the public interest. He explained:

We have comprehensive requirements for comment periods and outreach, so we are unlikely to overlook issues raised around the world. A standard that has benefitted from such elaborate due process is far more likely to be high quality and to stand the test of time (Hoogervorst, 2013, p. 3).

Recall from chapter 5 that the IASB’s claim to follow a “due process” means that the public is afforded the opportunity to participate in the development of IFRS; that is, the public can submit comment letters on proposed reforms (but see Larson, 2007), participate in roundtable discussions and education seminars, contribute to field visits and engage the IFRS Foundation Trustees on revisions to the constitution (IFRSF, 2013a). In chapter 4, preliminary consideration was given to the history of the International Accounting Standards Committee (IASC) and the IASB’s work to develop a standard for accounting for business combinations. Here specific attention is given to Phase II of the Business Combinations Project (2004-2007).

In an application of Lukes’s “first dimension of power” (1974; 2005) the chapter here provides a comprehensive analysis on constituent lobbying in relation to the IASB’s amendment of IFRS 3 (“Business Combinations”) (2004). The primary purpose of the chapter is to assess the relationship between overt lobbying and the IASB’s observable decisions on the amended IFRS 3 (2008). To this end, a significant portion of the analysis pivots on a juxtaposition between preferences expressed in 158 comment letters and the IASB’s observable decisions on the amended IFRS 3.

Before proceeding it is worth emphasizing that the politics of accounting standard setting are not limited to the submission of comment letters to accounting standard setters. A case in point: In a recent article published by Reuters it was unveiled that, in 2011, the Big Four spent a combined US $9.4 million on in-house and outside lobbying targeting congress (Ingram & Aubin, 2012). Further, political-action committees (i.e., PACs) – which are funded primarily by member firms – contributed $8.7 million to candidates in the 2010 congressional election cycle (Ramanna, 2008). A leading beneficiary of donations from the Big Four has been Republican Representative Spencer Bachus. He is the Chairman of the House Financial Services Committee, which oversees the Public Company Accounting Oversight Board (PCAOB). Bachus has accepted $370,000 in contributions from auditing firms. He remains an outspoken opponent of audit-firm rotation. At one point, he tabled a proposal that sought to strip the PCAOB of its jurisdiction.
Against the backdrop of the IASB’s amendment of IFRS 3, it can be observed that approximately 90% (i.e., 162 organizations) of the external organizations that funded the IASB in 2005\(^\text{73}\) did not submit comment letters on exposure draft 3 (ED 3) (see IASCF, 2006aa). It is possible that the IASB’s financial supporters were less inclined to submit comment letters for the reason that they engaged in a form of lobbying that bore some resemblance to PAC funding in the U.S.A. It can also be observed that, in 2005, external organizations involved in the governance structures of the IASB and the IASB’s advisory bodies submitted relatively few comment letters on ED 3. To illustrate, 16%, 25% and 12% of the organizations involved in the work of the Trustees, IFRS Interpretations Committee and the IFRS Advisory Council (respectively) submitted comment letters on ED 3 (2005).\(^\text{74}\) One may further deduce that organizations directly involved in the work of the IASB are less inclined to submit comment letters on proposed changes to IFRS for the reason that they shape standard setting behind the scenes. Camfferman and Ziff’s comprehensive analysis of the IASB’s forerunner, the International Accounting Standards Committee (IASC) (2007), teaches us that much of the “politics” of accounting standard setting revolves around the work of technical committees, which for the most part remain sequestered, hidden from public observation.

Bearing these points in mind, it is worth revisiting the comments I made in chapter 2, whereby I emphasized that caution should be exercised in interpreting the impact that constituent lobbying (in the form of comment letters) appears to have on the development of accounting standards. Recollect, for instance, that some research reveals (or recognizes) the bulk of standard setting happens behind closed doors (e.g., Armstrong, 1977; Horngren, 1973; Lafferty, 1979; Stamp, 1985). McLeay, Ordelheide and Young convey this point well when they state:

"Consistent with prior work, this study focuses on observable lobbying behavior. To the extent that private lobbying was either more influential than public lobbying, or differed in respect to the nature of the preferences expressed, the results of this study should be interpreted with caution (2000, p.86)."

The authors’ comments remind us that it is difficult to definitively determine who influences whom in the standard setting arena when the theoretical-empirical gaze remains fixed on overt lobbying and observable decision making. One way that the analysis in the chapter seeks to avoid misestimating the association between lobbyists’ stated preferences and the IASB’s observable decisions is through an examination of potential confounding factors, such as the IASB’s public deliberations on ED 3. Further, as I specified in chapter 2, the investigation in the current chapter will be extended through subsequent consideration of the power dynamics associated with the construction of the IASB’s technical agenda (dimension two) (see chapter 7) and latent conflicts of interest (dimension three). Lukes states that latent conflict in certain cases is associated with institutional inaction (see chapter 8).

\(^{73}\) Exposure draft 3 was released for public review in 2005.

\(^{74}\) See Figure 5.1 (“The IASB's Accountability and Governance Structures”).
Bearing these points in mind, the analysis here provides an assessment on one facet of the politics of the IASB’s amendment of IFRS 3 that saw constituents submit comment letters to the IASB regarding the proposed amendments to IFRS 3. The contested nature of accounting standard setting invariably raises questions about the distribution of power amongst lobbyists and the IASB per se. It raises questions, for instance, about the IASB’s level of responsiveness to concerns expressed in comment letters, being as the IASB is a self-described “independent expert body” that reserves the right to make all decisions on the promulgation of IFRS. To sum up, the chapter comprises an analysis on the distribution of power that extends from competing lobbyists to the IASB.

As a starting point, the analysis seeks to identify constituents’ preferences on 19 proposed amendments to the acquisition model as accomplished through a content analysis of 158 commentaries submitted to the IASB in response to its formal invitation to comment on ED 3. The relative influence of lobbyists on the IASB is assessed by comparing constituents’ stated preferences with the IASB’s observable decisions. Lobbyists’ preferences are coded and analyzed using a five-point Likert scale (i.e., “completely support”, “mostly support”, “neutral”, “mostly disagree,” “completely disagree”). The results reveal at least two things. First, the draft proposals were widely contested by respondents; 91% of them (N=143) “completely supported” less than half of the proposals in ED 3. This is interpreted to suggest that Phase II did not see an instance of “pluralism” (e.g., Dahl, 1957, 1961, 1963, 1976, 1994, 1999; Merelman; 1968; Polsby, 1963, 1968; Wolfinger, 1971a, 1971b; Wolfinger & Rosenstone, 1980; and so on), whereby the IASB made a series of compromises “in the making of decisions on issues over which there is an observable conflict of (subjective) interests” (Lukes, 2005, p.19). Secondly, the analysis indicates that only 9% of respondents “completely supported” at least half of the proposals contained in ED 3. That these respondents did not exhibit similar demographic characteristics is one reason why they are not conceived as members of a lobbying coalition.

Recall section 2.4.1, which elaborated several reasons why it is important to evaluate the extent to which the IASB’s “due process” promotes pluralistic decision-making. As an example, I suggested that it is imperative to investigate the extent to which the IASB’s system of “power equivalency” minimizes the potential for self-characterized technical experts to monopolize the development of IFRS. Taking this into account, the work suggests that the IASB’s observable decisions did not signify a series of compromises made by the IASB in an attempt to strike a point of balance between competing preferences expressed on the draft proposals, and it does not suggest that the IASB was “captured” by a so-called lobbying elite insofar as the IASB’s decisions do not resemble the stated preferences of specific actors. Instead, the findings suggest a form of regulatory elitism, whereby the IASB acted as an independent body of experts by implementing virtually all proposals in ED 3 in IFRS 3 in spite of the public rejecting them.

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75 However, the material and analysis presented is not limited to comment letters.

76 Section 2.4.1 also imparted specific ways the work in the current chapter seeks to build on the literature on accounting standard setting.
Before continuing, I will emphasize that while the IASB adopted in ED 3 a number of the U.S. Financial Accounting Standards Board’s (FASB) proposed amendments to Statement of Financial Accounting Standards 141 (“Business Combinations”), the study’s findings reveal that the IASB and the FASB eventually released significantly different standards on the accounting for business combinations. Essentially, the IASB has retained a modified version of the purchase method in the amended IFRS 3 (2008), whilst the FASB has adopted the acquisition model (as it was conceived in the original exposure draft) in SFAS 141 (2007).

Although the FASB plays an instrumental role in the convergence project, I suggest that the IASB’s observable decisions on IFRS 3 departed significantly from the FASB’s preferences as they were codified in the amended SFAS 141. Taking this into account, the study suggests that while the FASB exercised a marginal degree of power over the IASB leading up to the release of ED 3, in the end, the IASB ratified a substantially different method of accounting for business combinations. Despite the discourse of convergence, IFRS 3 and SFAS 141 are divergent in numerous ways.

The remainder of the chapter is organized as follows. In the next section details are provided on how Lukes’s first dimension of power is applied to the analysis, namely how a five-point Likert scale is used to evaluate respondents’ stated level of agreement or disagreement with the proposals in ED 3. In the section entitled “Findings” the results of the analysis are presented. Preliminary consideration is given to key issues acknowledged by respondents in comments that extended beyond the proposals underpinning the IASB’s formal invitation to comment. The remainder of the section is organized around the nineteen proposed amendments to IFRS 3. The proposals are accompanied by: (a) descriptive statistics conveying the distribution of respondents’ level of agreement or disagreement with each of the proposals, (b) reoccurring concerns expressed by respondents regarding each of the proposals, and (c) the IASB’s observable decision on whether to adopt each proposal. The section entitled “Analysis” evaluates the “distribution of power” amongst actors involved in the IASB’s amendment of IFRS 3. Here consideration is given to the IASB’s public deliberations along with the FASB’s influence on the IASB. In the conclusion, the argument is made that the IASB faces a number of challenges. One challenge, Zeff (2002) states, is the IASB retreating from controversial proposals that would otherwise enhance the quality of financial reporting. I suggest another potential challenge to the transnational regulation of financial regulation is the IASB retreating from a judicious examination of concerns expressed by the public. One may surmise, as discussed in chapter 5, that this would impair the IASB’s perceived legitimacy.

6.2 Mode of Analysis

As noted in chapter 4, ED 3 was released in 2005 and it contained a formal invitation to comment on 19 proposed amendments to IFRS (2004). In response, the IASB received 158 submissions from constituents. Figure 6.2 (“Respondents”) provides a break-down of the types of constituents that submitted comment letters to the IASB regarding its invitation to comment. Figure 6.3 (“Respondents by National Jurisdiction”)
indicates the nationalities of the respondents. Previously, I emphasized that the three dimensions of power are not mutually exclusive. While the primary focus of the analysis here is on overt conflict, it is worth noting that against the backdrop of its formal invitation to comment on ED 3, the IASB—an international regulatory body—received virtually no comment letters from actors in non-English-speaking countries like China, Japan, India, Russia, Brazil, etc., much less from NGOs, charities, elected politicians, academics, and so on. In an application of Lukes’s notion of the “third dimension of power” (1974; 2005), it is conceivable that some actors self-excluded from the IASB’s process of amending IFRS 3 in part because they did not comprehend how the accounting for business combinations concerned their real interests.

Respondents’ preferences, as they were revealed in comment letters, are treated as one set of observable preferences on the proposed amendments to IFRS 3. Another set of observable preferences is the one expressed by the IASB over the course of its public deliberations. As noted in chapter 3, “key issues” are proposals that impact stakeholders’ abilities to achieve particular goals. The proposals contained in ED 3 are conceived as some of the key issues of the project. Analyzing comment letters and the IASB’s public deliberations, however, leads to the identification of further key issues, such as the one concerning the IASB’s implicit adoption of the whole-entity model. “Overt conflicts” are instances of observable disagreement, such as the one that saw a majority of respondents reject the IASB’s proposal that all acquisition costs be expensed separately from the accounting for a business combination. Of central importance to the one-dimensional view is observable decision-making. One of the chapter’s objectives is to identify which actors’ stated preferences prevailed in relation to the IASB’s observable decisions. The relative power exercised by lobbyists over the IASB is initially assessed by examining the extent to which the IASB’s observable decisions resonated with the stated preferences of specific lobbyists. However, a further level of analysis is undertaken on the IASB’s public deliberations to shed light on whether a perceived relationship between the IASB’s final decisions and the positions of specific lobbying is misestimated due to a failure to account for confounding factors, like things that happened during the IASB’s formal deliberations.

It is equally conceivable that they did comprehend their “real interests” but they weren’t interested in participating in the IASB’s amendment of IFRS 3.
As noted, a key component of the chapter provides an evaluation on the public’s level of support for the proposed amendments as a basis for analyzing the distribution of power between the various actors that participated in what the IASB asserts to be a “due process.” Before continuing, it is worth noting that initially consideration was given to the demographic characteristics of respondents. As an example, the submissions of academics, producers, preparers, users, regulators, and so on, were grouped together with the intent of evaluating differences between the groups’ preferences. However, following the analysis of preferences expressed in comment letters, it was determined that virtually all respondents rejected the proposals. Thus the decision was made not to compare the preferences of different types of respondents for the reason that the raw data indicated that respondents, on the whole, rejected the proposals. As a preliminary step, the 19 proposals underpinning the draft are carefully identified and analyzed. In subsequent analyses, the comment letters are coded in three rounds. The letters are coded using version 3.0.1 of the qualitative data analysis software HyperRESEARCH and the coding categories are developed and applied in an iterative manner. During the initial round of coding, categories are developed and applied in a reflection of: (a) the key issues addressed by respondents, (b) the proposals that were supported or rejected by different types of respondents, and (c) the premises underpinning respondents claims regarding the nineteen proposals. Following the initial round of coding, a five-point Likert scale is developed to assess respondents’ level of agreement or disagreement (i.e., “completely support”, “mostly support”, “neutral”, “mostly disagree,” “completely disagree”) with each of the 19 proposals.

Figure 6.4 Likert scale: An Example
The objective and definition of a business combination are appropriate for accounting for all business combinations.

A Likert scale is a rating scale used by researchers to evaluate data collected in surveys and questionnaires. The 19 proposals underpinning ED 3 are treated as a series of statements that respondents evaluated when they submitted comment letters to the IASB. The Likert scale is used to evaluate the level of support or disagreement expressed by each respondent regarding each of the proposals. The decision to use a Likert scale was made following preliminary sampling of preferences expressed in comment letters, whereby it was determined that respondents frequently expressed ambivalence towards the proposals as opposed to supporting or rejecting them outright. Additionally, the decision to use a Likert scale was informed by McLeay et al. (2000) and Puro’s claim (1984) that the traditional approach for classifying constituents’ comments as being either “for” or “against” specific proposals often proves problematic given that: “respondents support one or more parts of an exposure draft while opposing or remaining silent on others” (2000, p.80). Employing a Likert scale offers a degree of flexibility that is lost when preferences are coded in a dichotomous manner.
During the second round of coding, the categories underpinning the Likert scale were applied to code respondents’ preferences on each of the proposals. In some comment letters, no preferences are expressed on particular proposals. In these cases, the category “neutral” is applied. The chapter’s appendix includes Table 6.3 (“Likert Scale”). Table 6.3 details the criterion observed to apply the five categories to comment letters. The chapter’s appendix also includes Table 6.4 (“Likert Scale applied to responses to Q3”). The purpose of including Table 6.4 in the appendix is to provide one example of how the categories were applied to a specific proposal, which was the IASB’s proposal that the acquirer apply the full goodwill method. Before proceeding it is worth noting that the IASB received 37 comment letters from the cooperative sector. All of the submissions categorically rejected the IASB’s inclusion of cooperatives within the scope of ED 3. All cooperatives opposed the mandated application of the acquisition model to account for mergers of cooperatives and the fair value measure principle underpinning the draft. The chapter’s appendix includes Table 6.5 (“Cooperatives Coding Template”), and Table 6.5 sheds light on how the coding categories were applied to the 37 submissions the IASB received from cooperatives. Table 6.5 also provides the rationale for applying specific categories to the cooperatives’ comment letters.

In addition, a number of key issues extending beyond the parameters of the IASB’s formal invitation to comment were identified and analyzed as part of the second round of coding. As an example, it was determined that nearly half of respondents (n=78) did not support what they perceived to be the IASB’s adoption of the whole-entity model in a replacement of the parent-only concept.78

During the third and final round of coding, the same coding categories (i.e., “completely support,” “mostly support,” “neutral,” “mostly disagree,” “completely disagree”) were re-applied to comment letters to enhance the reliability and consistency of the coding process. In the section 6.3.2 (“Responses to the Draft Proposals”) descriptive statistics are presented to convey the distribution of respondents’ level of agreement or disagreement with each of the individual proposals. The descriptive statistics are presented in a series of bar charts, given that the data is ordinal. Each bar chart indicates the proportion of respondents that completely supported, mostly supported, mostly disagreed, completely disagreed or remained neutral on each of the specific proposals. The x-axis of the bar charts is based on the 5 categories underpinning the Likert scale.

Table 6.1 is presented in the section entitled “Analysis.” The mode is calculated as a measure of central tendency (i.e., “the average response expressed on each proposal”) for the reason that a Likert scale is based on ordinal measurements. While there is an inherent hierarchy to the measurements, the precise distance between them is neither precise nor equivalent. A Likert scale is based on an arbitrary numerical scale, whereby the exact numerical quantity of each value has no quantitative significance apart from its relative ranking. It is for this reason that Glass and Hopkins (1996) state that it is mathematically incorrect to

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78 The consolidated financial statements are prepared from the perspective of the parent shareholders under the parent-only perspective. Minority interests are accounted for as a liability as opposed to a component of equity. In contrast, the whole-entity perspective seeks to provide information regarding all of the group’s ownership interests.
calculate the mean of ordinal data. They argue that it is appropriate to calculate the mean and the mode. The decision to calculate the mode was made for the reason that the mode conveys the most pervasive preferences expressed by respondents (i.e., “completely support,” “mostly support,” “neutral,” “mostly disagree,” completely disagree”) on each of the proposals (i.e., Q1, Q2 (... Q19). In contrast, the median represents the mid-point of the distribution of preferences expressed by respondents, and the mid-point has the potential to bear little resemblance to what the greatest proportion of respondents felt about the proposals.

The purpose of Table 6.1 is to shed light on the extent to which (a) the nineteen proposals were supported by the average respondent, and (b) the IASB made a series of compromises on controversial proposals in an attempt to achieve a point of balance “in the making of decisions on issues over which there is an observable conflict of (subjective) interests” (Lukes, 2005, p.19). As noted, the mode of the combined distribution is calculated as an index that signifies the most common level of support or disagreement expressed by respondents with respect to each proposal. However, it is worth emphasizing that caution should be exercised when interpreting the data presented in Table 6.1; that respondents most commonly “completely disagreed” with the bulk of proposals does not mean that all respondents “completely disagreed” with the bulk of proposals or even that a majority of respondents disagreed with all of the proposals. Table 6.1 should, therefore, be interpreted as part of the analysis presented in the section entitled “Findings,” whereby careful consideration is given to all respondents’ preferences on each of the draft proposals.

Dahl originally argued that powerful lobbyists are “participants with the greatest proportion of successes out of the total number of successes” (Dahl, p. 80, 1957 qtd. in Lukes, 2005, p.17). To this end, the final analysis tallies each respondent’s number of “successes.” A “success” is identified as an instance where a respondent “completely supported” a proposal adopted in the amended IFRS 3. The result of the tally is delivered schematically in the figure entitled “Distribution: Levels of Agreement”. The figure provides a visual representation of the number of respondents that “completely supported” 1, 2, 3 (... 18 or 19 of the proposals adopted in IFRS 3. From the figure, it is possible to discern which respondents supported the greatest proportion of proposals adopted by the IASB in the amended IFRS 3. In sum, the figure sheds light on whether the IASB’s observable decisions resonated with the preferences of an elite group of lobbyists.

Having elaborated the approach taken in the chapter, the work continues now by presenting the findings of the work.

6.3. Findings

6.3.1 General Concerns Raised by Respondents

A number of respondents did not support several aspects of the draft that extended beyond the formal draft proposals. To begin, around half of respondents (N=78) did not support the IASB’s adoption of the whole-
entity model in a replacement of the parent-only concept. RWE (2005, p.2) and Ernst and Young (2005, p.3) stated:

Under the proposals, all equity interests in a group should be treated as being homogenous. As a result, transactions between controlling and non-controlling interests are thus regarded as transfers within the total equity interest and consequently no gain or loss is recognised on such transactions. This approach is in accordance with the entity theory, but will, in our opinion, confuse users of financial statements. We believe that consolidated financial statements should report performance from the perspective of the controlling interest, and therefore the consequences of changes in controlling interests in subsidiaries after control is established should be reported clearly in the income statement.

The Board states “financial reporting and the relevance of information about business combinations could be improved significantly by developing fundamental principles that focus on the underlying economic circumstances that exist when a business is acquired and applying them consistently”. However, this view is based on a particular conception of what constitutes “the underlying economic circumstances” and the Board does not explain why it equates “the underlying economic circumstances” with the economic entity concept rather than the parent company extension concept.

While a majority of respondents supported the IASB’s assertion that minority interests should be accounted for as a component of equity, most of them urged the IASB to retain the parent-entity perspective as the basis for preparing the consolidated financial statements. Proponents of the parent-only perspective argued that the group accounts should be prepared to allow the primary users of the consolidated financial statements – the parent shareholders – to evaluate the financial position and performance of the entity from the perspective of the parent company. Similarly, most respondents maintained that the information needs of minority interests are auxiliary. In addition, many respondents reaffirmed their preference for the parent-only perspective for the reason that it provides better information to evaluate the parent’s managerial stewardship and to determine the rate of return generated on the parent’s invested capital.

In response, the IASB asserted that it would not address matters relating to the orientation of the group accounts as part of Phase II (see Deloitte Touche Tohmatsu, 2008) through a type of nondecision-making, whereby it reaffirmed its previous conclusions that, one, minority interests are not liabilities, and two, that the proposed accounting for transactions between controlling and non-controlling interests is consistent with the conceptual framework. The IASB stated:

We do not agree that the accounting we proposed obscures the financial performance of the parent. Our Framework includes definitions of liabilities and equity. On the basis of those definitions, we concluded in our 2003 revision of IAS 27 that non-controlling interests are a separate component of equity. The amendments (…) reflect the consequences of that classification. We therefore decided to retain the basic proposals (i.e., whole-entity perspective) in the exposure draft. (…) We also know that the concerns of some respondents are more fundamental than disclosure and stem from their belief that we should adopt a parent perspective in business combination accounting and consolidations more generally. The accounting for changes in non-controlling interests is consistent with our Framework. Therefore, we did not comprehensively debate the economic entity and parent entity perspectives as part of our business combinations project (IASCF, 2008b, p.16).
As noted in chapter 3, the three dimensions of power are not mutually exclusive. Nearly half of respondents encouraged the IASB to comprehensively evaluate the conceptual merits of the whole-entity model in relation to the information needs of the parent shareholders. However, the IASB and the four-member business combinations project team did not broach the “potential issue” during the IASB’s post-exposure draft deliberations. Drawing on the work of Bachrach and Baratz (1970), Lukes states that policymakers also exercise power when they make observable decisions that reinforce institutional obstacles, which in turn prevent the airing of particular conflicts of interest in the decision arena. To paraphrase Bachrach and Baratz (1970, p.7), these data suggest power was exercised by the IASB over nearly half of respondents when the board did not bring to the fore a serious debate on the orientation of the group accounts. It may be surmised that the IASB did not permit concerns about the IASB’s adoption of the whole entity concept to gain access to the decision-making arena because they challenged the IASB’s values on financial reporting as institutionalized in the conceptual framework (as suggested by the above excerpt). (In the next chapter, I will analyze in further detail how the IASB’s conceptual framework shaped the opportunities for accounting change in terms of Phase II.)

In addition, many respondents expressed concern about the IASB’s increasing emphasis on fair value accounting in the IFRS framework. In a letter submitted to the IASB from the London Business School, the IASB was cautioned that: “There seems to be widespread opposition to the IFRS 3 proposals on the grounds that they are a Trojan horse for full fair-value accounting” (2005, p.3). I suggest that the proposed acquisition model pushed the frontiers of fair-value accounting in the way that the model was based on the acquirer measuring and recognizing, at fair value, the acquiree as a whole, goodwill, minority interests, contingent consideration, intangible assets, accounts receivable, contingent assets acquired and contingent liabilities assumed, financial instruments, insurance contracts, and so on. Respondents, like Industrie-Holding (2005, p.3) argued that the mandated application of valuation techniques outlined in Appendix E (i.e., market, income and cost) would move financial reporting from the realm of actual and observable transactions to the realm of hypothetical scenarios:

It is worthwhile to add that we think it wrong to move away from accounting for actual transactions which have taken place and the generally clear “real-money” costs involved to accounting for hypothetical values based on estimates subject to a potentially wide range of outcomes, especially where no specific market data are available (…). Users (will) suffer from the increased ‘softness’ of the numbers reported under the proposals.

Several respondents encouraged the IASB to issue a separate standard to clarify how to measure and recognize assets, liabilities and businesses at fair value. They regarded the guidance in Appendix E as partial and incomplete. Power (2010) recently stated, “…‘fair value’ is accounting trying to be finance. (It) produces
an illusion of intellectual rigour and opaque financial statements” (p. 203). The Canadian Accounting Standards Board (2005, p. 2) stated:

The issuance of a stand-alone standard for fair value measurement guidance, applicable to all transactions requiring such measurement, would provide an important safeguard against inconsistent fair value measurements. The AcSB urges the IASB to reconfirm its intention to issue such stand-alone guidance before the new standard for business combinations accounting becomes effective.

Other respondents, like the British Bankers Association (2005, p.1), encouraged the IASB to complete its ongoing work on the conceptual framework and the fair value measurement principle before issuing a standard on business combinations that necessitated extensive fair value accounting:

We believe that the Board has taken the wrong decision by issuing the ED, before there has been greater progress on the amendments to the IASB Framework and the Fair Value Measurement project. (…) In our view, the correct process would be to issue amendments to the Framework and related proposals for new and amended standards simultaneously, so that constituents can see the practical effects of the proposed conceptual changes.

In response, the IASB reaffirmed, on a number of occasions, its institutional belief that fair value accounting provides more germane information for users, namely investors:

The board concluded that requiring the recognition of the acquiree and the assets acquired and liabilities assumed at fair value as of the acquisition date improves the relevance and reliability of financial information (IASCF, 2005b, p.18).

Our consultations with groups of those who use financial statements for making (or making recommendations about) investment decisions suggested that information about the acquisition-date fair value (…) would be helpful (IASCF, 2008b, p.14).

Further the IASB also asserted that the proposed changes to the fair value requirements of the forthcoming IFRS 3 were relatively insignificant:

The principle of measuring the components of a business at fair value, which was maintained in the original IFRS 3, is not new. We understand why respondents might have perceived that the proposals included more use of fair value, given the focus in the exposure draft on the fair value of the business as a whole. The changes to the fair value requirements will affect only contingent consideration arrangements and step acquisitions (my emphasis). (…) For those business combinations in which the acquirer purchases all of the shares in a business in one transaction, and does not enter into any contingent consideration agreements, the fair value requirements in the revised IFRS 3 will be the same as those in the version it is replacing (IASCF, 2008b, p.18).

The IASB also emphasized that when it completed its ongoing projects on the conceptual framework and the fair value measurement principle it would then correct any defects or inconstancies in IFRS 3 over the course of a planned third phase of the business combinations project. However, Phase III never materialized, and
this is something that the public has continued to express concern over. In a recent release from the IASB entitled “Feedback Statement” the public again requested guidance on how to apply IFRS 3, particularly on how to apply the acquisition model to business combinations involving common control and group restructurings (IFRSF, 2012d, p.11). I suggest that its continued lack of guidance on how to apply these aspects of the standards diminishes the IASB’s output legitimacy. As noted in chapter 5, Risse and Klein (2007) state a regulator’s output legitimacy is weakened when its standards are marred by left-overs (p. 77). Left-overs are the result of what Cohen, March and Olsen conceive as “decision-making by flight” (1972).

The release of ED 3 prompted many European constituents to request the IASB for a period of stability in the IFRS framework. When the IASB released ED 3 for public comment, only one year had passed since the IASB had released its stable platform of standards in March 2004. The platform comprised the original version of IFRS 3 (2004). Beginning in January 2005, EU legislation mandated European preparers to apply IFRS, including the original version of IFRS 3 (refer back to chapter 4). Many respondents expressed frustration; they had just started to learn how to apply IFRS 3 in practice; now the IASB was on the cusp of overhauling the standard. HSBC (2005, p.1) and the Confederation of Danish Industries (2005, p.1) stated,

It is further disappointing that the Board does not seem to appreciate the necessity for a period of stability following initial implementation of IFRS.

We are concerned with the speed by which new standards are being issued. As the Danish companies put a significant effort in complying with the international standards, they are having problems just to keep up with the already implemented changes. Therefore, the Danish companies would very much prefer that standards are only adopted in bundles and in predetermined windows. (…) A slowdown would also be in the interest of users (analysts etc.), as a common, stable platform is of greater value than a platform subject to continuous changes. We find it very important that the accounting regulations show continuity and that companies are able to foresee the types of information needed in the future and thus to incorporate this in their internal financial reporting systems at the implementation stage.

In response, the IASB reassured European constituents that it would continue to directly engage them as part of education seminars, roundtable discussions, field tests, and so forth. The IASB noted that it was not prepared to delay the ratification of IFRS 3, given that the IASB remained committed to the harmonization of IFRS 3 and SFAS 141 in the wake of Board’s ratification of both the Norwalk Agreement (FASB & IASB, 2002) and subsequent Memorandums of Understanding (FASB & IASB, 2006; FASB, 2009) (dimension three). The analysis now turns to respondents stated level or agreement or disagreement with the proposals.

6.3.2 Responses to the Draft Proposals
**Proposal:**

Q1 The objective and definition of a business combination are appropriate for accounting for all business combinations (IASCF, 2006b, p. 6).

**Figure 6.5: Question from Invitation to Comment on Exposure Draft Three**

**Concerns Expressed by Respondents:**

- In mergers of mutual entities and cooperatives, one entity does not achieve control of another entity. True mergers are also common amongst charities and museums, in the public and not-for-profit sectors, and between institutions of higher education.

- The proposed definition excludes joint ventures and mergers of equals from the requirement to apply the acquisition model, creating and inconsistency in practice. Furthermore, IFRS 3 does not provide any guidance on how to account for these transactions.

- The acquisition model is derived from the economic entity model, whereby the acquirer measures the entire subsidiary at fair value, and the minority interest is treated as a component of equity rather than as a liability. The IASB has not explained why the consolidated statements should be prepared from the perspective of the entire entity as compared to the perspective of the parent shareholders.

- The IASB should not replace the cost allocation model with the acquisition model. Under the cost method, the consideration exchanged provides an objective benchmark for measuring and recognizing all aspects of the business combination at fair value. In contrast, the acquisition model requires the consideration exchanged, acquiree’s net assets, and the acquiree as a whole to be estimated based on valuation models specified in Appendix E ("Fair Value Measurements"). However, Appendix E does not provide sufficient guidance on how to apply the models for this purpose.

**Power as observable decision making:**

- The IASB retained the definition of a business combination. However, it altered the original proposal that the acquirer measure the acquiree as a whole at fair value using specific valuation models. Under the amended IFRS 3, the fair value of the acquiree is equal to the fair value of the consideration exchanged.
**Proposal:**

*Q2* The draft guidance is sufficient for determining whether the assets acquired and the liabilities assumed constitute a business (ibid, p.7).

**Concerns Expressed by Respondents:**

- The draft should provide more comprehensive guidance on how to distinguish between a business and a group of assets and liabilities.
- The guidance notes set out in paragraphs A2 to A7 are unclear and would be improved by clear examples setting out a set of underlying concepts and principles to assist preparers to isolate the precise differences between the acquisition of a business versus a collection of assets and liabilities.
- The proposals should include comprehensive examples juxtaposing activities and assets that are businesses versus ones that are not businesses.
- Many organizations do not seek to maximize shareholder wealth (i.e., accumulating economic returns, dividends, lower costs, and so on). To illustrate, museums, institutions of higher learning, charities, cooperatives, not-for-profit organizations and government agencies typically endeavor to achieve broader social mandates. The draft does not distinguish between different types of organizations and by extension IFRS 3 mandates that all acquisitions are accounted for in such a way to provide information pertinent only for investors.

**Power as observable decision making:**

- The IASB retained the definition of a business and it did not provide additional guidance on how to distinguish between a business and a group of assets and liabilities in the amended IFRS 3.
Proposal:

Q3 In a partial acquisition, the acquirer measures and recognizes the goodwill attributable to the non-controlling interest (ibid, p.7).

Concerns Expressed by Respondents:

- Goodwill has traditionally been a residual figure, that is, the difference between the purchase price and the historical cost of a subsidiary's net assets. It is difficult to estimate the fair value of the subsidiary as a whole and its net assets using the valuation models underpinning Appendix E, particularly in the case of a partial acquisition, whereby no transaction occurs in relation to the non-controlling interest.

- It is difficult to allocate goodwill between the controlling and non-controlling interests for subsequent impairment testing. Often the acquirer pays a control premium to obtain a controlling stake in the subsidiary. The draft guidance does not provide sufficient instructions on how to isolate the control premium. Consequently, a portion of the control premium can be allocated to the minority interest. Conceptually, any control premium should be retained within the controlling interest's share of

- Goodwill model is inconsistent with the conceptual framework. The conceptual framework maintains that goodwill is only measured and recognized in terms of an observable transaction. In the case of a partial acquisition, no transaction takes place with respect to the non-controlling interest.

- The full goodwill method is inconsistent with specific IFRS. IAS 38, for instance, does not permit an entity to recognize internally generated intangible assets.

- The draft is predicated on the view that all of the acquiree’s assets and liabilities should be measured at fair value. However, goodwill is different than conventional assets and liabilities.

- The draft standard only provides rudimentary guidance on how to measure the acquiree as a whole and how to prorate goodwill between the various interests in the subsidiary. There is virtually no guidance on how to measure the acquiree as a whole in the case of a partial acquisition or in cases where the acquiree is privately owned.

Power as observable decision making:

- The IASB revised the method of accounting for minority interests in partial acquisitions, including the minority interests' share of goodwill: “The revised IFRS 3 permits an acquirer to measure the non-controlling interests in an acquiree either at fair value or at their proportionate share of the acquiree’s identifiable net assets” (IASCF, 2008b, p.10). This means that in the case of a partial acquisition the acquirer can choose to either apply the full goodwill method, or alternatively to measure and recognize goodwill as per the methodology underpinning the original IFRS 3, that is, as the difference between the fair value of (1) the consideration transferred, and (2) the net assets acquired.
Proposal:

Q4 The draft provides sufficient guidance on how to measure and recognize all aspects of a business combination at fair value (Ibid, p.8).

Concerns Expressed by Respondents:

- Appendix E does not provide sufficient guidance on how to measure and recognize the acquiree as a whole in a partial acquisition, whereby no exchange occurs in relation to the non-controlling interest.
- Appendix E does not provide sufficient guidance on how to measure and recognize at fair value assets in its entirety, consideration transferred (e.g., contingent consideration and previously held equity interests the subsidiary prior to the acquisition date), contingent assets acquired and contingent liabilities assumed (particularly ones with uncertain future economic benefits/costs), and intangible assets, such as patents, trade names, jingles, databases, and so on.
- Appendix E contradicts the fair value guidance contained in other IFRS.
- Appendix E does not provide instructions on how to measure the fair value of specific assets, liabilities, and businesses – like heritage assets and charities – for which there are no related observable markets.
- Appendix E does not provide guidance on how to measure unlisted companies at fair value.
- The guidance in Appendix E is based on a preliminary project that is being undertaken by the IASB on how to measure things at fair value. The logical corollary is to release the amended IFRS 3 when the IASB completes its project on fair value measurement.
- The IASB lacks expertise on valuation. The IASB should consult valuation experts to draft more comprehensive instructions on how to measure assets, liabilities, and businesses at fair value.

Power as observable decision making:

- The IASB did not expand on the proposed fair value methodology in the amended IFRS 3. However, it released IFRS 19 ("Fair Value Measurement") in 2011, and the standard expounds on the IASB's fair value methodology. IFRS 19 defines the notion of fair value as an “exit price”, and it provides a more elaborate framework for measuring things at fair value. However, IFRS 19 does not provide precise guidance on how to measure, at fair value, specific assets acquired and liabilities assumed in a business combination.
Proposal:
Q5 The fair value of the consideration exchanged is equal to the acquirer's interest in the acquiree (ibid, p.8).

Concerns Expressed by Respondents:
- The observable monetary value of the consideration exchanged is a more reliable measure of the acquirer's fair value interest in the acquiree.
- The fair value of contingent consideration is determined after the acquisition date.
- Contingent consideration is often exchanged for the precise reason that the buyer and seller don't know what the fair value of the acquiree is.
- Acquirers could apply the proposal opportunistically to overvalue contingent consideration on the acquisition date in order to recognize gains in future periods.
- In a partial acquisition, the fair value of the consideration transferred does not signify the acquirer's fair value interest in the subsidiary because the consideration transferred encompasses buyer-specific factors. An acquirer, for instance, often pays a premium to obtain control of an entity.
- No two buyers will pay the same amount for a specific subsidiary—particularly when the subsidiary's shares are not publicly traded.
- Equity issued by the acquirer, as consideration, should be measured for an extended period of time before and after the acquisition date because the value of publicly traded equity fluctuates as a result of systemic factors unrelated to a specific acquisition.
- Appendix E does not provide sufficient guidance on how to precisely measure, at fair value, contingent consideration and previously held equity interests in the subsidiary prior to the acquisition date.

Power as observable decision making:
- Under the amended IFRS 8, the IASB regards the fair value of the consideration exchanged as tantamount to the fair value of the acquiree as a whole in the case of a full acquisition. The IASB retained the same components of contingent consideration as proposed in the exposure draft.
Proposal:

Q6 The subsequent accounting for contingent consideration after the acquisition date is appropriate, that is, equity consideration is not re-measured; all other adjustments are made to profit/loss rather than to the fair value of the acquiree (ibid, p.8).

Concerns Expressed by Respondents:

- Subsequent changes to the fair value of contingent consideration should be recognized as adjustments to the "cost" of the combination (i.e., goodwill) rather than as gains/losses.

- The value of contingent consideration is determined after the acquisition date. When the value of the contingent consideration is determined, it should be treated as a component of the "cost" of the acquisition for the reason that contingent consideration is a part of the total consideration exchanged.

- Recognizing changes in the fair value of contingent consideration in profit/loss does not provide users of financial statements with information on the ultimate settlement amount, that is, the total amount of consideration transferred, and by extension, the total fair value of the subsidiary.

- Contingent consideration is not a financial instrument held to generate gains. It is a component of the cost of acquiring a subsidiary, and therefore, it should be accounted for as a component of the cost of the subsidiary.

Power as observable decision making:

- The IASB retained the proposals in the amended IFRS 3.
Proposal:
Q7 Acquisition costs are not assets and thus, they should be expensed (ibid, p.9).

Concerns Expressed by Respondents:
- Expensing acquisition costs is a departure from practice. As an example, the proposal violates the matching principle, whereby expenses are “matched” with the revenues they help generate.
- Expensing acquisition costs in the year of the acquisition significantly reduces the group’s reported earnings in the acquisition year, thereby, giving a distorted picture of the group’s profitability.
- The proposal is inconsistent with the treatment of transaction costs as they relate to other assets, like inventory, property and equipment and financial instruments. Under IAS 39 (“Financial Instruments”), for instance, issuance costs are capitalized as part of the fair value of financial instruments.
- Expensing acquisition costs makes it more difficult for the acquirer to evaluate the return generated on the total investment made in the subsidiary.
- Transaction costs are an integral part of the purchase price. Acquirers evaluate the costs to determine what they are willing to pay for a company, theretofore, they should be treated as part of the cost paid for the acquiree.
- Accounting for a business combinations should continue to be based on the cost allocation model, whereby transaction costs are capitalized as a component of the fair value of the acquiree.

Power as observable decision making:
- The IASB retained the proposed requirement to expense all acquisition costs in the amended IFRS 3.
Figure 6.12: Question from Invitation to Comment on Exposure Draft Three

Proposal:
Q8 Accounts receivable should be measured at fair value without a valuation allowance. Contingent assets acquired and contingent liabilities assumed should be measured at fair value regardless of whether they can be reliably measured (ibid, p.9).

Concerns Expressed by Respondents:
- Removing the valuation allowance is a significant departure from practice. The allowance provides a way to evaluate whether management is collecting a desirable proportion of short-term debts.
- A company will continue to keep records on its valuation allowances. Effectively, the proposal requires companies to prepare two sets of records, whereby one set of records recognizes accounts receivable at fair value and a second set of records provides information on the historical cost of accounts receivable and a valuation allowance. Maintaining two separate records is an unnecessary cost for producers.
- The acquirer should be permitted to carry over the acquirer's allowance without adjustment to avoid unnecessary duplication.
- The proposal reduces the comparability of financial statements, given that the proposal results in two methods of measuring and recognizing accounts receivable on the balance sheet.
- Providing a separate valuation allowance increases the information content of financial statements.
- Appendix B provides no specific guidance on how to measure accounts receivable at fair value.
- Contingent assets acquired and contingent liabilities assumed should only be measured at fair value when their associated economic inflows and outflows are both probable and reliably measurable. The proposal will reduce the reliability of financial statements.
- The requirement to measure contingent assets/liabilities at fair value is inconsistent with the accounting for contingent assets/liabilities under IAS 37 (“Provisions, Contingent Liabilities and Contingent Assets”).
- The removal of the probability criterion contradicts the conceptual framework; the conceptual framework requires an asset to be measured reliably in order to be recognized on the balance sheet.
- Appendix B provides no specific guidance on how to measure contingencies at fair value, particularly when the probability of their related economic inflows/outflows is unknown.

Power as observable decision making:
- The IASC retained both proposals in the amended IFRS 8. Specific guidance is not provided on how to measure accounts receivable and contingencies at fair value in IFRS 8 and in the subsequently released IFRS 18 (“Fair Value Measurement”).
Proposal:
Q9 The draft’s fair value measurement exceptions are appropriate (ibid, p. 9).

Concerns Expressed by Respondents:
- The fair value exceptions are appropriate for the reason that the draft does not provide sufficient guidance on how to measure things at fair value, including those items that are not required to be measured at fair value under the draft proposals, including assets held for sale, deferred taxes, operating leases, employee benefit plans, and goodwill.

Power as observable decision making:
- The IASB retained the fair-value exceptions in the amended IFRS 8.
Figure 6.14: Question from Invitation to Comment on Exposure Draft Three

Proposal:
Q10 In a step acquisition, the acquirer re-measures any previous investment in the subsidiary at fair value, and then recognizes any change in the value of the investment in profit/loss (ibid, p.10).

Concerns Expressed by Respondents:
- The fair value of the acquiree should continue to be based solely on the observable value of the consideration exchanged. The observable value of the consideration exchanged is a more reliable measure of the cost of the subsidiary as compared to consideration, which in part, is comprised of an estimated fair market value of a bloc shares that has neither been purchased nor sold.
- If the proposal were adopted, any changes in the fair value of the NCI should be recognized in equity.
- Appendix E does not provide sufficient guidance specifically on how to reliably measure and recognize the fair value of any previously held NCI in the subsidiary. The problem is particularly germane in the case of an investment in a private corporation.

Power as observable decision making:
- The IASB retained the requirement for the acquirer to recognize gains/losses on any previously held NCI in profit as part of the amended IFRS 3.
Proposal:

Q11 In a bargain purchase, the acquirer reduces its share of goodwill by the value of the bargain to a value of zero, and then recognizes any residual amount as a gain (ibid, p. 10).

Concerns Expressed by Respondents:

- The notion of a bargain purchase contradicts the IASB's assumption that all assets, liabilities, and businesses have a fair value.
- The proposed accounting for a bargain purchase is inconsistent with the proposed accounting for a premium purchase. In a premium purchase, the IASB asserts, it is impossible to reliably measure and recognize the amount of any overpayment, whilst in a bargain purchase, the IASB asserts, it is possible to reliably measure and recognize the amount of a bargain purchase.
- Appendix E does not provide sufficient guidance on how to specifically measure and recognize an acquiree as a whole at fair value. Ergo, it is difficult to determine the amount of a bargain purchase.
- Bargain purchases are often the result of measurement errors or the requirement to measure specific assets and liabilities in accordance with other IFRS (e.g., fair value exceptions). Conceptually, it does not make sense to treat measurement errors and inconsistencies in the IFRS framework as goodwill reductions and gains.

Power as observable decision making:

- The IASB retained the proposal in the amended IFRS 3.

A bargain purchase occurs when the consideration exchanged is less than the fair value of the acquiree as a whole.
**Figure 6.16: Question from Invitation to Comment on Exposure Draft Three**

**Proposal:**
Q12 There is no way for the acquirer to reliably measure and recognize a premium paid on an acquisition (ibid, p.11).

**Concerns Expressed by Respondents:**
- The proposal is reasonable for the reason that there is no way to reliably measure the fair value of the acquiree as a whole in terms of the instructions provided in Appendix E.

**Power as observable decision making:**
- The IASB retained the requirement in the amended IFRS 8.

A premium purchase occurs when the acquirer pays more than the fair value of the acquiree.
Figure 6.17: Question from Invitation to Comment on Exposure Draft Three

Proposal:

Q13 The acquirer shall recognize adjustments made in the measurement period to the provisional fair values of assets and liabilities in prior period comparative information (ibid, p.11).

Concerns Expressed by Respondents:

- The proposal is inconsistent with other IFRS, given that preparers only make retrospective adjustments in respect of changes in accounting policy or restatements of errors.
- Adjustments should only be made prospectively.
- Users are confused by restatements of financial statements. Constant adjustments also erode users’ confidence in the reliability of financial statements.
- Generally, it requires more than twelve months for the acquirer to determine the fair value of all aspects of a business combination.

Power as observable decision making:

- The IASB retained the proposal in the amended IFRS 3.
Proposal:
Q14 The guidance provided in the draft is sufficient to determine whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree (ibid, p.11).

Concerns Expressed by Respondents:
- A clear principle would be more helpful for preparers to determine whether any portion of the consideration exchanged or any of the assets acquired and liabilities assumed are not part of a specific business combination.
- The guidance is too detailed making it incomprehensible.
- The examples contained in the guidance are imprecise. The examples are based on vague principles that are difficult to grasp.
- There are no details provided concerning the recognition and measurement objectives of the guidance.

Power as observable decision making:
- The IASB retained the guidance in the amended IFRS 3, with the following exceptions:
  - The IASB added additional guidance on how to determine: (1) whether arrangements to pay for employee services (compensation arrangements) should be accounted for as part of the exchange for the acquiree or separately from the business combination, and (2) whether exchanges of share options or other share-based payment awards are part of a specific acquisition transaction.
  - The IASB removed the illustrative examples originally contained in the draft.
Figure 6.19: Question from Invitation to Comment on Exposure Draft Three

Proposal:
Q15 The proposed disclosure requirements are sufficient and appropriate (ibid, p.12).

Concerns Expressed by Respondents:
- The disclosure requirements are too excessive. Financial statements prepared in accordance with IFRS are becoming incomprehensible due to their sheer length.
- The proposed disclosure requirements are very complex. Readers of the financial statements are no longer reading the disclosures for the reason that the disclosures are confusing.
- Disclosures should be provided for events occurring on or subsequent to the acquisition date. As per the requirements of ED 74(b)), the acquirer is required to disclose the profit/loss of the combined entity as though the acquisition occurred at the beginning of the reporting period. The proposal creates confusion about the parent's profitability in the reporting period, wherein the acquisition occurred. A bargain purchase at period end, for instance, can make an otherwise unprofitable period appear prosperous.

Power as observable decision making:
- The IASB retained the disclosure requirements and added more disclosure requirements in the amended IFRS 8, such as “…a qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors” (IASCF, 2008c, p.48).
Proposal:

Q16 Acquired intangible assets should be measured and recognized separately from goodwill regardless of whether they can be measured reliably [ibid, p.13].

Concerns Expressed by Respondents:

- Appendix E does not provide guidance on how to measure and recognize intangible assets separately from goodwill.
- The removal of the probability criterion contradicts the conceptual framework; the conceptual framework requires an asset to be measured reliably in order to be recognized on the balance sheet.
- Generally, active markets do not exist to determine the fair value of intangible assets like patents, trade names, jingles, databases, brands, customer relationships, brand licenses, and so on.
- The proposal is inconsistent with other IFRS. For one, it leads the acquirer to recognize internally generated intangible assets, which is prohibited under the conceptually framework. Moreover, it contradicts IAS 38, which mandates the recognition of intangible assets only when they can be reliably measured.
- The value of many intangible assets is inextricably tied to the entity as a whole; the fair value of many intangibles has no intrinsic value apart from its value as a component of the value of the business as a whole.

Power as observable decision making:

- Like ED 3, IFRS 3 also mandates all identifiable intangible assets to be recognized separately from goodwill. An identifiable intangible asset is one that meets either the separability criterion or the contractual-legal criterion. Curiously, the IASB discarded eight and a half pages of examples of identifiable assets from the guidance contained in the amended version of IFRS 3 on how to measure identifiable assets, at fair value, separately from goodwill.
Proposal:

Q17 Any changes in an acquirer’s deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree (ibid, p.14).

Concerns Expressed by Respondents:

- The proposal generally makes conceptual sense, however, if management realizes a tax benefit will result from a business combination, the expected benefit will bear on the acquirer’s valuation of the subsidiary. To be consistent with the principles underpinning the draft, deferred tax assets should be accounted for as a component of the cost of a subsidiary.

Power as observable decision making:

- The IASB retained the proposal in the amended IFRS 3.

A deferred tax benefit is an asset that may be used to reduce subsequent income taxes.
Proposal:

Q18 The proposed IFRS 8 and SFAS 141 should retain disclosure differences (ibid, p.14).

ConcernsExpressedbyRespondents:

- If the purpose of the convergence project is to harmonize accounting standards, disclosure differences should be eliminated.

Power as observable decision making:

- The IASB retained the proposed disclosure differences in the amended IFRS 8.

As an example: “The FASB requires additional disclosures and unaudited supplementary information (…) The IASB has no similar requirements” (ibid, p. 145-146).
Figure 6.23: Question from Invitation to Comment on Exposure Draft Three

Proposal:

Q19 The bold type-plain type style of the Exposure Draft is helpful for organizing the key sections of the proposed standard (ibid, p.14).

Concerns Expressed by Respondents:

- Generally the IASB’s usage of bold-style text in the draft is helpful although it could be misinterpreted to mean that particular sections are more important than other ones.

Power as observable decision making:

- The IASB adopted the bold type-plain style text in the amended standard.
6.4. Analysis

6.4.1 Discrepancies between Exposure Draft 3 and IFRS 3

Table 6.1 provides a summary of the data presented above. It juxtaposes the Board’s observable decisions on each proposal with the mode of the combined distribution of preferences expressed on each proposal. The mode of the combined distribution is the most frequent preference (i.e., “completely support”, “mostly support”, “neutral”, “mostly disagree”, completely disagree”) expressed by all respondents on each proposal (i.e., Q1, Q2 (…) Q18, Q19).

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Level of Agreement (Mode)</th>
<th>Proposal Adopted (Y/N)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Completely Disagree</td>
<td>Yes but modified</td>
</tr>
<tr>
<td>Q2</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q3</td>
<td>Completely Disagree</td>
<td>Yes but modified</td>
</tr>
<tr>
<td>Q4</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q5</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q6</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q7</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q8</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q9</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q10</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q11</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q12</td>
<td>Completely Support</td>
<td>Yes</td>
</tr>
<tr>
<td>Q13</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q14</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q15</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q16</td>
<td>Completely Disagree</td>
<td>Yes</td>
</tr>
<tr>
<td>Q17</td>
<td>Completely Support</td>
<td>Yes</td>
</tr>
<tr>
<td>Q18</td>
<td>Neutral</td>
<td>Yes</td>
</tr>
<tr>
<td>Q19</td>
<td>Completely Support</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 6.1 indicates that apart from 4 proposals (i.e., Q12, Q17, Q18 and Q19), respondents most frequently “completely disagreed” with all proposals. In contrast, respondents most frequently “completely agreed” with the proposed fair value exceptions (i.e., Q12) concerning the accounting for assets held for sale, deferred taxes, operating leases and employee benefit plans. Additionally, respondents most frequently “completely agreed” with the IASB’s assertion that it is not possible to measure and recognize a premium purchase, at fair value, separately from goodwill. Respondents strongly supported the IASB’s proposed exceptions to the fair value measurement principle precisely for the reason that respondents most frequently “strongly disagreed” with the proposed acquisition model, which is based on the fair value measurement principle. Table 6.1 also indicates that respondents most frequently “completely supported” the proposed usage of bold-style text in the final standard (Q19) and they expressed ambivalence (i.e., “neutral”) towards the proposed disclosure differences between IFRS 3 and SFAS 141 (i.e., Q18). However, I suggest that the two proposals (i.e., Q18 and Q19) that were not rejected by most respondents were relatively minor aspects of the draft being as they did not concern the accounting for a business combination.
Table 6.1 also indicates that the IASB proceeded with all of the initial proposals, with two exceptions (i.e., Q1 and Q2). Following its post-exposure draft deliberations, the IASB rescinded the original requirement that the acquirer measure and recognize the acquiree *as a whole* at fair value by applying valuation techniques detailed in Appendix E (i.e., market, income, and cost). The decision impacted the proposed application of the acquisition model, including the accounting for goodwill and minority interests. The IASB decided that in the case of a full acquisition\(^{79}\) the fair value of the acquiree is tantamount to the fair value of the consideration exchanged. Goodwill is accounted for as the difference between the fair value of the consideration exchanged and the fair value of the acquiree's net identifiable assets. (Net identifiable assets, with few exceptions, are measured vis-à-vis the application of valuation models.) In the case of a partial acquisition\(^{80}\), the acquirer's stake in the acquiree is generally equal to the fair value of the consideration exchanged on the acquisition date. All of the acquiree's net identifiable assets are measured and recognized at fair value. Goodwill is a residual figure, that is, the difference between the fair value of the consideration exchanged and the acquirer's proportionate interest in the fair value of the acquiree's net identifiable assets. The IASB decided that minority interests can be measured in two ways. First, minority interests can be accounted for at fair value *in their entirety* through the application of valuation techniques. Secondly, minority interests can be accounted for at their proportionate interest in the fair value of the subsidiary's net identifiable assets.

While the above modifications are significant, I suggest the changes made by the IASB to the original proposals were not the result of constituent lobbying. Rather, the proposals met challenges from inside the IASB as early as the project's inception in 2002, and in 2005, the proposals were passed by the smallest allowable majority (i.e., 9-5) leading up to the release of ED 3. 5 dissenting Board members raised strong objections to the proposals:

- Goodwill is not an identifiable asset that can be measured at fair value separately from an entity.
- Goodwill is different than other assets, because it is a component of the business as a whole; goodwill does not have a separate "existence."
- The total value of a subsidiary is an extremely subjective measure based on a specific acquirer's judgment regarding the subsidiary's potential returns. A subsidiary's expected returns are deduced by analyzing the potential synergies that may be realized by adding the subsidiary to the group's portfolio of entities. In sum, a subsidiary does not have a single fair value.
- The process of allocating goodwill between the controlling and minority interests is difficult to accomplish for the reason that, buried within goodwill, are control premiums, synergies, measurement errors, bid premiums, market fluctuations, and so on. It is impossible to remove these

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\(^{79}\) A full acquisition is a transaction, whereby the acquirer obtains control of 100% of the acquiree. This point will be discussed in chapter 8.

\(^{80}\) In a partial acquisition, the acquirer obtains between 51% and 99% of the acquiree. In other words, minority interests exist within the group after the acquisition date. This point will be discussed in chapter 8.
things from goodwill before goodwill is prorated between the controlling and non-controlling interests.

- The parent-only approach avoids the complications of measuring and prorating goodwill for the reason that the parent-only approach is based on measuring the acquiree at fair value in terms of the consideration exchanged.

Of the 9 Board members that originally supported the proposals, a number of them – including Chairman David Tweedie – did so primarily for the sake of harmonizing SFAS 141 and IFRS 3, whilst holding strong reservations about adopting the proposals. Nevertheless, they supported their inclusion within the draft so that the proposals would be debated over the course of the IASB’s post-exposure draft deliberations (2006-07). Of the nine Board members that originally voted to support the proposals, four of them stated that if the difficulties of applying the proposals in practice were not resolved over the course of the post-exposure draft deliberations, they would withdraw their support of the proposed amendments. As an example, Tweedie, who originally voted in favor of the proposals, expressed his dissatisfaction with them in January 2007 when he said:

> The impairment test is an interesting question, I basically don’t think that goodwill is an asset, I’ve always said that, but I’ve gone along with what we’ve done before. I think then if you don’t think that goodwill’s an asset then why did you add to it by having even more of it? And, the question that I think I have a problem with is the evaluation of it too - how reliable is the evaluation? What’s the use of it? Because the impairment test when I do it, at least did it in our old standard in the UK was simply to say I paid x for this investment - is that investment still worth it? And my view of goodwill was always the fact that it was only just the balancing figure to see whether the investment was still there, and that’s the way I’d have done it, so adding in extra bits, I was prepared to go along with the exposure draft to see what happened, you know if everyone went that way then okay I’d lost the argument on goodwill originally and I’d give way on it, but I wasn’t convinced at the time, and I voted to let the exposure draft to go out, but I’m really just but nobody else seems to agree with it either so I think that we’d have to have a pretty convincing case before we could push on with the full goodwill method or whatever we wanted to call it, so that’s my view of it (my emphasis) (IASCF, 2007u).

The proposed full goodwill method proved to be so controversial amongst the board that on several occasions it can be observed that a number of board members suggested that the IASB should abandon the draft altogether. To illustrate, the following exchange occurred during the IASB’s public deliberations on January 23, 2007:

> Board member #1: We’ve got a fair number of board members who would vote no on this document irrespective of this issue for other things. When are you gonna ask how many are gonna vote no on this document over this exception⁸¹ because there’s some point in time that there’s no sense in slamming against this brick wall.

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⁸¹ The board had previously voted to retain the principle that the acquiree should measure the NCI as a whole at fair value, including the NCI’s share of goodwill. However, a sufficient number of dissenting board members voted in favor of an exception to the principle, whereby, the acquiree would not be obliged to measure the NCI, as a whole, at “fair value” (including the NCI’s share of goodwill).
Board Member #3: We don’t usually, matter of fact, I can’t recall a situation in which we held that vote when we didn’t have a very large fraction of the decisions on the project made. So that’s not the way we do it or the way we’ve done it before.

Board Member #1: Well, it’s pretty unusual to have 5 pretty close to the number of board members on the dissenting side for issues that are pretty fundamental.

Board Member #3: In fact, in fact, at this point, this is just about the only really significant change that we’ve proposed to IFRS 3.

Board Member #4: No, the transaction costs, you’ve got all the step acquisitions issues, they’re all in there, they’re not trivial.

Board Member #3: The step acquisitions issues hang on this.

Board member #4: No they do not!

Board member #3: Well in my view they do because I’m sure as hell not voting for an exception if you’re not making people wear the pain of not having measured the darn thing right in the first place. That’s why I think that (Board Member #1) is absolutely right because if you’ve got 5 people who are going to vote against recognizing any goodwill whatsoever any time on the NCI and you’ve got at least 5 people, or 6 people, who are gonna vote against this document on the basis that the thing isn’t recognized, that we make this exception at all, then you haven’t got a sufficient majority to pass the document. And if this is fundamental and people are going to dissent over it we might as well just let the FASB go ahead and finish catching up to IFRS 3 (IASCF, 2007u).

In the end, Tweedie and 3 other Board members recanted their support for the proposals during the IASB’s post-exposure draft deliberations in January 2007, meaning that 9 members of the Board eventually voted against the requirements under IFRS 3 to: (a) measure the acquiree as a whole at fair value and (b) to apply the full goodwill model. The IASB later commented:

We decided not to continue with a focus on the fair value of the business as a whole or, as a consequence, the full goodwill method. (...) This is the same approach as that in the existing IFRS 3 (my emphasis). Our decision not to continue with a full goodwill model did not allow us to avoid the problem of how to measure non-controlling interests. (...) After an extended debate (...). We were not able to agree on a single measurement basis for non-controlling interests because neither of the alternatives considered (fair value and proportionate share of the acquiree’s identifiable net assets) was supported by enough Board members to enable a revised standard to be issued (my emphasis) (IASCF, 2008b, p.13).

Neither of the solutions discussed proved able to reconcile the conflicting perspectives of board members from the U.K., Continental Europe and Japan – that is, board members that supported recognizing NCI at their proportionate interest in the subsidiary – versus board members from the U.S.A., Canada, Australia and New Zealand, who supported the principle of full fair value recognition. As the above excerpt suggests, “conflicting perspectives were employed to construct inaction as appropriate” (Young, 1994 p.97) as demonstrated by the IASB’s decision to retain the same methodology underpinning the original IFRS 3 in the amended IFRS 3. Much like Young’s work revealed about the FASB’s decision not to proceed with a drastic overhaul of the accounting for lease accounting in the 1980s, the IASB also made the claim that no feasible solutions existed concerning the measurement attribute of the acquiree and how to account for
minority interests in a business combinations. The impasse was used to develop a rationale for inaction. Taking this into account, I suggest that the resulting discrepancies between ED 3 and the amended IFRS 3 were not related to the impact of constituent lobbying on the IASB, but rather “agenda formation was seen to be used by the (IASB) to argue that no feasible solutions exist(ed) and to develop a rationale for inaction” (ibid, p. 88).

6.4.2 Balance of Power

Apart from these alterations it made to the draft, the IASB ratified all of the original proposals even though respondents, with few exceptions, most frequently “completed disagreed” with all the proposals. Bearing this in mind, the analysis of the IASB’s observable decisions on the amendment of IFRS 3 does seem to indicate that power was distributed “pluralistically” amongst actors involved in what the IASB calls a “due process.” Conversely, the findings do not point to the existence of a “multiplier effect,” whereby alignment in lobbyists’ preferences is believed to increase the likelihood that an accounting standard setter implements the reforms requested for the reason that 91% of respondents (n=143) “completely supported” less than half of the draft proposals. The data seem to corroborate board member Geoffrey Whittington’s recollection of the project. To paraphrase Whittington, the board was already pretty clear in its ideas about how IFRS 3 (2008) should be reconfigured before it collected 158 comment letters; that is, it would have been surprising if the board uncovered startling new evidence in comment letters that would have caused it to change proposals outlined in ED 3 (see Botzem, 2012, p. 121).

While the analysis does not suggest that the IASB’s amendment of IFRS 3 resembled the type of pluralism originally conceived by Dahl (1957, 1961, 1963, 1976, 1994, 1999) and fellow pluralists, it is equally evident that the IASB’s observable decisions on IFRS 3 do not follow from the preferences of a so-called lobbying elite. For one, no respondents supported all proposals adopted in IFRS 3. Only 9% (n=15) of respondents expressed a moderate level of support for the draft, that is, they “completely supported” at least half of the draft proposals. Dahl stated that powerful lobbyists are “participants with the greatest proportion of successes out of the total number of successes” (Dahl, p. 80, 1957 qtd. in Lukes, 2005, p.17). In this context, a “success” is treated as an instance where a respondent “completed supported” a proposal adopted in the amended IFRS 3. Figure 6.24 (“Distribution: Levels of Agreement”) provides a visual depiction of the number of respondents that “completely supported” 1, 2, 3 (…) 18 or 19 of the proposals eventually ratified. The right tail of the distribution depicts “participants with the greatest proportion of successes out of the total number of successes” (Dahl, p. 80, 1957 qtd. in Lukes, 2005, p.17). Table 6.2 lists the “most successful” respondents, including their stated preferences on the proposed acquisition model (i.e., Q1) and the full goodwill method (i.e., Q3).
Table 6.2: “Successful” Lobbyists

<table>
<thead>
<tr>
<th>Respondent</th>
<th>“Successes”</th>
<th>Response (Q1)</th>
<th>Response (Q3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institute of CAs of Zimbabwe</td>
<td>17</td>
<td>C/S</td>
<td>C/S</td>
</tr>
<tr>
<td>Chartered Secretaries and Administrators</td>
<td>17</td>
<td>C/S</td>
<td>C/S</td>
</tr>
<tr>
<td>Malaysian Accounting Standards Board</td>
<td>16</td>
<td>M/S</td>
<td>C/S</td>
</tr>
<tr>
<td>Association of Chartered Certified Accountants</td>
<td>14</td>
<td>C/D</td>
<td>C/D</td>
</tr>
<tr>
<td>Institute of CPAs in Ireland</td>
<td>12</td>
<td>C/S</td>
<td>C/D</td>
</tr>
<tr>
<td>ING Group</td>
<td>12</td>
<td>C/D</td>
<td>C/D</td>
</tr>
<tr>
<td>Swiss GAAP FER</td>
<td>12</td>
<td>M/D</td>
<td>C/D</td>
</tr>
<tr>
<td>Council on Corporate Disclosure &amp; Governance</td>
<td>11</td>
<td>M/D</td>
<td>C/D</td>
</tr>
<tr>
<td>Chiltern plc</td>
<td>11</td>
<td>C/S</td>
<td>C/D</td>
</tr>
<tr>
<td>Hong Kong Institute of CPAs</td>
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<td>M/S</td>
</tr>
<tr>
<td>Telstra</td>
<td>11</td>
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<td>C/D</td>
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<td>Treasury</td>
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<td>M/D</td>
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<td>Stagecoach Group Plc</td>
<td>10</td>
<td>C/S</td>
<td>C/S</td>
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<td>Zambia Institute of Chartered Accountants</td>
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<td>C/S</td>
<td>C/S</td>
</tr>
<tr>
<td>Misys plc</td>
<td>10</td>
<td>C/S</td>
<td>C/D</td>
</tr>
</tbody>
</table>

I suggest that Table 6.2 provides little evidence of a so-called lobbying elite. For one, none of the submissions express complete support for all of the proposals adopted in the amended IFRS 3. Moreover, there is a considerable degree of variability in the level of support expressed by the fifteen respondents. One may surmise that a lobbying coalition would express near, or full agreement, on the forthcoming proposals, like in the way the 37 comment letters submitted to the IASB by the cooperative sector expressed complete agreement that the IASB should not adopt the proposals (see chapter 7). It can also be noted that most of the fifteen respondents supported the acquisition model (i.e., Q1) and the full goodwill method (i.e., Q3). Yet the two proposals were eventually withdrawn by the IASB. Finally, there are few similarities in the demographic characteristics of the fifteen respondents exhibiting the greatest number of “successes”, apart from a slightly disproportionately higher number of national accounting standard setters and professional accounting associations supporting the draft. Nevertheless, I suggest that it is unlikely that national accounting standard
setters and professional accounting associations were acting in unison, given that the bulk of national accounting standard setters and professional accounting associations “completely supported” fewer than half the draft proposals.

6.4.3 The IASB and the FASB’s influence on Phase II

As noted, Phase II was the IASB and the FASB’s inaugural joint-project in the wake of their ratification of the Norwalk Agreement in 2002. There is some data suggesting that the FASB exercised a moderate amount of power over the IASB during the pre-exposure draft phase of the project. In a number of cases, the IASB deferred to the FASB’s proposed amendments to SFAS 141. As an example, the FASB concluded that identifiable intangible assets acquired in a business combination should be measured and recognized, at fair value, separately from goodwill. The FASB asserted that acquired intangible assets should be recognized separately from goodwill, provided that they satisfy the identifiability criterion. In contrast, the IASB asserted that in order for an acquired intangible asset to be recognized separately from goodwill, it should satisfy both the reliability and identifiability criterion. In fact, at the time of Phase II, the IASB’s conceptual framework and IAS 38 (“Intangible Assets”) stipulated that intangible assets must be reliably measured to qualify for separate recognition: “In addition to the identifiability criterion, IFRS 3 and IAS 38 (require) an intangible asset acquired in a business combination be reliably measurable to be recognised separately from goodwill” (IASCF, 2005b, p.13). But: “The IASB decided to converge with the FASB in the Exposure Draft by (…) eliminating the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill” (IASCF, 2005b, p.13).

The IASB’s decision to adopt a number of the FASB’s proposals in ED 3 did not go unnoticed by several respondents who criticized the IASB for being pressed by the FASB into conforming in the design of the acquisition model:

Though we welcome efforts to create the greatest possible convergence, we would point out that convergence should not be a one-way street leading to a relatively uncritical blanket adoption of US GAAP rules (Association of German Banks, Federation of German Industries, German Insurance Association, 2005, p.1-2).

We are of the view that the IASB should take global soundings on this important issue rather than relying on input from the USA only (chiltern plc, 2005, p.2).

We have a feeling that the main issue of ED IFRS 3 is to achieve convergence with FASB which is certainly a valid approach. Swiss GAAP FER though gives a higher priority to the reliability and relevance of the financial statements. Moreover we think that convergence is a balanced procedure (Swiss GAAP FER, 2005, p.2).

One may infer that in an effort to maintain both its appearance of independence and as being the international authority for developing global accounting standards, the IASB emphasized that Phase II
actually afforded the FASB an opportunity to catch-up with the IASB’s accounting for business combinations:

As a result of the project, the FASB has made fundamental changes to its accounting for business combinations, most of which bring US accounting into line with the existing IFRS 3 and IAS 27 (IASCF, 2008b, p.5).

(Phase II) provided the FASB with the opportunity to catch up with the decisions already incorporated in IFRSs (ibid, p.7).

The changes made by the FASB to US GAAP are more fundamental than the changes we have made to IFRSs (ibid, p.9).

While there is some data suggesting that the FASB exercised a moderate amount of power over the IASB leading up to the release of ED 3 – such as when the IASB conceded to the FASB’s request that the IASB adopt the FASB’s “Fair Value Hierarchy” and the FASB’s definition of a business in ED 3 I suggest that the FASB’s preferences on the accounting for business combinations did not predetermine the outcome of Phase II. In fact, in a bit of an ironic twist, the completion of Phase II now sees IFRS 3 and SFAS 141 diverge more significantly than before the Boards commenced their joint-work.

The primary purpose of Phase II was for both Boards to replace the purchase model with the acquisition model. However, the completion of Phase II has seen the IASB retain a modified version of the purchase model, whilst the FASB has adopted the acquisition model as it was originally conceived in the pre-exposure draft phase (2004-05). Under the amended IFRS 3, the fair value of the acquiree, as whole, is recognized as the consideration exchanged. Goodwill is accounted for as the residual difference between the consideration exchanged and the fair value of the acquiree’s net identifiable assets. IFRS 3 does not mandate the application of the full goodwill model. Moreover, under IFRS 3, preparers have the option to account for minority interests in a partial acquisition at either: (a) their entirety at fair value, or (b) their proportionate interest in the acquiree’s net identifiable assets. In contrast, under SFAS 141, preparers determine the fair value of the acquiree, as a whole, through the application of valuation techniques. Goodwill is the residual difference between the estimated fair value of the acquiree as a whole and the estimated fair value of the acquiree’s net identifiable assets. SFAS 141 mandates the application of the full goodwill model, which, in the case of a partial acquisition, means that minority interests are measured and recognized at fair value, in their entirety, including any goodwill attributable to minority interests.

In sum, while IFRS 3 and SFAS 141 are both said to turn on the acquisition model, I suggest that the IASB’s version of the acquisition model bears a closer resemblance to the purchase method underpinning the original IFRS 3 (2004) than it does to the acquisition model now required for application under the amended SFAS 141 (2007). Despite the discourse of convergence, IFRS 3 and SFAS 141 are significantly different accounting standards.
6.5 Conclusion

In the wake of the IASC’s restructuring in late 2000, Zeff (2002) commented that one obstacle confronting the IASB is “political” lobbying on proposed amendments to the IFRS:

One obstacle lying in the IASB's path is the set of “political” pressures that may be triggered by any board initiative to prescribe specific accounting treatments, eliminate alternative treatments, impose additional disclosure requirements, or tighten the allowed interpretations (Zeff, 2002, p.43).

The specter of “political” challenges (…) should give pause to members of the IASB and the eight national standard setters with which it is collaborating when they propose to develop a standard on a sensitive and controversial topic. Notwithstanding this specter, all who are interested in sound and useful financial reporting hope that the Board will not retreat from sensitive and controversial issues in need of high-quality reporting standards (ibid, p.52).

As his statements suggest, Zeff argues that the IASB should not rescind controversial amendments to IFRS due to “political pressures.” Zeff affirms that the IASB’s should insulate itself from the demands of lobbyists to ensure that the IASB cultivates high-quality reporting standards. Zeff’s argument continues to be relevant given the extensive literature that draws our attention to episodes where lobbyists, seeking to mitigate the “economic consequences” (Zeff, 1978) of accounting standards, have exercised power over standard setters. (See, for example, the works of Andre, Cazavan-Jeny, Dick, Richard & Walton, 2009; Bischof, Bruggemann & Daske, 2013; Bengtsson, 2011; Benveniste, 1972; Dyckman, 1988; Hendriksen, 1998; Hope & Gray, 1982; Kothari, Ramanna, & Skinner, 2010; Kwok & Sharpe, 2005; Puro, 1984, 1985; Ramanna, 2008; Zeff, 2005, 2010). I concur with Zeff’s position. However, I suggest another “obstacle lying in the IASB's path” to the development of high-quality reporting standards is “political” pressure triggered by the Board itself to ratify accounting treatments. To paraphrase Zeff, I would add that all who are interested in sound and useful financial reporting hope that the Board will not retreat from concerns expressed by the public on the IASB’s development of IFRS.

Returning to case of the IASB’s amendment of IFRS 3, the analysis has suggested that IASB’s amendment of IFRS 3 saw neither (a) a system of “power equivalency” nor (b) the IASB “captured” by an elite group of lobbyists. Instead, the analysis has suggested that the IASB acted as an independent body of experts; Phase II suggests a sort of regulatory elitism, whereby the IASB reserved the right to make all decisions on the amendment of IFRS 3 irrespective of widespread concerns expressed by the public regarding the proposals. The amendment of IFRS 3 suggests a mode of standard setting that bears some resemblance to the notion of “scientism”—that is, experts making decisions—rather than “artism” – that is, everyone having a legitimate right to contribute to technical decision making. While the IASB undertakes extensive consultations as part
of what it asserts as a “due process,” the case of Phase II implies that the IASB maintains authority to make final decisions on IFRS. A significant function of the board’s “due process” appears to be one of legitimacy.

As noted in chapter 2, the IASB’s mode of independent standard setting may be problematic for at least two reasons. For one, if the public is to have confidence in the IASB, it must be assured that the development of IFRS upholds high standards of accountability, governance, transparency and procedural fairness. In other words, the IASB must maintain an appearance of democratic legitimacy. If the public loses confidence in the IASB, then the IASB risks losing its jurisdiction to develop global accounting standards. The works of Zeff no less (e.g., 2003a, 2003b) indicate that accounting standard setters, like the Accounting Principles Board, do not succeed when they are deemed illegitimate. The IASB is not immune from this possibility, particularly if a widespread perception manifests that the development of IFRS is the exclusive domain of the expert equivalent of Plato’s philosopher kings (Pine, 2000).

Secondly, it is my contention that the development of IFRS should be highly politicized. Given the considerable effect IFRS have on citizens’ lives, I suggest the development of IFRS should be full of public debates and disagreements. They are healthy for the development of any polity. The development of IFRS would benefit from them as well. Further it is important for the IASB to judiciously reflect on concerns expressed in comment letters. As I will discuss in chapter 8, a majority of respondents rejected ED 3 for the reason that the draft did not contain the requisite instructions on how to apply the acquisition model and how to account for all aspects of a business combination at fair value. Given this context, it is impotent for the IASB to judiciously reflect on the explanations and reasons lobbyists give for their preferences to best ensure that it moderates the public’s concerns on the development of IFRS – in this case concerns on how to apply IFRS 3. As stated in the introduction, if the IASB does not provide clear instructions to accounting experts, it is conceivable that the information content of financial statements prepared in accordance with them may be reduced, in part for the reason preparers and producers apply IFRS in incongruent ways due to ambiguous or insufficient guidance.

Having analyzed power exercised by the IASB over respondents through observable decision-making, the dissertation now proceeds by investigating the construction of the IASB’s technical agenda.
Chapter 6 Appendix

Table 6.3: Likert Scale

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
</table>
| C/S | - Respondent states that they completely support all of the draft proposals.  
     - Respondent states that they completely support the proposal.  
     - Respondent does not explicitly state whether they support or do not support the proposal. However, respondent extols the benefits of the IASB adopting the proposal in the amended IFRS 3. |
| M/S | - Respondent supports the proposal, whilst acknowledging its limitations. |
| N | - Respondent expresses no preference on the proposal.  
   - Respondent expresses ambivalence towards the proposal in so much as they address an equal number of strengths and weaknesses associated with the IASB proposed adoption of the proposal. |
| M/D | - Respondent explicitly rejects the proposed amendments to IFRS 3. However, respondent states that if the IASB proceeds with the draft then the proposal is appropriate in relation to the proposed IFRS 3.  
     - Respondent does not categorically reject or support the proposal but raises one or two concerns about the proposal. |
| C/D | - Respondent explicitly rejects all proposals in the draft.  
     - Respondent agrees with the opinions expressed by the dissenting Board members.  
     - Respondent categorically rejects the proposal.  
     - Respondent does not categorically reject or support proposal. However, respondent discusses the overwhelming limitations of the proposal or recommends an alternative proposal. |
Table 6.4: Likert Scale applied to responses to Q3 (i.e., the full goodwill method)

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
</table>
| C/S      | - Respondent states that they completely support all of the draft proposals:  
           *We have circulated the Exposure Draft to members through our Accounting Practices Committee and requested comments on the draft. We have received no comments, which contradict, or conflict with the content of the Exposure Drafts (The Institute of Chartered Accountants of Zimbabwe, 2005, p.1).*  
- Respondent states that they completely support the full goodwill method:  
  *We believe the non-controlling interest should be recorded at its fair value when it is initially recognised in the consolidated accounts of the parent company. We believe this presentation is more relevant than current practice under US GAAP, which is to record the non-controlling interest at its carryover basis. Recording the non-controlling interest at fair value will also improve current practice under IFRS and US GAAP because goodwill will be recognised for the non-controlling interest resulting in a more complete presentation (PricewaterhouseCoopers, 2005, p.14).*  
- Respondent does not explicitly state whether they support or do not support the full goodwill method. However, respondent extols the benefits of the full goodwill method:  
  *I have long believed that the goodwill in a business combination, and also in the consolidated statements, should reflect the total goodwill and not the amount that happens to coincide with percentage of the acquired company's total number of shares outstanding that are actually purchased (Zeff, 2005a, p. 4).* |
| M/S      | - Respondents supports the full goodwill model, whilst acknowledging its limitations:  
  *Including minority share of goodwill is clearly supported. There are, however, substantial reliability problems involved in the measurement individual assets and liabilities at fair value. It is not clear that the allocation of fair value to individual assets and liabilities add information for accounting users (European Accounting Association, 2005, p.8).*  
- Respondent expresses no preference on the proposal.  
- Respondent expresses ambivalence towards the proposal in so much as they address an equal number of strengths and weaknesses associated with the IASB proposed adoption of the proposal.  
  *If goodwill is considered to be an asset associated with the business, then minority interest must also own some, and therefore it makes sense to consolidate the full amount of goodwill similar to any other asset being consolidated. The opposing argument would be that goodwill holds little meaning as an asset and is really just a soft way of expensing the excess portion of consideration that can't be linked to an identifiable asset. If this view was valid, there would be an equally strong argument for not recognising goodwill in the first place and expensing any excess immediately (The New Zealand Treasury, 2005, p.4).* |
| N        | - Respondent explicitly rejects the proposed amendments to IFRS 3. However, respondent states that if the IASB proceeds with the draft then the proposal is appropriate in relation to the proposed IFRS 3.  
  *Within the Board's fair value-based concept, the proposed accounting would be appropriate. However, as already pointed out, we reject the proposed approach and prefer the cost method of current IFRS 3 (Deutche Telekom, France telecom, Telefonica, 2005, p.11).*  
- Respondent does not categorically reject or support the proposal but raises one or two concerns about the full goodwill method:  
  *The rules in Paragraph 30.F are rather complicated and might lead to different interpretations in practice. As noted in the BC, companies might try to structure transactions to achieve a particular accounting treatment (Vienna University of Economics and Business Administration, 2005, p.2).* |
| M/D      | - Respondent explicitly rejects all proposals in the draft:  
  *Cooperatives Europe however is not convinced that mergers among cooperatives could be properly accounted for under the present proposal. Consequently Cooperatives Europe encourages the IASB not to go ahead with its intention of including mutuals and cooperatives in the scope of this standard and recommends deferring this decision until a more adequate method could be found in the third phase of the business combinations project (Cooperatives Europe, 2005, p.1).*  
- Respondent agrees with the opinions expressed by the dissenting Board members.  
  *The bigger problem is how to value minority goodwill. I think that the exposure draft enormously understates this problem, and I concur with the 3 dissenting Board members on this (London Business School, 2005, p.3).*  
- Respondent categorically rejects the proposal.  
  *We disagree with the full goodwill method proposed in this Exposure Draft. Instead, we support the purchased goodwill method in the existing IFRS 3 (Accounting Standards Board of Japan, 2005, p.4).*  
- Respondent does not categorically reject or support the full goodwill model. However, respondent discusses the overwhelming limitations of the model or suggests another way of accounting for the NCT's goodwill:  
  *Goodwill should be measured as the residual of the cost to acquire the controlling interest less the acquirer's share of the fair values of the identifiable assets acquired and liabilities assumed. Under this approach, goodwill would not be allocated to the noncontrolling interest. The noncontrolling interest would be recognized at its percentage of the fair value of identifiable net assets (Deloitte, 2005, p.6).*
Table 6.5: Cooperatives Coding Template

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Level of Agreement</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Completely Disagree</td>
<td>All cooperatives “completely disagreed” with the objective of the draft – that is, all business combinations should be accounted for through the application of the acquisition model. Cooperatives stated that consolidated financial statements that are based on the acquisition model do not convey information pertinent to the information needs of cooperative members, such as information on how to achieve broader social mandates unrelated to the maximization of shareholder wealth. Furthermore, all cooperatives rejected the fair value measurement principle, in part, for the reason that cooperatives are private entities. All cooperatives “completely disagreed” with the IASB’s proposed definition of a business combination – that is, a transaction where the acquirer obtains control of the acquiree. All cooperatives claimed cooperatives merge, which means that one cooperative does not obtain control of another cooperative(s).</td>
</tr>
<tr>
<td>Q2</td>
<td>Completely Disagree</td>
<td>All cooperatives “completely disagreed” that a cooperative is a business as defined as “an integrated set of activities and assets (providing) either: (1) a return to investors, or (2) dividends, lower costs, or other economic benefits” (IASCF, 2005b, p.6)</td>
</tr>
<tr>
<td>Q3</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected both the fair value measurement principle and the acquisition model, it was inferred that they “completely disagreed” with the full goodwill method.</td>
</tr>
<tr>
<td>Q4</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the fair value measurement instructions in Appendix E.</td>
</tr>
<tr>
<td>Q5</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the requirement to measure the acquirer’s interest in the acquiree, at fair value, in terms of the fair value of consideration exchanged. Cooperatives were particularly resistant to the proposal for the reason that in a merger of cooperatives, generally no consideration is exchanged apart from member interests.</td>
</tr>
<tr>
<td>Q6</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the subsequent fair value accounting for contingent consideration.</td>
</tr>
<tr>
<td>Q7</td>
<td>Neutral</td>
<td>No cooperatives expressed a preference regarding the proposal to expense acquisition costs separately from the accounting for a business combination. The requirement is unrelated to the acquisition model and the fair value measurement principle. Therefore, the category “neutral” was applied.</td>
</tr>
<tr>
<td>Q8</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the proposals to measure and recognize, at fair value, accounts receivable, contingent assets acquired, and contingent liabilities assumed.</td>
</tr>
<tr>
<td>Q9</td>
<td>Completely Support</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely supported” the IASB’s requirement that specific things should not be measured at fair value, including assets held for sale, deferred taxes, operating leases and employee benefit plans.</td>
</tr>
<tr>
<td>Q10</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the proposal that any previous investment in the acquiree should be measured at fair value.</td>
</tr>
<tr>
<td>Q11</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle and the acquisition model, it was inferred that they “completely disagreed” with the proposal to measure the acquiree, as a whole, at fair value to determine the amount of a bargain purchase.</td>
</tr>
<tr>
<td>Q12</td>
<td>Completely Support</td>
<td>Given that all cooperatives categorically rejected both the fair value measurement principle and the acquisition model, it was inferred that they “completely supported” the proposal that the acquirer should not account for a premium purchase by measuring the acquiree, as a whole, at fair value.</td>
</tr>
</tbody>
</table>

Excerpts from the cooperatives’ comment letters are not included in Table 6.5 for the reason that in the next chapter careful consideration is given the cooperatives’ stated rationales for rejecting the proposed amendments to IFRS 3.
<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q13</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely disagreed” with the proposal that the acquirer should make measurement adjustments to the provisional fair value estimates.</td>
</tr>
<tr>
<td>Q14</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the acquisition model, it was inferred that they “completely disagreed” with the proposed guidance on how to determine whether assets acquired and liabilities assumed related to a specific acquisition.</td>
</tr>
<tr>
<td>Q15</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected the acquisition model, it was inferred that they “completely disagreed” with the disclosure requirements of the acquisition model.</td>
</tr>
<tr>
<td>Q16</td>
<td>Completely Disagree</td>
<td>Given that all cooperatives categorically rejected both the acquisition model and the fair value measurement principle, it was inferred that they “completely disagreed” with the proposal to measure, at fair value, acquired intangible assets.</td>
</tr>
<tr>
<td>Q17</td>
<td>Completely Support</td>
<td>Given that all cooperatives categorically rejected the fair value measurement principle, it was inferred that they “completely supported” the proposal that the acquirer should not account for any changes in the acquirer’s deferred tax benefits at fair value.</td>
</tr>
<tr>
<td>Q18</td>
<td>Neutral</td>
<td>Given that the proposed disclosure differences were unrelated to the acquisition model and the fair value measurement principle, and none of the cooperatives explicitly expressed a preference on the proposal, the category “neutral” was applied.</td>
</tr>
<tr>
<td>Q19</td>
<td>Neutral</td>
<td>Given that the proposed bold type-plain type style of the exposure draft was unrelated to the acquisition model and the fair value measurement principle, and none of the cooperatives explicitly expressed a preference on the proposal, the category “neutral” was applied.</td>
</tr>
</tbody>
</table>
Chapter 7: The Role of the Secretariat in Developing IFRS 3

7.1 Introduction

Young (1996) investigates how the U.S. Financial Accounting Standards Board (FASB) uses the conceptual framework to make sense of and “resolve” accounting problems. Conversely, the International Accounting Standards Board (IASB) asserts that it draws on the conceptual framework as a preferred approach on how to develop (or amend) International Financial Reporting Standards (IFRS) (IFRSF, 2010c, 2012f and 2013a). Young argues that the FASB’s conceptual framework limits accounting change. I argue that the IASB’s conceptual framework provides an automatic starting point for the development of IFRS. Significantly, however, I suggest that the IASB’s conceptual framework is relatively nebulous. [See, for example, Alfredson et al. (2007), Penno (2008) and Nobes (2006).] To invoke the terminology of Cohen, March and Olsen (1972) and March and Olsen (1983 and 1988), the IASB’s conceptual framework is a “poorly understood technology.”

In this chapter I argue that the secretariat at the IASB plays a central role in elaborating the rudimentary categories expressed in the conceptual framework as more precise “project-specific” principles. Recall from chapter 5 that the secretariat is said to “inform” the board. (See Figure 5.1.) In this respect, the chapter explores how the secretariat’s work—particularly its formulation of nine principles—was associated with the board’s amendment of IFRS 3 (“Business Combinations”). Put differently, the chapter investigates one way in which the secretariat “informs” the board on how to develop IFRS. The secretariat constructed the nine principles on the accounting for business combinations leading up to the IASB’s post-exposure draft deliberations in Phase II of the Business Combinations Project. The principles were first codified in Agenda Paper 6A (“Comment Letter Analysis”) (IASCF, 2006z), and then the secretariat further expounded the principles as part of its preparation of Agenda Paper 2A (“Business Combinations Principles”) (IASCF, 2006c). After the board reviewed the secretariat’s nine principles on the accounting for business combinations, it concluded that it would use the principles as the building blocks for its deliberations, as suggested by the following excerpt from the January 2006 edition of IASB Update:

The Board discussed a strategy for redeliberating the proposed revised IFRS Business Combinations (…). The staff restated the objectives of the Business Combinations project, which Board members indicated that they continued to support. The staff then discussed the nine principles reflected in the proposed IFRS 3, explaining that they intended to base the redeliberations on those principles. Board members agreed that these were the principles expressed in the proposals (…). The Board will discuss the principles when each topic is brought back for redeliberation (my emphasis here)” (IASCF, 2006af, p.1).

83 The agenda papers have been retrieved from the IASB’s website (www.ifrs.org). Recall from chapter 5 that in its attempt to build throughput legitimacy, the IASB posts many of its internal documents on its website for public access.
The secretariat’s principles are more exact than the categories in the IASB’s conceptual framework. As a result, the principles limit even further the potential for accounting change as compared to the boundaries established by the conceptual framework. The secretariat’s principles convey more precise presumptions, definitions, assertions, foundation statements, and so forth to the board on how to get the accounting right in relation to specific projects. The principles do not contravene the fundamental assumptions espoused by the conceptual framework concerning “good” financial reporting. In fact, they follow from and reinforce the central values, norms, beliefs, conventions, and so on, which are advocated by the framework concerning the relations between financial reporting and the world. Nevertheless, given that the secretariat’s principles are more clear-cut and exact than the categories in the conceptual framework, I argue that the principles even further limit the range of possibilities for accounting change.

It is difficult to access and analyze informal interactions between the board and the secretariat. The analysis here focuses on public sources (e.g., agenda papers, audio podcasts of the board and the secretariat’s public meetings, the minutes of their meetings, and so on). As such, it makes no attempt to speculate or indeed learn more about “informal” and nonpublic influences by the secretariat (or other commentators). While the IASB asserts itself as a highly transparent organization, it is difficult to gain access to the board and the secretariat’s private and informal interactions. Ergo it is hard to definitively determine who influences whom. This being said, the analysis seems to suggest that the secretariat does not just follow the board’s instructions. For one, the secretariat is tasked with organizing and directing the board’s meetings. Each meeting is organized around a series of agenda papers prepared by the secretariat, and it begins with a member of the secretariat tabling an agenda paper for discussion. He or she proceeds by presenting its main points and then asks the board to reaffirm the paper’s conclusions. The board votes on each of the questions raised in the paper. Once the formal ballot concludes, another member of the secretariat proceeds by presenting another agenda paper. The process is repeated until the board votes on every question raised in all papers. The findings of the current chapter reveal that in all but one instance, the board reaffirmed all of the secretariat’s recommendations regarding the amendment of IFRS 3 (“Business Combinations”).

Consistent with the previous two chapters, the case of the IASB’s amendment of IFRS 3 provides the background against which I explore the extent to which the secretariat’s formulation of principles shapes the “conditions of possibility” (e.g., Foucault, 1986) for developing IFRS. During the post-exposure draft stage of Phase II of the Business Combinations project (2006-2007), the secretariat developed nine principles on the accounting for business combinations. The principles affected the board’s deliberations in several ways. For one, the secretariat invoked the nine principles as a sort of template to summarize issues raised in comment letters while preparing a document called Agenda Paper 6A (“Comment Letter Analysis”) (IASCF, 2006z). In doing so, the principles (as opposed to the conceptual framework) were used to make sense of relevant “accounting problems” raised in the letters. Later, the secretariat presented Agenda Paper 6A to the board to help it to examine the limits of accounting change in relation to the secretariat’s depiction of concerns raised by
constituents about the amendment of IFRS 3. Additionally, my analysis suggests that the bulk of the IASB's post-exposure draft deliberations were organized around the secretariat's nine principles. In this regard, the work of the secretariat at the IASB bears some resemblance to the work of the Council Secretariat at the European Union (EU). Recall, Christiansen (2002) states, “The management of the vast majority of Council business remains the task of the secretariat. This provides opportunities, for example, to prioritise certain agenda items over others or to suggest changes to proposals in the light of legal opinion (my emphasis) (p. 84).

Returning to the case of Phase II, the chapter suggests the vast majority of the board’s work pivoted on probing the secretariat’s nine principles on business combinations. Further the data shows that, in the case of Phase II, the secretariat’s principles were more salient than the conceptual framework to the organization of the board’s work.

As noted in chapter 2 (section 2.5.4), the work in this chapter follows from Young’s study (1996) of the U.S. FASB’s project on financial instruments. It draws upon and seeks to elaborate the concepts, vocabulary, and insights featured in Young’s work. Her study demonstrates that members of the FASB observe the conceptual framework as a type of “conceptual schema” (1996) to determine what projects to add to the FASB’s technical agenda and to figure out how to “resolve” accounting issues on it. The FASB’s conceptual framework ascribes certain goals, purposes, and characteristics to financial reporting. Young (1996) states: “During the standard-setting process, only certain types of questions are asked and certain types of issues considered. Other questions and issues are ignored” (p. 487). In sum, Young’s work teaches us that the conceptual framework imposes limits on accounting change. Her approach has been applied by other accounting researchers, like Mete, Dick, and Moerman (2010) and Potter (2002). Potter’s work, for instance, examines how particular assumptions and other financial reporting concepts underscoring the Australian Accounting Standard Board’s (ASB) conceptual framework were applied to develop accounting and reporting practices to be utilized by public-sector organizations to measure and recognize cultural, heritage, and scientific collections as assets. Potter argues that the reporting practices do not always yield data that are conducive to the information needs of the users of not-for-profit organizations’ financial statements. Like Young, he reasons that the conceptual framework constrained the ways in which the ASB conceived of how to construct “good” accounting rules that would be used by not-for-profit cultural organizations to report their financial status and performance.

The chapter extends Young’s work (1996) by examining the ways in which the secretariat’s formulation and application of “project-specific” principles mediates the relations between the conceptual framework and accounting standard setting at the IASB. Like Young’s thesis, the work here also suggests that members of the IASB draw on the conceptual framework as an automatic starting point. However, the IASB’s conceptual framework is opaque (e.g., Alfredson et al., 2007 and Nobes, 2006). I argue that the secretariat translates the conceptual framework’s elementary goals, purposes, and characteristics into “project-specific” principles. The
principles do not violate the core meanings that the IASB’s conceptual framework assigns to financial reporting. What the principles do is expound a view of how the framework applies to specific projects.

The chapter is organized as follows. In section 7.2, I consider Young’s key arguments and associated concepts as she applies them to her investigation on the FASB’s work on financial instruments (1996). I describe how I extend Young’s approach by casting an empirical and theoretical gaze onto the secretariat’s work, specifically its attempts to clarify parts of the conceptual framework through its development of “project-specific” principles. In section 7.3, I provide two specific examples of how the secretariat’s principles on the accounting for business combinations were intended to clarify the conceptual framework as it relates to the accounting for business combinations. After discussing the principles constructed by the secretariat, consideration is given to how the principles influenced the relation between the conceptual framework and the board’s amendment of IFRS 3. Two examples are provided.

In the first case, the secretariat applied the principles to summarize comment letters. This is the subject of analysis in section 7.4. Here, I focus on how the secretariat summarized comment letters in terms of the principles rather than the original questions raised in the IASB’s formal invitation to comment on exposure draft 3 (ED 3). This is regarded as an episode of translation, whereby the secretariat tried to establish a set of equivalencies between the summary text and the original comment letters. To invoke the terminology of Boxenbaum, the investigation indicates that a number of issues raised by constituents were eventually “lost in translation” (2006, p. 939)—that is, they did not make their way into the summary text. Consequently, in most cases, the board did not discuss them as part of its “due process” for amending IFRS 3.

In the second case, I consider how members of the IASB appealed to the principles, as opposed to the categories in the conceptual framework, to make certain decision on amending IFRS 3. Here, in section 7.5, the comments of 37 cooperatives are considered. They categorically rejected the proposed amendments to IFRS 3. The principles were ultimately used by the IASB to rationalize mandating acquisition accounting by cooperatives. Attention is also given in section 7.5 to the extent to which the board’s deliberations centered on the secretariat’s principles. I determine that the bulk of the IASB’s post-exposure draft deliberations related to an evaluation of the principles, and I conclude that the secretariat’s work powerfully shaped the board’s work.

7.2 Institutional Thinking

My analysis seeks to extend Young’s work (1996). Although a systematic analysis of her argument goes beyond the scope of the chapter, this section recaps her key arguments and associated concepts. I also endeavor to explicate the bases for Young’s key arguments and positions. In several instances, I consider
IASB texts and the literatures on accounting standard setting and accounting regulation for illustrative purposes.

Young (1996) states that financial statements claim to faithfully represent entities’ financial positions and performances. In its effort to enhance the visibility of entities, the FASB continuously tries to improve Generally Accepted Accounting Principles (GAAP), which in turn impacts the preparation of financial statements in the United States. In some cases, the FASB requires preparers and producers to apply new accounting methods, while in other instances, it instructs them to adhere to new disclosure requirements. Young asks, “What is changed during these processes and what sorts of questions may be asked during them?” (Young, 1996, p. 487). In finding answers, Young assiduously investigates the FASB’s project on financial instruments. She observes that the FASB did not problematize the fundamental “significances, goals, purposes and characteristics” (ibid, p. 487) underpinning U.S. GAAP. When the FASB developed new rules on financial instruments, it did not challenge the “taken-for-granted assumptions about accounting and the operations of markets in developing and justifying these changes” (ibid, p. 487–488). The FASB “interrogated” neither the sudden proliferation of highly speculative financial instruments nor the accounting for them. Instead, the FASB promulgated accounting rules for derivatives that reinforced and deepened the fundamental assumptions, values, beliefs, and norms espoused by U.S. GAAP.

But why? Young (1996) suggests that the FASB’s project on financial derivatives showed a type of institutional thinking at play. Institutional thinking is a concept Young draws from Mary Douglas’s work (1986), which argues that institutions inform how individuals make decisions. As Young succinctly puts it: decision-making does not happen in a “social vacuum.” Her argument is consistent with institutional theorists like Phillips and Hardy (2002), Phillips, Lawrence and Hardy (2004), and Phillips and Malhotra (2008), in teaching us that institutions, which can be conceived as relatively enduring social structures, mediate the behavior of actors and communities. This is certainly in step with the works of many other social theorists that are attentive to how the social is conceptualized. Recall from chapter 3, for instance, that Giddens’s cross-disciplinary structuration theory (e.g., 1976, 1979, 1981, 1984, 1993) looks at the meeting points, or processes of interaction, that connect objective structures and subjective agents. His work shows us how the social world is neither purely individualistic nor entirely governed by social structures. Rather, it is an aggregate substance: actors’ experiences are informed by (and shape) social structures, including institutions. The point here is that institutions matter. While they do not predetermine what happens in life, they shape “social practices and social events” (see Fairclough, 2003). Institutions tend to promote order and stability in life. Institutions are associated with the expression, perpetration, dissemination, and reinforcement of shared meanings that are assigned to specific things. Their meanings signal to actors that certain types of behavior are more legitimate than others.
Young (1996) and Douglas (1986) state that institutions simplify decision-making. Institutions limit the number of conceivable ways that actors can make sense of things in life. Institutions help decision-makers to construct and resolve problems in relatively familiar ways. One can say that they limit the permutations and combinations of issues, problems, and solutions within the decision arena. Institutions also tend to promote order and stability by providing institutional logics, templates, categories, discourses, and so on to decision-makers. This in turn helps decision-makers to examine novel or foreign developments in relatively accustomed ways. In this sense, institutions tend to reduce the complexity of things, like financial reporting, by limiting the ways in which decision-makers interrogate them. Taken together, institutions often expedite the pace of decision-making. To invoke the terminology of Cohen, March and Olsen (1972) and March and Olsen (1983 and 1988), institutions can reduce the level of disorderliness in the garbage can in that they help decision-makers to “mechanically” attach solutions to problems.

Young (1996) points out that financial accounting is an institution. It is a type of lens through which accounting standard setters make sense of financial accounting in relation to events that occur elsewhere—namely developments in the market economy. One way that the institution of financial accounting simplifies accounting standard setting is by providing conceptual schemas—specifically the conceptual framework—to standard setters. The FASB draws on the conceptual framework to situate complex issues within a more-or-less familiar “reality” (see also Hines, 1989, 1991; Young 1994). Young states the following:

Although a set of specific accounting practices that constitute financial accounting are subject to change, the purposes, characteristics, and categories of financial accounting generally remain unquestioned. Indeed, these purposes, characteristics, and categories have been formally articulated in several documents referred to as the conceptual framework produced by the major U.S. standard-setting organization, the Financial Accounting Standards Board (FASB) (Young, 1996, p. 490).

The IASB has also institutionalized a conceptual framework, the Framework for the Preparation and Presentation of Financial Statements. In it, the following is affirmed:

(The) Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users. The purpose of the Framework is to (...) assist the IASB in the development of future International Accounting Standards and in its review of existing International Accounting Standards (IASCF, 2001, p.4).

The conceptual framework simplifies how accounting standard setters think about the development of standards. For example, both the FASB and the IASB’s conceptual frameworks reaffirm that the only purpose of financial reporting is to disseminate information to facilitate investor and creditor decision-making. Cooper and Robson (2006) state: “Since the 1980, (sic) we have seen a shift in institutional justifications such that accounting regulatory institutions appear to have greater legitimacy if they facilitate

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84 The IASC initially approved the conceptual framework in 1989. The IASB adopted this conceptual framework in April 2001.

85 The IASB amended the conceptual framework in September 2010. At the time of writing, the IASB is in the process of amending the conceptual framework as part of a joint-project with the U.S. FASB. This said, the IASB’s original conceptual framework (2001) is analyzed in my research for the reason that the original version of the framework was in utilized by members of the IASB during Phase II.
and support capital markets (Engelen, 2002) rather than state agencies, who may be interested in supporting other social groups and institutions” (p. 416). Similarly, Young argues that the development of financial accounting standards has progressively been informed by the information needs of the users (2006), who are purported to be the investors and creditors making “economic” decisions. Accordingly, the IASB’s conceptual framework emphasizes that financial reporting is important because financial reporting provides

Information about the performance of an entity, in particular its profitability, is required in order to assess potential changes in the economic resources that it is likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in predicting the capacity of the entity to generate cash flows from its existing resource base. It is also useful in forming judgments about the effectiveness with which the entity might employ additional resources (IASCF, 2001, p.7).

In sum, the IASB’s conceptual framework limits the chances for the IASB to develop IFRS that mandate that preparers and producers account for organizations’ other dimensions or other users. Bearing this in mind, Young states that the institution of financial accounting, and more specifically its conceptual framework, shapes what is imaginable for standard setters; it informs “what sorts of questions may be asked during (the standard setting process)” (1996, p. 487). She remarks

The (FASB’s) reliance upon the conceptual framework limits the search for “appropriate” solutions to those problems designated as accounting problems. The taken-for-granted aspects of accounting likely save time and effort in resolving accounting issues. However, this savings is not without cost as the taken for-granted aspects of accounting limit the types of questions that can be seen as reasonable to ask during the standard-setting process (Young, 1996, p.491).

With this being said, the chapter examines the ways in which the secretariat mediates the relations between the conceptual framework and decision-making in the IASB. Young and others (e.g., Alfredson et al., 2007; Daley & Tranter, 1990; Hines, 1989 and 1991; Penno, 2008; Nobes, 2006; and so on) emphasize that the concepts and objectives codified in the FASB’s conceptual framework “would not in and of themselves directly solve financial accounting and reporting problems” (Young, 1996, p. 490). The conceptual framework comprises a set of largely abstract tools for solving financial reporting problems, and the framework is the point of departure for the FASB to determine whether to add a project to its technical agenda. Its conceptual framework serves as a general point of reference for the FASB when it addresses a project on the technical agenda.

The chapter investigates one way that the IASB’s secretariat edits and translates the conceptual framework via its formulation of principles. The analysis reveals that the secretariat helps the board to comprehend the conceptual framework by developing “project-specific” principles. One corollary of the secretariat’s work in this regard is that it limits even further the conceivable boundaries for accounting change. I argue that the principles assign more precise meanings to the framework that are more germane to the board’s work on a
specific project. As an example, I analyze how the secretariat’s construction of principle 7 provided one specific measurement attribute (i.e., fair value) for the consolidated financial statements. It can be juxtaposed with the conceptual framework, wherein there are multiple measurement attributes (e.g., accounting for observable monetary exchanges, accounting for figures derived from multiple valuation techniques, and so on). Bearing this in mind, I argue that one reason why the secretariat’s principles were more fruitful to the IASB’s amendment of IFRS 3 is that the principles presented fewer possibilities to the board on how to “properly” amend IFRS 3. For one, when the board invoked principle 7, fair value accounting became the norm during its post-exposure draft deliberations with the secretariat. In contrast, had the board observed the conceptual framework, the board might have conceivably explored several measurement methods, which is something that it did not do during Phase II. In sum, I suggest the principles reduced the potentialities for the board to comprehend and apply the conceptual framework’s assorted measurement attributes.

One point warrants emphasis: The IASB appoints a different team for each project. Teams comprise both long-standing members of the secretariat, such as current Senior Director of Technical Activities Alan Teixeira, along with external “experts” that are recruited to provide guidance to the board. Stefanie Tamulis, a professional business valuator, for instance, was added to the business combinations team, and she played a key role advising the board on how to measure all aspects of a business combination at fair value. Many of these “external” experts eventually leave the IASB after a few years of service. In short, not only does each project team involve different people, but a fair amount of turnover also exists in the secretariat. Consequently, each project team works differently. I previously suggested that the business combinations team invoked nine principles to summarize comment letters (see IASCF, 2006z); other project teams summarize comment letters differently. In its summary of comment letters on IAS 24 (“Related party Disclosures”), the project team headed by April Pitman summarized key issues in terms of their relative frequency. That is, in preparing Agenda Paper 15E (see IFRSF, 2013c), the secretariat ranked the seven issues that commentators discussed the most. One reason that I have decided to focus on Phase II is that it provides a particularly significant episode in which the secretariat’s work seems to have considerably shaped that of the board.

Before embarking on an analysis of the secretariat’s promulgation of nine principles on the accounting for business combinations, I briefly consider how the IASB’s conceptual framework is abstruse in certain ways. I provide two examples of how the secretariat’s principles on the accounting for business combinations attributed more precise meanings to facets of the conceptual framework that bore on the amendment of IFRS 3.

Allan was the head of the business combinations team.
7.3 The Secretariat’s Elaboration of the Conceptual Framework

The IASB’s conceptual framework is a relatively broad conceptual schema:

(The) Framework has been developed so that it is applicable to a range of accounting models and concepts of capital and capital maintenance (…) (The) Framework is not an International Accounting Standard and hence does not define standards for any particular measurement or disclosure issue (my emphasis) (IASCF, 2001, p.4 - 5).

Instead, the conceptual framework conveys basic information to the board regarding the scope, objectives, underlying assumptions, and qualitative characteristics of what is believed to be “good” financial reporting. Its ambiguity has lead researchers like Mezias and Scarselletta to characterize it as a “poorly understood technology” (1994). Other accounting researchers, like Foran and Foran (1987), Gerboth (1987), Alfredson et al. (2007), and Benston et al. (2007), claim that the conceptual framework is “plagued by the problem of vagueness” (Penno, 2008, p. 339). They argue that its “vagueness” hinders accounting standard setters, like the IASB, in using it as a foundation for developing accounting standards—particularly ones that logically follow from the conceptual framework. Phase II, for instance, saw the board develop an accounting standard that is inconsistent with one facet of the conceptual framework. Paragraph 24 of the IASB’s conceptual statement affirms, “The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability (my emphasis)” (ibid, IASCF, 2001, p. 14). However, “The IASB (…) eliminated the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill” (IASCF, 2005b, p13).

I suggest that one way that the secretariat tries to moderate what Penno characterizes as the conceptual framework’s inherent “vagueness” (2008) is by organizing its rudimentary categories into particular principles that resonate with the demands of a specific project. What follows are two examples of how the secretariat’s principles on the accounting for business combinations assigned more precise meanings to parts of the conceptual framework that bore on the IASB’s amendment of IFRS 3. In its preparation of Agenda Papers 6A (IASCF, 2006z) and Agenda Paper 2A (IASCF, 2006c), the secretariat formulated nine principles, which are listed in Table 7.1.
Table 7.1: Principles on Accounting for Business Combinations

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses.</td>
</tr>
<tr>
<td>Principle 2</td>
<td>The acquisition date is the date the acquirer obtains control of the acquiree.</td>
</tr>
<tr>
<td>Principle 3</td>
<td>An acquirer shall be identified in every business combination.</td>
</tr>
<tr>
<td>Principle 4</td>
<td>The acquirer shall measure and recognize the fair value of the acquiree, as a whole, on the acquisition date.</td>
</tr>
<tr>
<td>Principle 5</td>
<td>The acquisition-date fair value of the consideration transferred shall be used to measure the fair value of the acquiree except when it can be demonstrated that the consideration transferred is not the best evidence.</td>
</tr>
<tr>
<td>Principle 6</td>
<td>The acquirer shall measure and recognize the fair value of the acquiree, as a whole, by recognizing the fair value of the acquiree’s identifiable assets and liabilities as of the acquisition date.</td>
</tr>
<tr>
<td>Principle 7</td>
<td>Some assets and liabilities shall be measured and recognized in accordance with other standards rather than fair value for practical reasons and to avoid Day 2 complexities.</td>
</tr>
<tr>
<td>Principle 8</td>
<td>Only what is actually part of the exchange for the acquiree shall be accounted for as part of the business combination.</td>
</tr>
<tr>
<td>Principle 9</td>
<td>The acquirer is allowed reasonable time to obtain the information necessary to identify and measure the acquisition-date fair values of the acquiree and the assets acquired and liabilities assumed (measurement period).</td>
</tr>
</tbody>
</table>

To clarify the relation between the conceptual framework and the principles, we can examine paragraph 44 of the IASB’s conceptual framework, which affirms that the costs incurred by producers to provide financial statement information to users should not exceed the related benefits of the information to the users:

> The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a judgmental process (my emphasis). Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared; for example, the provision of further information to lenders may reduce the borrowing costs of an entity. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters in particular (my emphasis), as well as the preparers and users of financial statements, should be aware of this constraint (my emphasis) (IASCF, 2001, p. 10).

Principle 7 provides a degree of clarity to paragraph 44. Principle 7 indicates that for the accounting for a business combination, the informational benefits of measuring and recognizing assets held for sale, deferred taxes, operating leases, and employee benefit plans at “fair value” in the consolidated balance sheet do not exceed the related costs (i.e., “practical reasons” and “Day 2 complexities”87). Contrary to paragraph 44, principal 7 provides specific information to the board about particular cases in which “The benefits derived from information (do not) exceed the cost of providing it” (IASCF, 2001, p. 10). The above passage indicates that the conceptual framework broadly touches on whether certain information is beneficial enough for the IASB to mandate that preparers and producers include it in financial statements. But the conceptual

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87 Day 1 accounting relates to the acquirer’s application of the acquisition model to measure and recognize, at fair value, the acquiree on the acquisition date. Day 2 accounting relates to all the accounting for the group after the acquisition date. The acquirer applies specific IFRS (i.e., not IFRS 8) to do Day 2 accounting.
framework is relatively unclear: At what point does the application of a particular aspect of an IFRS see a point of diminishing returns? At what point do the benefits of applying a part of IFRS exceed its associated costs?

Recall from chapter 4 that following the release of the G4+1 discussion paper on the accounting for business combinations, the IASC and national standard setters from the United States, Canada, Australia and New Zealand, and the United Kingdom concurred with the FASB’s conclusion that the acquirer should measure and recognize the acquiree at fair value (ASB, 1999; FASB, 1998). The FASB asserted that fair value accounting provides better information to users of financial statements (but see Walton, 2004). However, in its preparation of principle 7, the secretariat affirmed that there should be a limited number of exceptions to the fair value measurement attribute to ensure that the benefits of applying IFRS 3 exceed the associated costs. The secretariat advised the board that the costs that would be borne by preparers in measuring assets held for sale, deferred taxes, operating leases, and employee benefit plans at “fair value” would be too significant; that is, the costs would exceed the incremental benefits realized by users of the consolidated financial statements. In the end, the board concurred with the secretariat’s principle 7 as it came to be expounded in multiple agenda papers dealing with the IFRS 3 fair value exceptions (see IASCF, 2006g, 2006j, 2006n, 2007l, 2007p and 2007o). The board cited the papers as a basis for justifying its interpretation of paragraph 44 of the conceptual framework (see IASCF, 2006aj, 2007z, 2007u, 2007ab and 2007w). More specifically, the board made reference to the agenda papers’ discussion of principle 7 to support its conclusion that insufficient benefits would be realized by requiring preparers to measure and recognize assets held for sale, deferred taxes, operating leases, and employee benefit plans at “fair value.”

Another example exists of how one of the secretariat’s principles clarifies the guidance that the conceptual framework imparts to the board on how to develop IFRS. The conceptual framework is said to establish “the measurement of the elements from which financial statements are constructed” (IASCF, 2001, p. 5). But the conceptual framework conveys multiple measurement attributes to the board. On the one hand, the conceptual framework states that one of the “underlying assumptions” (ibid, p. 7) of IFRS reporting is that preparers work on an “accrual basis” (ibid, p. 7). It states that the board should develop IFRS that require preparers and producers to account for exchanges of observable monetary values (i.e., “cash or cash equivalents”). The conceptual framework also instructs the board to develop IFRS that require preparers and producers to prepare financial statements that are representationally faithful:

Information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. (...) (However) Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and

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88 Also recollect that the principal authors of the paper were senior members of the FASB.
other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions and events (my emphasis) (IASCF, 2001, p. 8).

Taken together, the conceptual framework seems to require the board, on the one hand, to develop IFRS that require preparers and producers to account for exchanges of cash or cash equivalents, while on the other hand, to develop IFRS requiring them to apply particular measurement and presentation techniques—such as the market approach, income approach, or cost approach.\(^{89}\) One reason that the conceptual framework can be conceived as a poorly understood technology is that it transmits multiple measurement attributes of financial statements to the board. In some cases, the accounting for historical costs remains status quo, but in other instances mark-to-market and mark-to-model accounting is deemed optimal.

In its development of principle 4, the secretariat instructed the board that the measurement attribute of consolidated financial statements is fair value as opposed to accumulated cost in all cases: “The acquirer shall measure and recognize the fair value of the acquiree, as a whole, on the acquisition date” (IASCF, 2006z, p. 3).

One result of the secretariat’s development of principle 4 is that it limited the board’s potential to consider alternative ways for preparers and producers to measure and recognize the acquirer and the acquiree (along with their net assets and goodwill). Principle 4, for instance, brought to an end the board’s previous discussion on the possibility of adding the option for preparers to apply the “fresh-start” methodology to IFRS 3 (IASCF, 2005b, p.9), whereby there is no requirement to identify one entity as the acquirer.

7.4 Staff Summary of Comment Letters

The IASB affirms that an essential aspect of its formulation of IFRS involves its evaluation of comment letters. It emphasizes that “Comment letters play a vital role in the IASB’s formal deliberative process” (IFRSF, 2010d, p. 8). As noted in chapter 6, the current chairman of the board, Hoogervorst, emphasizes that the IASB’s assessment of comment letters is crucial for developing high-quality standards (2013, p. 3). But the range of issues raised in comment letters is quite broad. And many of them are complex and difficult for members of the IASB to resolve, like the issue about how to account for income tax uncertainties at fair value (IASCF, 2007z). The issue was raised in comment letters on the proposed amendments to IFRS 3, and it extends well beyond the guidance the conceptual framework provides to the board on how to develop IFRS. While the conceptual framework elaborates some basic presumptions about what constitutes a “good” accounting standard, Young emphasizes that the categories underpinning the conceptual framework “would not in and of themselves directly solve financial accounting and reporting problems” (1996, p. 490).

\(^{89}\) See, for example, IFRS 13 (“Fair Value Measurement”) (2011).
The Role of the Secretariat: Summarizing Comment Letters

The secretariat is responsible for analyzing and summarizing comment letters:

Once a comment period has closed, the IASB will conduct an analysis of letters and opinions received on a specific project or proposal. In these analyses, broad themes are identified and details of how the IASB responded to the main issues are included in each document (IFRSF, 2010d, p. 9).

The secretariat’s summary of comment letters is significant because board members do not always read submissions (see Hoffman, 2012). With respect to the IASB’s amendment of IFRS 3, data exist that suggest some board members did not read constituents’ submissions or they relied on the secretariat to help them understand some issues noted in comment letters. To illustrate, during the IASB’s public deliberations on 22 February 2007, the board and the secretariat evaluated the proposed accounting for assets acquired in a business combination that are subject to an operating lease, whereby the acquiree is the lessor (IASCf, 2007v, 2007aa). In its preparation of Agenda Paper 2A (IASCf, 2007c), the secretariat evaluated two alternatives on how to account for the favorable (or unfavorable) terms of a lease. A number of board members expressed confusion on why the secretariat had submitted the topic for discussion. One board member asked the secretariat whether the issue was raised in comment letters:

Board Member: I have a different perspective question, uh, correct me if I’m wrong, it, ah, ah, in exposure draft, in preparing the exposure draft, we, ah made a decision to do alternative (pause) two, right (pause) alternative two? Is that right? Isn’t that what paragraph six says? Have I got the alternatives mixed up? Well, anyways, we agreed, we agreed with the FASB and we, and we, picked an approach for the exposure draft (pause) and I’m just trying to figure out, why are we asking, ah, ah, does this come up in comment letters, or what? Why are we revisiting the decision that we already made? (My emphasis here.)

Secretariat: It was raised in comment letters (IASCf, 2007v).

7.4.1 The Case of Phase II

Recall that the IASB issued ED 3 in June 2005, in part to solicit feedback from constituents on the proposed revisions to the acquisition model (IASCf, 2005d). To this end, ED 3 included a formal invitation to comment on 19 aspects of the suggested revisions to IFRS 3 (IASCf, 2005b, p. 5 - 15). It noted the following:

The International Accounting Standards Board (IASB) (…) invite(s) comments on all matters in the Exposure Draft, particularly on the questions set out below. Comments are most helpful if they: (a) comment on the questions as stated (my emphasis) (IASCf, 2005b, p.6).

After the IASB received 158 submissions concerning ED 3, the secretariat began evaluating “key themes” mentioned in comment letters in late 2005. The November 2005 edition of IASB Update notes
The staff are analyzing the written comments received. (...) A high level analysis is being undertaken to assist with the technical planning sessions being held by the board in December. *A more detailed analysis will be presented to the board in January, to assist with the planning of the redeliberation process* (my emphasis) (IASCF, 2005e, p. 3).

In late 2005 the secretariat finalized its summary of comment letters in Agenda Paper 6A:

Agenda paper 6a summarizes the comment letters received by the IASB (...) on the proposals as they relate to the proposed revised IFRS 3 Business Combinations (IASB) (IASCF, 2006y, p.3).

In its preparation of Agenda Paper 6A, the secretariat invoked the nine principles listed in Table 7.1 to summarize comment letters. The principles were deployed by the secretariat as a schema to sort through and classify constituents’ preferences. To this end, Agenda Paper 6A specifies

The remainder of this memo summarizes the comments received by issue. *The issues are organized by principle* (my emphasis) (IASCF, 2006z, p.5).

Virtually all constituents replied to the 19 questions raised in the IASB’s Invitation to Comment, not the nine principles. The questions raised in the invitation to comment are listed in Table 7.2.

Two points are worth emphasizing here: One, the secretariat developed and then subsequently invoked the nine principles—rather than the elements in the conceptual framework—to analyze the issues raised in comment letters. Two, the secretariat’s summary of comment letters in terms of the nine principles rather than the original questions from the invitation to comment can be conceived as form of translation. In his analysis and application of works on the sociology of translation (e.g., Callon, 1980; Callon & Law, 1982; Latour, 1987, 1998), Robson (1991, p. 550) states,

In general terms, translation points toward the operation of language in creating equivalences between entities which are otherwise different. Through the operation of discourse the concept of translation refers to the way in which different claims, substances or processes are equated with one another (Callon & Law, 1982).

Admittedly, Robson (1991) analyzes the notion of translation in a much broader sense—that is, he investigates the process of translation in relation to a number of seemingly nonaccounting discourses and rationales, the problematization of particular accounting techniques, and how their interplay is associated with the establishment of the U.K. Accounting Standards Steering Committee (Robson, 1991, p. 548). In contrast, translation is conceived here as the set of equivalencies that the secretariat drew between (a) the questions in the formal invitation to comment, and (b) the nine principles on the accounting for business combinations.
The meanings ascribed to things change in translation. Semiotician Newmark (1988) (from Chandler, 2006), for instance, states that when a text is translated, some of the original text’s meanings are reimagined in the subsequent text. Given that the original text is bound to specific referents, the translated text often does not reproduce some of the original text’s meanings insofar as the subsequent text is linked to a different array of referents. A referent is the thing that a word, phrase, symbol, and so forth signifies or represents. I suggest that one reason why a number of issues raised in comment letters were eventually absent from Agenda Paper 6A (“Comment Letter Analysis”) was the formal invitation to comment represented the referent in the comment letters, while the referent in Agenda Paper 6A is the nine principles. The discrepancy between the invitation to comment and the summary template was even noted by the secretariat:

The staff noted that the principles themselves have been modified from those in the exposure draft (IASCF, 2006ai, p.1).

Figure 7.1 provides a graphical comparison of the nine principles and the 19 questions underpinning Agenda Paper 6A and the formal invitation to comment, respectively. Figure 7.1 illustrates how the secretariat’s principles do not capture all aspects of the formal invitation to comment. The principles are depicted along the top of Figure 7.1 (i.e., “Agenda Paper 6A – Comment Letter Summary”). The 19 questions are situated below the nine principles and split into two groups. The first group (i.e., “Questions from Invitation to Comment Covered by Principles”) includes questions that strongly resemble specific principles. The relation is depicted graphically by the open brace (i.e., “{”). In contrast, the second group (“i.e., “Lost in Translation—Questions from Invitation to Comment”) encompasses questions that are dissimilar to the principles; that is, they do not seem to share a common referent.

Here is one example of how I pair a principle with a question: In addressing question 9 from the formal invitation to comment, constituents were asked to judge the proposed fair value exceptions:

The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognised in accordance with other IFRSs rather than at fair value. (See paragraphs 42-51 and BC117-BC150.)

**Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?**

<table>
<thead>
<tr>
<th>Question</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate?</td>
</tr>
<tr>
<td>2</td>
<td>Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business?</td>
</tr>
<tr>
<td>3</td>
<td>In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest?</td>
</tr>
<tr>
<td>4</td>
<td>Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree?</td>
</tr>
<tr>
<td>5</td>
<td>Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree the best evidence of the fair value of that interest?</td>
</tr>
<tr>
<td>6</td>
<td>Is the accounting for contingent consideration after the acquisition date appropriate?</td>
</tr>
<tr>
<td>7</td>
<td>Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree?</td>
</tr>
<tr>
<td>8</td>
<td>Do you believe that these proposed changes to the accounting for business combinations are appropriate?</td>
</tr>
<tr>
<td>9</td>
<td>Do you believe that these exceptions to the fair value measurement principle are appropriate?</td>
</tr>
<tr>
<td>10</td>
<td>Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree?</td>
</tr>
<tr>
<td>11</td>
<td>Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest?</td>
</tr>
<tr>
<td>12</td>
<td>Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date?</td>
</tr>
<tr>
<td>13</td>
<td>Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments?</td>
</tr>
<tr>
<td>14</td>
<td>Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree?</td>
</tr>
<tr>
<td>15</td>
<td>Do you agree with the disclosure objectives and the minimum disclosure requirements?</td>
</tr>
<tr>
<td>16</td>
<td>Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill?</td>
</tr>
<tr>
<td>17</td>
<td>Do you agree that any changes in an acquirer’s deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination?</td>
</tr>
<tr>
<td>18</td>
<td>Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences?</td>
</tr>
<tr>
<td>19</td>
<td>Do you find the bold type-plain type style of the Exposure Draft helpful?</td>
</tr>
</tbody>
</table>

Principle 7 is deemed to be comparable to question 9 because it also addresses the draft’s proposed fair value exceptions. Principle 7 specifies, “Some assets and liabilities shall be measured and recognized in accordance
with other standards rather than fair value for practical reasons and to avoid Day 2 complexities” (IASCF, 2006z, p. 49). Given that principle 7 and question 9 share a common referent, they are connected schematically in Figure 7.1 via an open brace. Similarly, a connection is made between the remaining eight principles and specific questions from the invitation to comment to the extent that they address analogous aspects of the accounting for business combinations.

In contrast, a number of questions from the invitation to comment (i.e., Q1, Q2, Q4, Q6, Q11, Q12, Q15, Q18, and Q19) deal with topics that are relatively unrelated to the secretariat’s principles. To illustrate, none of the secretariat’s principles specifically address the accounting for bargain purchases (Q11), premium acquisitions (Q12), the accounting for contingent consideration (Q6), the sufficiency of the draft’s guidance on how to distinguish between a business combination and the acquisition of a group of assets (Q14), and so forth. Consequently, the second group of questions (i.e., “Lost in Translation”) is decoupled from the secretariat’s principles in Figure 7.1. (The dashed line labeled “Lost in Translation” represents their decoupling.)

Of particular significance, I observe that constituents’ responses to questions with a common referent to the nine principles are responses that are featured relatively prominently in the secretariat’s summary text as compared to responses to the other questions (i.e., “Lost in Translation”). To illustrate, in its evaluation of principle 7, the secretariat investigates constituents’ responses to question 9. Agenda Paper 6A notes the following:

Exceptions to the Fair Value Measurement Principle

110. The BC ED proposes that the acquirer measure some assets acquired and liabilities assumed in accordance with other standards rather than at fair value. This is to avoid Day 2 complexities that would result if those assets or liabilities were initially recognized at fair value and then subsequently accounted for under a different standard whose measurement attribute is something other than fair value. The BC ED proposes that the acquirer measure the following assets and liabilities in accordance with other standards:

1. Assets held for sale
2. Deferred taxes
3. Operating leases
4. Employee benefit plans.

111. Most respondents agreed with the proposed exceptions. Even though most respondents were in agreement with the proposals, the following paragraphs discuss any specific suggestions that were received regarding these exceptions.

Source: IASCF, 2006z, p. 49.

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90 Although the secretariat’s principles addressed the definition of a business combination and the date control is “achieved” in an acquisition, the principles did not address one aspect of question 1, which was whether all mergers should require the application of the acquisition model.

91 “Q” signifies a question from the invitation to comment.
The secretariat’s analysis in this section of the summary document continues with a careful investigation of constituents’ responses to question 9 from the invitation to comment; that is, the secretariat’s work delves into accounting experts’ comments on the proposed fair value exceptions, as suggested by its recap and analysis of points raised by (a) PwC about the accounting for assets held for sale (IASCF, 2006z, p.49-50), (b) Deloitte, KPMG, and Mindthegaap about the accounting for deferred taxes (ibid, p. 50-52), (c) Pepsi Co. about the accounting for operating leases (ibid, p. 53), and (d) AcSEC about the accounting for employee benefit plans (ibid, p. 550).

I suggest that the association is not happenstance. Recall from Figure 7.1 that the four matters addressed by the above commentators are the points of reference for both question 9 (see IASCF, 2005b, p.9) and principle 7 (see IASCF, 2006z, p. 4). The point here is that the secretariat constructed its summary of comment letters by using the nine principles as a type of editing template. To invoke the terminology of Douglas (1986) and Young (1996) the principles “constrained” the secretariat’s perception of what issues raised in comment letters “counted” and by extension needed to be captured in the summary document. While further analysis should be given to the process through which the secretariat derived the principles (see chapter 9), the work here suggests that the secretariat’s nine signifiers (i.e., nine principles) only relate to some of the concepts linked to the original 19 signifiers (i.e., 19 questions in invitation comment). What is noteworthy here is that the secretariat demonstrated a propensity to identify and then summarize concerns expressed in submissions when they connected to the nine principles’ referents. The analysis above, for instance, suggests that in its application of principle 7, the secretariat investigated constituents’ responses to question 9. Constituents’ responses to question 9 are registered in the work of the secretariat, and subsequently the secretariat brought them to the board’s attention. It can be noted, for instance, that upon its review of Agenda Paper 6A, the board went on to discuss the proposed fair value exceptions in May 2006 (IASCF, 2006aj), January 2007 (IASCF, 2007z, 2007u), February 2007 (IASCF, 2007aa, 2007v), and March 2007 (IASCF, 2007ab, 2007w). The secretariat used the nine principles to draw boundaries around issues raised by respondents to be included in (and excluded from) the summary of comment letters.

Table 7.3 lists the topics debated by the board in 2006 and 2007. It reveals that responses to questions that share a comparable referent to specific principles were topics discussed by the board in 2006 and 2007. As an example to support this claim, in its formulation of principal 4, the secretariat affirmed that: “The acquirer shall measure and recognize the fair value of the acquiree, as a whole, on the acquisition date” (IASCF, 2006z, p. 3). Principal 4, in Figure 7.1, is coupled with question 3 from the invitation to comment, whereby the IASB asked constituents

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92 The signifier is conceived as the form the sign takes. A sign comprises both a signifier and a signified, whereby the signified is the concept that the signifier represents (see Chandler, 2006).
In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest (IASCF, 2005b, p7)?

Principal 4 and question 3 shared a bond, insofar as they both concern the issue of preparers measuring the entire acquiree at fair value in the group accounts. Constituents’ responses to question 3 are featured at the forefront of the secretariat summary of comment letters; that is, in relation to the secretariat’s analysis of principal 4 (see IASCF, 2006z, p. 13 – 25). Table 7.3 reveals that the issue of whether preparers should measure the acquiree as a whole at fair value was eventually added to the board’s post-exposure draft technical agenda in March 2006 (IASCF, 2006ah), October 2006 (IASCF, 2006am and 2006ad), December 2006 (IASCF, 2006an and 2006ae), January 2007 (IASCF, 2007z and 2007u), March 2007 (IASCF, 2007ab and 2007w), and April 2007 (IASCF, 2007ab and 2007w). Table 7.3 highlights that during these meetings, the secretariat and the board discussed how to apply the acquisition model to partial acquisitions, particularly how to measure the noncontrolling interest at fair value, including its share of goodwill, along with the basis for prorating goodwill between the controlling and the noncontrolling interests.93

Table 7.3 also suggests that issues raised in comment letters extending beyond the scope of the principles were not aired in the decision arena in most cases. As an example, the secretariat’s summary of comment letters does not delve into concerns expressed by 51% of respondents over the IASB’s adoption of the whole-entity model as a replacement of the parent-only model (see IASCF, 2006z) (Refer back to section 6.3.1.) As Table 7.3 reveals, the secretariat and the board never discussed the topic during their 14 public meetings in 2006 and 2007. I surmise that one reason why the potential issue is absent from Agenda Paper 6A is that none of the secretariat’s principles address the orientation of the consolidated financial statements (see Table 7.1). The analysis contained in Tables 7.4 to 7.7 provides four specific issues raised in comment letters that were patently downplayed or entirely concealed (not necessarily intentionally) by the secretariat in its summary of comment letters (dimension two). Perhaps more significantly, the analysis reveals that the four issues—which related to the definition of a business combination (i.e., Table 7.4), the definition of a business (i.e., Table 7.5), the sufficiency of the draft’s fair value guidance (i.e., Table 7.6), and the disclosure differences between IFRS 3 and SFAS 141—were never aired in the decision arena. Each table contains details on (a) one contested aspect of the invitation to comment, (b) the secretariat’s subsequent analysis of the contested issue, (c) a few examples of why respondents were concerned about said issues, and finally (d) the extent to which each issue gained access to the IASB’s post-exposure draft technical agenda.

93 Consideration will be given in chapter 8 to accounting experts that argued that ED 3 did not provide enough instructions on how to split goodwill into its constituent parts. Further attention will be given to the secretariat and the board’s discussions on said concerns.
94 As noted, the IASB has an institutional commitment to eliminating differences between IFRS and U.S. GAAP. One of the purposes of Phase II was to eliminate points of divergence between IFRS 3 and SFAS 141.
One point warrants mentioning: It would be incorrect to state that the board did not evaluate any of the issues raised in comment letters that do not factor significantly into the secretariat’s summary of them. To illustrate, the board investigated the accounting for contingent consideration (Q6) in March 2007 (IASCF, 2007ab, 2007w), the accounting for premium purchases (i.e., Q12) and bargain purchases (i.e., Q11) in March 2006 (IASCF, 2006ah) and in March 2007 (IASCF, 2007ab and 2007w), the proposed disclosure requirements (Q15) in April 2007 (IASCF, 2007ab, 2007w), and the guidance for identifying the components of a business combinations transaction (Q14) in July 2006 (IASCF, 2006ak, 2006ab). Returning to Figure 7.1, it can be noted that Q6, Q11, Q12, Q14, and Q15 are grouped as questions labeled “Lost in Translation.” This being said, it is worth emphasizing that the board devoted an extremely limited amount of its time (i.e., 8% of the items on the technical agenda) to an evaluation on constituents’ responses to these questions.95

In conclusion, the data suggest that constituents’ concerns that are featured more prominently in the staff summary, as compared to those lost in translation, are more frequently attached to what Cohen, March, and Olsen (1972) and March and Olsen (1988) would characterize as decision opportunities.

95 I explore this point further when I discuss figures 7.4 and 7.5.
<table>
<thead>
<tr>
<th>Date</th>
<th>Focus Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2006</td>
<td>- Secretariat’s comment letter analysis (IASCF, 2006z) &amp; redeliberation timetable (IASCF, 2006y).</td>
</tr>
<tr>
<td>July 2006</td>
<td>- Identifying components of a business combination (IASCF, 2006d). - Acctg. for restructuring costs (IASCF, 2006ak, 2006ab). - Measurement date = date control achieved; equity instruments issued as part of consideration exchanged are measured on the acquisition date (IASCF, 2006o).</td>
</tr>
<tr>
<td>June 2007</td>
<td>- Acctg. for off-market value of operating lease where acquiree is lessor (IASCF, 2007b). - Acctg. for acquirer’s share-based payment awards traded for acquiree’s replacement awards (IASCF, 2007i).</td>
</tr>
<tr>
<td>November 2007</td>
<td>- Effective date of the amended IFRS 3 (IFRSF, 2007s).</td>
</tr>
</tbody>
</table>
**Proposal:**
Q1: The definition of a business combination is appropriate for accounting for all business combinations (IASCF, 2005b, p. 6).

**Secretariat’s Summary:**
"Question 1 of the Notice for Recipients/Invitation to Comment asked respondents whether the definition of a business combination in the BC ED is appropriate for accounting for all business combinations. Respondents’ views varied. Many respondents stated that the definition was appropriate for accounting for all business combinations. (My emphasis here.) Those respondents generally did not provide the rationale for why they believed the definition was appropriate. Some respondents believe the definition was not appropriate (my emphasis)" (IASCF, 2005b, p. 5).

**Lost in translation:**
- The majority of respondents (i.e., 76%) did not support the definition – that is, they either: (1) “completely disagreed” with it (49%), or (2) they mostly disagreed with it (21%).
- In contrast to the secretariat’s claim that “Many respondents stated that the definition was appropriate for accounting for all business combinations” (IASCF, 2005b, p.5), fewer than 16% of respondents expressed any level of support for the definition.
- Here are two reasons why many respondents did not support the definition of a business combination:
  1. 34 percent of respondents (n = 54) argued that in a "merger of equals" there is no identifiable entity that obtains control of another entity. Many of them encouraged the board to consider the "fresh-start" methodology, whereby both the acquirer and the acquiree are measured and recognized at fair value.
  2. 25 percent of respondents (n = 37) were cooperatives, and they contested the proposed definition of a business combination on the grounds that cooperatives do not acquire one another.

**Deliberation and Observable Outcome:**
The board did not evaluate the proposed definition of a business combination during the post-exposure draft phase of the project, with the exception of a ten-minute discussion in December 2006 about letters received from the cooperative sector. The IASB reaffirmed, in the amended IFRS 8, that a business combination is a transaction in which one entity achieves control of another entity.
**Proposal:**

Q2: The definition of a business is appropriated. It is sufficient for determining whether the assets acquired and the liabilities assumed constitute a business (ibid, IASCF, 2002b, p.7).

![Q2 Responses](image)

"A business is an integrated set of activities and assets (providing) either: (1) a return to investors, or (2) dividends, lower costs, or other economic benefits" (ibid, IASCF, 2002b, p.6).

<table>
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<tr>
<th>Table 7.5: Secretariat’s analysis on the definition of a business</th>
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</table>

**Secretariat’s Summary:**

"The BC ED proposes a new definition of a business and proposes that the acquiree constitute a business to account for the acquisition as a business combination. If the acquiree does not constitute a business, then the acquisition would be accounted for as an asset acquisition. This proposal prompted two types of comments: (1) The Boards should consider broadening the scope of the BC ED to include accounting for asset acquisitions, which are conceptually similar to business combinations, and doing so would eliminate the need for a definition of a business; (2) The Boards should further improve the definition of a business" (my emphasis) (IASCF, 2006a, p.10).

**Lost in translation:**

- A significant number of constituents did not support the proposed definition of a business for the two reasons cited in the summary text.
- However, what is obscured from the summary text are comments raised by constituents that challenged the IASB’s taken-for-granted assumption (6D) that all businesses engaged in combinations for the purposes of maximizing "economic" profits.
- Here are two examples.
  1. The Charity Finance Directors’ Group indicates that charities strive "to contribute to the nation’s culture and education" (2006, p.9) by conserving and preserving national heritage assets, which are assets of historical, artistic or scientific importance. Charities do not endeavor to maximize "economic" profits.
  2. The New Zealand Treasury states that governments often do not try to maximize profits. In fact, in many cases they make decisions that see losses, like when a government agency purchases and operates businesses that are "uneconomic" (New Zealand Treasury, 2005, p.7) but nevertheless "fulfill some social objectives (e.g., public transport infrastructure)" (ibid. p.7).

**Deliberation and Observable Outcome:**

The board did not evaluate the proposed definition of a business – that is, it did not assess constituent’s claims that many entities strive to achieve things that extend beyond maximizing "economic" profits when they engage in merger. The IASB reaffirmed, in the amended IFRS 5, that all businesses seek to maximize "economic" profits when they engage in acquisitions.
Table 7.6: Secretariat’s analysis on the sufficiency of the fair value guidance

**Secretariat’s Summary:**

"Question 4 in the Notice/Invitation asked respondents whether the BC ED provides sufficient guidance for measuring the fair value of the acquiree. Respondents’ views were mixed (my emphasis). Some respondents believed that the BC ED provides sufficient guidance; the majority of respondents believed that it does not provide sufficient guidance. The respondents who stated that the BC ED provides sufficient fair value measurement guidance generally did not provide the rationale for their position. The respondents who stated that the BC ED does not provide sufficient fair value measurement guidance expressed concern in two circumstances: partial acquisitions and step acquisitions (my emphasis). They generally believed that the guidance for measuring the fair value of the acquiree in a 100 percent acquisition was sufficient. They also generally supported the presumption that the fair value of the consideration transferred should be used to measure the fair value of the acquiree in a 100 percent acquisition (notwithstanding the fact that some of those respondents would not recognize contingent consideration at fair value at the acquisition date and would capitalize transaction costs). However, those respondents stated that the BC ED does not provide sufficient guidance for measuring the fair value of the acquiree in a step acquisition or partial acquisition. Most of the concerns related to how control premiums should or should not be factored into the measurement of the fair value of the acquiree. The BC ED does not provide guidance on accounting for control premiums, and some constituents asked for further clarification (IASCF, 2006a, p. 23-24).

**Lost in translation:**

- Contrary to the claim made in the summary, respondents’ views on the sufficiency of the fair value guidance were not mixed. Fewer than 10 percent of respondents expressed any degree of support for the guidance contained in Appendix E. As figure “Q4 Responses” indicates, approximately 85% of respondents explicitly requested further guidance on how to do fair value accounting in the context of their application of the acquisition model.
- While many respondents did not support the proposed fair value guidance as it relates to the accounting for partial acquisitions, step acquisitions, goodwill, the overwhelming majority of respondents argued that the six-half page Appendix E does not provide the requisite instructions on how to measure all aspects of a business combination at fair value and this is something that I explore in further detail in chapter eight.

**Deliberation and Observable Outcome:**

The board did not evaluate the sufficiency of the fair value guidance as part of its post exposure draft deliberations with one exception, which was when it addressed respondents concerns about how to measure intangible assets at fair value without reliability (IASCF, 2006a, 2006ac). The IASB did not add further instructions to the amended IFRS 3 on how to conduct fair value accounting in the context of a business combination.
<table>
<thead>
<tr>
<th>Proposal:</th>
<th>Secretariat's Summary:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q18 The proposed IFRS 3 and SFAS 141 should retain disclosure differences (ibid, IASCF 2005b, p.14).</td>
<td>&quot;Question 18 in the Notice/Invitation asked respondents whether it is appropriate for the IASB and the FASB to retain those disclosure differences. Few respondents responded to this question. A few indicated that they understood the reasons for the differences and agreed with the disclosure differences&quot; (IASCF, 2005a, p. 60).</td>
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<tr>
<th>Lost in translation:</th>
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<tr>
<td>- While the majority of respondents expressed ambivalence towards the incongruent disclosure requirements of IFRS 3 versus SFAS 141, a minority of respondents strongly encouraged the IASB to harmonise the disclosures, given that preparers would need to reconcile IFRS-based statements to US GAAP to list on American capital exchanges.</td>
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<th>Deliberation and Observable Outcome:</th>
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<tr>
<td>The board did not discuss the disclosure differences at any point during the redeliberation process. By default, the amended IFRS 3 requires different disclosures compared to its American counterpart.</td>
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</table>
7.5 Post-exposure draft technical agenda (2006–2007)

The importance of the secretariat’s work is not limited to its summary of comment letters. In the case of Phase II, the board approved of all of the secretariat’s recommendations except one. In addition to voting on the secretariat’s proposals, the board frequently requests further explanation from the secretariat about particular aspects of agenda papers; for example, when the secretariat presented Agenda Paper 2A to the board. In other cases, the secretariat informs the board about developments at the FASB and other national accounting standard setters along with issues raised during roundtable discussions, field tests, discussions with users, and so forth.

In this final section, I suggest the secretariat shapes the IASB’s formal deliberations, and I provide two examples. In the first case, the analysis indicates that the board used the secretariat’s principles to justify its decision to abjure a debate on the concerns raised by the cooperative sector. The episode is conceived as an empirical case of what Lukes characterizes as “nondecision-making” (1974; 2005). In the second case, I suggest that the board’s technical agenda pivoted primarily on an investigation of how the secretariat’s principles—as opposed to the conceptual framework’s scope, objectives, underlying assumptions, and qualitative characteristics—bore on the accounting for business combinations.

7.5.1 Example #1: The Case of the Cooperatives

As previously noted, the board decided to discuss each of the principles when the secretariat returned topics for redeliberation in 2006 and 2007 (IASCF, 2006af). For example, when the secretariat broached the accounting for mergers of cooperatives in December 2006, it once again encouraged the board to apply the nine principles to evaluate issues raised in cooperatives’ comment letters. The secretariat presented Agenda Paper 2B to the board in December 2006, and the paper notes, “Based on the deliberation criteria established at the January 2006 Board meetings (i.e., the nine principles) (my emphasis here), the staff asks the Boards to discuss the proposed accounting for combinations between mutual entities” (IASCF, 2006i, p.1-2).

By way of background, ED 3 proposes that cooperatives are mutual entities, and mutual entities should apply acquisition accounting. The proposal was not well received by the cooperative sector. The IASB received 37 submissions from cooperatives. They categorically rejected their inclusion within the scope of the standard. Figure 7.2 conveys the stated reasons why cooperatives contested the proposal. (The percentages in Figure 7.2 signify the percentage of their comment letters that invoked particular arguments.)

While the board briefly discussed some of the cooperatives’ concerns in late 2006, they did not give them much attention. The board discussed the concerns for less than 10 minutes, after which it voted unanimously to include cooperatives within the scope of the draft. I regard the episode as an instance of nondecision-making.
given that the board elected not to carefully debate concerns raised by cooperatives. Instead, it reaffirmed its previous conclusion and moved forward. An analysis of the IASB’s post-exposure draft deliberations suggests that members of both the secretariat and the board appealed to the principles as bases to circumvent a comprehensive analysis of the cooperatives’ concerns.

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96 Caution should be exercised when interpreting the finding given that the analysis focuses on the secretariat and the board’s public deliberations and the secretariat’s staff papers.
<table>
<thead>
<tr>
<th>Figure 7.2 Key</th>
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<tbody>
<tr>
<td><strong>1. Cooperatives are different than mutual entities.</strong></td>
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<tr>
<td>“There is a main difference between coop and mutual because cooperatives issue member shares but mutuals do not. Mutuals have neither nominal nor transferable shares whatsoever. Membership in a mutual is often (but not systematically) granted upon payment of a fixed entry fee which does not carry any right to the member &amp; is never negotiable” (Coop Audit &amp; Supervision Corp, 2005, p. 3).</td>
</tr>
<tr>
<td><strong>2. Cooperatives adhere to specific standards promulgated by the International Labour Organization</strong></td>
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<tr>
<td>Cooperatives already have world standards of their own. According to the Statement on the Cooperative Identity, agreed upon by the International Cooperative Alliance &amp; its entire world membership in Manchester in 1995, &amp; incorporated in full in International Labour Organisation Recommendation 198 on the Promotion of Cooperatives, approved at the 2002 session of the International Labour Conference of the ILO in Geneva by all governments, employers’ organisations &amp; trade unions, defines the cooperative as ‘an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise’” (International Organization of Industrial, Artisanal and Service Producers’ Cooperatives, 2005, p.2).</td>
</tr>
<tr>
<td><strong>3. Cooperatives endeavor to achieve goals that are different than the ones regular entities try to accomplish</strong></td>
</tr>
<tr>
<td>“Distributing dividends is not part of the objectives of a cooperative, which [...] to meet their common economic, social and cultural needs and aspirations”). [...] it is difficult to understand why [...] objective in the cooperative would be to generate lucrative profits on their own transactions with the cooperative, and then redistribute such profits among themselves later. Members do not join a cooperative in order to make a lucrative profit out of the dividends, because if that was the case they could make other investments that would be specifically oriented to this end, such as the acquisition of shares in a conventional profit-oriented enterprise. [...] the main motivation of [...] a cooperative is to obtain [...] the satisfaction of a specific need, [...] like] building their own housing, accessing credit, ensuring access to food of quality at the most reasonable cost, accessing electricity in marginalized and rural areas, ensuring a fairer income to individual farmers through joint commercialization of their products, etc.” (COCETA (2005, pg. 6).</td>
</tr>
<tr>
<td><strong>4. The governance structure of cooperatives complicate their application of acquisition accounting</strong></td>
</tr>
<tr>
<td>“A cooperative is, [...]’an association of persons’, not of capital [...] In terms of corporate governance and control, the cooperative is ‘jointly owned and democratically controlled’, (one member one vote), irrespective of the amount of financial involvement of the different members’ (COOFISAM, 2005, p.2).</td>
</tr>
<tr>
<td><strong>5. Mergers of cooperatives do not see cooperatives achieving control of other cooperatives</strong></td>
</tr>
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<td>“About becoming a subsidiary, it is not possible for a coop, as it must be democratically controlled in a sovereign manner (…) Otherwise, it is simply not a coop, it may [...] be merged in a merger of equals or (…) sold after its termination and conversion. It may also enter into network relationships as a peer, partner, etc. but must always remain autonomous” (COOTRAUNION, 2005, p. 2).</td>
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<td><strong>6. There is no identifiable acquiree in a merger of cooperatives</strong></td>
</tr>
<tr>
<td>“An acquirer could possibly be identified in mergers of cooperatives [...]. However, [...] in many other merger situations among cooperatives, we expect that it will be not only difficult but also nearly impossible to qualify an acquire and therefore to apply the purchase method” (European Association of Cooperative Banks, 2005, p.1).</td>
</tr>
<tr>
<td><strong>7. Users of cooperatives’ financial statements require information that isn’t provided by the acquisition model</strong></td>
</tr>
<tr>
<td>“Book value has been the most widespread type of accounting value among cooperatives because it is based on historical figures, while fair value is based on future hypotheses and is useful to external investors, which is irrelevant for cooperatives. The value of the membership in a mutual comprises financial as well as non-financial advantages. Consequently, the notion of fair value, which makes sense for investors, seems ill-adapted to cooperatives and mutuals” (COODESCO, 2005, p. 3)</td>
</tr>
</tbody>
</table>
In keeping with their commitment to observing the principles as criteria for making decisions on the amendment of IFRS 3, both the secretariat and the board argued that cooperatives should apply acquisition accounting because it logically follows from principles 1 and 3. Recall that principle 1 affirms, that “A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses” (IASCF, 2006z, p.3) and that principle 3 maintains, “An acquirer shall be identified in every business combination” (ibid, p. 3) In its application of principles 1 and 3, the secretariat advised the board that mergers do not occur in practice; that is, mergers of cooperatives are in fact acquisitions. Agenda Paper 2B notes the following:

All business combinations result in one entity achieving control over another. Thus, combinations between mutual entities should be accounted for in accordance with the acquisition method (IASCF, 2006i, p.9).

The staff acknowledges that in a combination between mutual entities, it might be difficult to identify an acquirer. However, we note that this difficulty is not special to combinations between mutual entities (...) Constituents did not present any specific examples where it would be impossible to identify the acquirer given the indicators in (exposure draft three). Therefore, the staff does not believe any additional indicators are needed (ibid, p.10).

Then the secretariat asked the board,

Does the Board agree that mutual entities should be included in the scope of the final business combinations standard and that combinations between mutual entities should be accounted for by applying the acquisition method (IASCF, 2006ae)?

The board reaffirmed the secretariat’s recommendation largely because it was deemed compatible with principles 1 and 3. During the board’s public deliberations in December 2006, two board members expounded why cooperatives should do acquisition accounting so that in all cases IFRS 3 would uphold the spirit of principles 1 and 3:

Board member #1: The memo points out, ah, I want to reinforce that, that, when the FASB finished 1+1 and started looking at this, removing this scope limitation they were working with the Canadian board, ah, and the Canadian board, um reached the conclusion at that time that agreed with the staff recommendations. And in fact, the research that they did, um, indicated that, um, virtually all of the combinations that had been carried out, in particular in the cooperative sector in the Canadian environment, um, it was patently obvious who the acquirer was. They, they tended, tended to be, a, a big organization taking over a smaller one in order to get...increase the distribution networks and the smaller one agreeing to join to get access to better services or lower costs. So...this whole argument about the fact that, that, there’s all these mergers of equals things going on, ah, and it’s difficult to identify which entity is in control in, um, certainly in the vast majority of transactions that we were able to identify, when we did the research in Canada, that was not the case. It, that, ah, the who was the acquiring entity was very obvious from the transaction. I should add that I strongly support the staff recommendations.
Board member #2: I, I support the staff recommendation. I certainly don’t think that there’s a
distinction between types of mutuals, which is the words used, is what the cooperatives are asking
for, ah, and I would not do that whatsoever, and I don’t believe that we want to essentially try and
figure out a class of mergers that are true mergers, ah, I mean I never did understand what that term
meant (IASCF, 2006ae).

7.5.2 Example #2: Organizing the IASB’s Technical Agenda

In a broader sense, the board’s deliberations on the amendment of IFRS 3 are organized around the
secretariat’s nine principles. It is not happenstance that the board’s post-exposure draft deliberations turned
predominantly on an evaluation of the secretariat’s nine principles. Immediately before beginning its
redeliberation process, the board stated that it would use the principles as the building blocks for addressing
the proposed amendments. Recall that the secretariat formulated a set of nine principles on the accounting
for business combinations when it prepared Agenda Paper 6A (IASCF, 2006z) and Agenda Paper 2A (IASCF,
2006c). (See Table 7.1.) The secretariat presented the papers to the board in early 2006 (IASCF, 2006af).
Agenda Paper 2A (“Business Combination Principles”) notes the following:

The purpose of this paper is to outline to the Board the basic presumptions, assertions, principles
and definitions that form the foundations of the (draft) proposals. (…) The staff believe that most of
the discussion that follows over the next few months will focus on exceptions to the principles and
presumptions (IASCF, 2006c, p.1).

As noted in the introduction to the chapter, the board concluded in January 2006 that the nine principles
procured by the secretariat would be mobilized to structure the IASB’s deliberations over the next two years
(see IASCF, 2006af, p.1). Later in March 2006 the board reaffirmed its commitment to utilizing the principles
as bases for drafting IFRS 3. The March 2006 edition of IASB Update notes,

The staff set out the foundations on which the proposed revised IFRS 3 Business Combinations (…)were developed. (…) The Board decided that these statements provide an appropriate basis for the
final business combinations standard (IASCF, 2006ah, p.3).

Recall that one way that the secretariat seeks to direct each of the board’s meetings is by presenting agenda
papers. In the case of Phase II, each of the agenda papers prepared by the staff expounds on the nine
principles. Taking this into account, Figure 7.3 juxtaposes the nine principles on the accounting for business
combinations with the subsequent agenda papers that the secretariat presented to the board. The figure
illuminates how the work of the secretariat builds on the principles and in turn how its work further steered
the board’s deliberations towards an analysis of the principles. (Note that this association is even more
apparent in figures 7.4 and 7.5.) The principles are depicted along the top of Figure 7.3 (i.e., “Secretariat’s
Principles on the Accounting for Business Combinations”), and the agenda papers that were evaluated by the
board in 2006 and 2007 are situated below them. The agenda papers expound particular principles, and this
is why, in Figure 7.3, they are connected schematically. (A downward arrow depicts the relation.)
Perhaps more significantly, Figures 7.4 and 7.5 suggest that the bulk of the board’s time was spent evaluating agenda papers that explored the original nine principles on the accounting for business combinations. The breakdown of the IASB’s post-exposure draft talks is depicted in Figures 7.4 and 7.5, which illuminate precisely how much time the board spent discussing specific topics. Figure 7.4 reveals that close to three quarters of the IASB’s technical agenda centered on an analysis of the secretariat’s nine principles and more specifically on agenda papers that delved further into the nine principles. Figure 7.5 is a more detailed breakdown of the topics added to the board’s technical agenda. As an example, 17% of its deliberations related to an evaluation of the draft’s proposed fair value exceptions. Both figures indicate that only 8% of the board’s technical agenda considered the sufficiency of the fair value guidance (i.e., Q4), the accounting for contingent consideration (i.e., Q6), the accounting for bargain purchases (i.e., Q11), the accounting for premium purchases (i.e., Q12), and the proposed disclosure requirements (i.e., Q15). Recall that these topics fall under “Lost in Translation” in Figure 7.1. Also noteworthy, all remaining issues under “Lost in Translation” are missing from the IASB’s technical agenda. In sum, the bulk of board’s discussions, in Phase II, centered on the secretariat’s principles—and more specifically the secretariat’s subsequent agenda papers that fleshed out the principles—as opposed to the categories in the invitation to comment or the ones expressed in the conceptual framework. The figures also reveal that issues omitted from the secretariat’s original summary of comment letters rarely surfaced in the decision arena.

97 The chapter appendix outlines how the percentages displayed in the two figures have been calculated.
Figure 7.5: Secretariat’s Agenda Papers (2006–09)

Secretariat’s Principles on Accounting for Business Combinations

- Principle 1 (P1): Business combination is a transaction where the acquirer obtains control of the acquiree.
- Principle 2 (P2): Acquisition date is the date the acquirer obtains control of the acquiree.
- Principle 3 (P3): An acquirer shall be identified in every business combination.
- Principle 4 (P4): The acquirer recognizes the fair value (FV) of the acquiree, as a whole, on acquisition date.
- Principle 5 (P5): The acquisition date FV of consideration is the FV of acquiree with few exceptions.
- Principle 6 (P6): The acquirer recognizes the fair value of acquiree’s net assets on acquisition date.
- Principle 7 (P7): Some assets & liabilities measured using other IFRS rather than FV for practicality.
- Principle 8 (P8): Only consideration exchanged is a part of FV of the acquiree.
- Principle 9 (P9): Acquirer given 1 yr. to determine fair value of all aspects of business combination.

Secretariat’s Agenda Papers Evaluating Principles: Evaluated by the Board

- Agenda Paper 4B (Definition of business combination) (08/09)
- Agenda Paper 4C (Measurement date & equity instruments) (07/06)
- Agenda Paper 4D (Combination between mutual entities) (14/06)
- Agenda Paper 4E (Accounting for partial and step acquisitions) (08/06)
- Agenda Paper 4F (Accounting for partial acquisitions NCI & G/W) (10/06)
- Agenda Paper 4G (Accounting for in-process R&D) (14/06)
- Agenda Paper 4H (Accounting for preexisting obligations & recognized rights) (10/06)
- Agenda Paper 4I (Accounting for contingencies) (04/07)
- Agenda Paper 4J (Accounting for valuation allowances) (04/07)
- Agenda Paper 4K (Valuation allowance disclosure) (04/07)
- Agenda Paper 4L (F/V exception: Accounts Receivable) (03/06)
- Agenda Paper 4M (F/V exception: Operating leases) (06/07)
- Agenda Paper 4N (FV measurement exception Operating leases) (06/07)
- Agenda Paper 4O (FV measurement exception Operating leases) (06/07)
- Agenda Paper 4P (FV measurement exception Operating leases) (06/07)
7.6 Conclusion

The analysis in this chapter develops Young’s examination (1996) of how the FASB’s conceptual framework promotes a type of “institutional thinking,” and more precisely how it imposes restrictions on accounting change. However I elaborated several ways in which the secretariat exhibits agency. Institutions moderate the types of things that we do in life, but they aren’t completely deterministic. This is a point that Young herself emphasizes. Taking this into account, the chapter has sought to elucidate several ways in which the secretariat’s work moderates the conceptual framework’s impact on decision-making in the IASB. As a starting point, I suggested that the IASB’s conceptual framework lacks sufficient specificity to guide all of the
board’s decisions regarding the development of IFRS. It elaborates and reinforces certain presumptions about “good” accounting standards, but it is not sufficiently precise to guide the board on how to “resolve” all problems it encounters in the decision arena. To the extent that the conceptual framework is “vague,” as Penno (2008) suggests it is, the secretariat may step in to provide clarity to the board. It promulgates project-specific principles that are believed to be more germane to decision-making in relation to the IASB’s attempts to finalize specific projects on the technical agenda. In this regard, one of the overarching themes of the chapter is that the secretariat plays an important role in the development of IFRS. And in this regard it is in step with an expansive literature on public administration that draws attention to the myriad of ways that administrators, civil servants, bureaucrats, policy advisors, etc. influence the development of policy “behind the scenes” (e.g., Beach, 2004; Blachly & Oakman, 1934; Christiansen, 2002; Dijkstra, 2010; Gaus, White & Dimock, 1936; Gulick, 1933; Haines & Dimock, 1935; Herring, 1936; Hyneman, 1939; Montjoy & Watson, 1995; Mouritzen & Svara, 2002; Page, 2012; Pfiffner, 1935; Rutgers, 1997; Svara, 1998, 1999, 2001, 2006; etc).

Two examples were provided to support the claim. In the first case, the secretariat is tasked with summarizing issues raised in comment letters. Here, the secretariat interrogates the apparent limits to accounting change by observing its project-specific principles rather than the categories found in the conceptual framework. The analysis suggested that the secretariat’s summary of issues raised in comment letters is significant because it is a type of translation that circumvents some issues in the summary text. More significantly, the analysis illuminated how potential issues excluded from Agenda Paper 6A (“Comment Letter Analysis”) were not added to the IASB’s technical agenda in virtually all cases. In this sense, the secretariat’s work moderates the construction of the IASB technical agenda (dimension two). To paraphrase Young (1996), we can say that in the case of Phase II, its principles shadowed certain concerns raised by respondents about the forthcoming amendments to IFRS 3 in the sense that the concerns were omitted from the decision arena in 2006 and 2007.

In the second example, available data suggested how the work of the secretariat frames the board’s deliberations. Again the analysis looked specifically at the secretariat’s construction of principles on the accounting for business combinations. I examined how both the secretariat and the board appealed to principles as bases for making particular decisions. The example centered on cooperatives that submitted comment letters to the IASB categorically rejecting the proposal that they should be required to apply acquisition accounting. However, the secretariat and the board did not treat their concerns seriously. The IASB maintained that cooperatives must apply the acquisition model because it logically follows from principles 1 and 3. In short, the board appealed to the principles rather than the conceptual framework to justify its decision to avoid a debate on the reasons offered by the cooperatives for their contestation of IFRS 3.
I also suggested that the principles were utilized by members of the IASB to organize the parameters of the board’s technical agenda. Approximately three quarters of the IASB’s energies were geared towards debating how the secretariat’s principles bear on the accounting for business combinations. Only 8% of its technical agenda focused on a host of concerns raised by constituents in responses to the formal invitation to comment. Again, two claims were advanced. One, the board observed the principles, rather than the conceptual framework, to locate specific criteria that could be utilized to make appropriate decisions regarding the amendment of IFRS 3. Two, the secretariat developed the principles. That the board subsequently summoned them for the purposes of organizing its deliberations suggests that the work of the secretariat moderates the development of IFRS.

The dissertation now continues to chapter 8, whereby I consider the number of respondents that did not support the proposed amendments to IFRS 3 because the board failed to communicate the requisite instructions on how to apply the acquisition model in practice. Of particular significance, the investigation homes in on the secretariat and the board’s public deliberations in 2006 and 2007.
Chapter 7 Appendix

Note: Percentages depicted in Figures 7.4 and 7.5

The percentages depicted in figures 7.4 and 7.5 are calculated as follows. The board debated the proposed amendments to IFRS 3 during fourteen separate meetings in 2006 and 2007. In the calculus, each meeting accounts for 7.14% (i.e., 1/14) of the IASB’s technical agenda as it came to bear on the post exposure draft deliberations relating to the amendment of IFRS 3. Each meeting is then subdivided in terms of the topics discussed by the secretariat and the board. As an example, during the IASB’s public deliberations in February 2007, the secretariat and the board discussed three topics:

1. The accounting for acquired assets subject to operating lease where the acquiree is lessor (i.e., “principle #7”) = (1/14)(1/3) = 2.38%.
2. The application guidance on making reassessments regarding the classification of assets, liabilities and contracts (i.e., “other topics”) = (1/14)(1/3) = 2.38%.
3. The transition provisions for preparers slated to make the move from applying IFRS 3 (2004) to applying IFRS 3 (2008) (i.e., “other topics”) = (1/14)(1/3) = 2.38%.

Note: 2.38% + 2.38% + 2.38% = 7.14% (i.e., 1/14).

In this case, 2.38% of the IASB technical agenda was devoted to a discussion of “principle 7”, whilst 4.76% (i.e., 2.38% + 2.38%) of the IASB’s technical agenda encompassed a discussion of “other topics”.

The same calculus is completed for each of the board’s fourteen meetings. The percentages related to the same categories are added together to derive the cumulative percentages depicted in the two figures.
Chapter 8 Power and Expertise: In the Space of a New Accounting Technology

8.1 Introduction

(We) cannot see the point in any of these pronouncements. It is becoming less comprehensible and less meaningful to people. It is getting harder for people preparing and checking accounts to do their job therefore what chance to people looking at the accounts and trying to interpret them got? (sic) (The Leicestershire and Northamptonshire Society of Chartered Accountants, 2005, p.1).

Without further development of valuation techniques and sufficient application guidance on estimating fair values of businesses, the proposal may be difficult to implement, may not provide the most useful information to users, and may unnecessarily expose preparers and auditors to second-guessing by regulators and litigants. (…) We encourage the Board to develop accounting guidance that addresses other areas related to business combinations for which there is either no guidance or the guidance is unclear (Deloitte, 2005, p.4).

The principles in IFRS 3 need to be expressed more clearly, as the text in paragraph 36 of IFRS 3 has proven to provide for a wide divergence of practices, as indicated in, amongst other sources, the IFRIC Update February 2005 (Swedish Financial Accounting Standards Council, 2005, p.6).

The above excerpts from comment letters suggest that one reason that several respondents argued that the International Accounting Standards Board (IASB) should not adopt the proposed amendments to International Financial Reporting Standard 3 ("Business Combinations") (i.e., IFRS 3) was that the proposals lacked sufficient clarity to be applied in practice. While acknowledging that respondents contested exposure draft 3 (ED 3) (“Proposed Amendments to IFRS 3”) for a number of other reasons (see chapters 6 and 7), in this chapter I analyze arguments raised by respondents that the IASB should rescind the proposed amendments to IFRS 3 because it failed to transmit the requisite knowledge on how to account for business combinations vis-à-vis the instructions in ED 3. I draw on the works of Collins to better understand why respondents claimed that the instructions were unclear. His work evaluates why experts often fail to transmit knowledge in written instructions to other experts and finds the problems issue from “concealed knowledge,” “mismatched saliences,” “ostensive knowledge,” and “unrecognized knowledge” (see Collins, 1974, 1985; 1992, 2000, 2001, 2010). In this context, the findings of the chapter suggest that highly qualified experts in financial accounting did not support the proposed amendment to IFRS 3 because they claimed that the draft’s instructions were incomprehensible in several respects.

As mentioned in chapter 2 (section 2.4.2) the work here seeks to extend the scholarship of Giner and Arce (2012), Jupe (2000), Nobes (1992), Stenka and Taylor (2010), Tuttici, Dunstan, and Holmes (1994), Weetman (2001), and Weetman, Davie, and Collins (1996) by analyzing the rhetorical arguments expressed in constituents’ submissions. In contrast to these works, I investigate whether respondents contested or supported proposals in ED 3 for reasons that extended beyond the apparent “economic consequences” and/or “conceptual merits/shortcomings” of the revised acquisition model. My findings suggest that a significant
number of respondents did not support the IASB’s proposed amendments to IFRS 3, claiming that it failed to transfer the requisite knowledge via ED 3 on how to apply the acquisition model.

Subsequent analysis of the IASB’s post-exposure draft meetings—in which the board and the secretariat discussed the proposed amendments—reveals that the IASB did not ameliorate its instructions. In fact, it eventually abbreviated them: ED 3 provided close to 300 pages of instructions, while IFRS 3 consists of 50 pages of guidance. I suggest this outcome warrants a pause for thought. As noted in chapter 1, preparers, producers, regulators, investors, creditors, and so forth claim to rely on the instructions that the IASB procures to prepare and evaluate financial statements. If clear instructions are not provided on how to apply and evaluate IFRS, the information content of financial statements prepared in accordance with them may be reduced. Also, one may logically surmise that convergence will be limited if preparers and producers apply IFRS in incongruent ways due to ambiguous or insufficient guidance. It is largely in this respect that I argue that the IASB exercised “power over” (Pitkin, 1972) commentators. The IASB has multiple sources of power, but in this chapter I will focus primarily on the IASB’s requirement that preparers and producers apply what could be considered a partial standard. Not only is this a key motivator of the chapter, but it is also in this specific sense that I will explore the notion of power in relation to the IASB’s amendment of IFRS 3. Of particular significance to the chapter is an analysis of the secretariat’s discussions with the board. This analysis is undertaken to shed light on how members of the secretariat and the board made sense of and responded to constituents concerns over what they regarded as a lack of guidance.

Before continuing it is worth emphasizing that I concur with Ludwig Wittgenstein (1981), who argued that all rules require interpretation and guidance, which in turn need yet further interpretation and guidance. As the extensive literature on the sociology of scientific knowledge shows, all knowledge is constructed, problematized, and then reconstructed in relation to a variety of political, historical, cultural, or economic factors. The construction of knowledge is never ending. Notwithstanding the fact that all knowledge is partial and incomplete, I argue that it is important for the IASB to make IFRS maximally comprehensible to consumers of them.

This chapter uses a modified content analysis of texts. Initially, in chapter 6, consideration was given to the levels of support expressed by respondents in comment letters with respect to the proposed amendments to IFRS 3. It was suggested that the majority of respondents strongly opposed most of the proposed reforms in ED 3. From further analysis, I argued that the IASB subverted potential issues raised in comment letters. As an example, the work in chapter 7 revealed that the secretariat developed nine principles on how to get the accounting right for business combinations. Concerns raised by respondents that did not resonate with the principles were not aired in the decision arena in most cases. This was conceived as type of “nondecision-
making” (Lukes, 1974; 2005) because the principles were invoked by the secretariat and the board to make observable decisions to subvert potential issues raised by constituents from the decision arena.

In this chapter, the analysis turns to arguments expressed by respondents in comment letters opposing the IASB’s proposed amendments. The work is composed in part of a rhetorical analysis of 158 comment letters. I am not the first to consider the relations between accounting and rhetoric (see, for example, Hoffmann & Zülch, 2014). Previously, Suddaby and Greenwood (2005) investigate the discursive struggle between proponents and opponents of a new organizational form that emerged when Ernst and Young purchased a law firm. Young (2003) analyses the rhetorical devices that the FASB invokes to persuade accounting “experts” that the FASB is a “good” standard setter. Young (2003) explains, “FASB members and staff are continuously engaged in efforts to persuade individuals located outside (the FASB) that its work is valuable, appropriate, useful, and correct” (p. 622). Her work also suggests that the FASB applies rhetorical strategies to silence arguments raised by actors who contest the appropriateness of the FASB’s work; for example, by claiming that criticisms call for impractical or exceedingly complex accounting solutions. Here I analyze constituents’ arguments in comment letters to better understand why they opposed the amended standard.

The chapter proceeds as follows. In the next section I analyze the works of Collins, particularly those that deal with cases in which one group of experts fails to communicate knowledge via written instructions to other experts. I draw on his work to better understand why most respondents said the written instructions in ED 3 were unclear. In an application of Collins’s work, I argue that commentators struggled to grasp many of the instructions due to problems issuing from concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge. I suggest that another reason why the draft guidance was confusing was associated with its “logical inconsistencies.” This is a new category that is not explored in Collins’s work. By considering how the draft’s “logical inconsistencies” made the draft confusing for accounting experts, I hope to build on Collins’s work. In the section, I explain what each of the problems means. Next, consideration is given to the draft instructions. Before it is possible to make sense of why respondents argued that the instructions were confusing, it is necessary to review what guidance was contained in ED 3. In this section, specific consideration is given to (a) specific types of business combinations, (b) the fair value guidance contained in Appendix E, and (c) the four steps associated with the application of the acquisition model. Accompanying the analysis of the draft instructions are excerpts from comment letters, which illustrate the ways in which respondents found the instructions confusing.

In the next section, I home in on three examples contained in Appendix A of ED 3. The examples were included in the draft to illustrate how to correctly apply the acquisition model in relation to three specific “real-world” scenarios. Admittedly, other aspects of the guidance in the draft could be considered. This being said, the examples draw together, in one place, the IASB’s instructions on how to apply the model in relation

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to three transactions. The motivation to focus on these examples is largely driven by reasons of analytical clarity. It is possible to investigate them and then to explore respondents' comments about each example. Through their juxtaposition, it becomes evident that respondents argued that understanding the examples was hampered by the problems of concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge and logical inconsistencies. While respondents' comments relate to the specific examples at hand, I suggest that they are equally applicable to the IASB's more general instructions on how to apply the model, given that the examples seek to clarify how to apply the acquisition model.

The final section turns to the board and the secretariat's deliberations. They occurred after the IASB collected and evaluated comment letters. Specific consideration is given to the conversations between the secretariat and the board during their meetings in 2006 and 2007. I observe that apart from the IASB's decision not to require the application of the full goodwill method (see chapter 6), the IASB's requirements did not change. Further, the final guidance is significantly abbreviated in IFRS 3 as compared to the instructions in the initial draft. To the extent that the IASB was aware that many respondents found the instructions insufficiently clear, I argue that the IASB exercised power over commentators by requiring them to apply an incomplete standard. Data are furnished from dialogues between the board and the secretariat to shed light on several factors associated with the IASB's not adding further instructions. One thing that is particularly interesting is that it was not only commentators that struggled to comprehend ED 3—both the secretariat and the board expressed confusion as well. This suggests that several aspects of the expertise on acquisition accounting actually remained tacit to the board itself, and this, one may logically deduce, is one reason why the board struggled to explain how to account for business combinations to other accounting experts. The section is particularly significant to the dissertation's overarching analysis on the dynamics of power—particularly power that manifests vis-à-vis institutional inaction (third dimension). I proceed by discussing the works of Collins.

8.2 Problems Associated with Written Instructions

As noted in chapter 3 (section 3.13), Collins's work suggests that it is difficult for experts to build technologies by following other experts' written instructions. He states that some of the most established technologies, such as TEA lasers, are difficult to build even though instructions on how to build them are widely available (see Collins, 1974, 1992, 2000, 2010; Collins & Harrison, 1975). Collins argues that written instructions are insufficient, given that they obscure specialist tacit knowledge due, in part to the problems emanating from concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge. Concealed knowledge is weak tacit knowledge; that is, knowledge that is tacit for reasons that are not philosophically profound. One reason such knowledge is not rendered manifest results when written instructions do not contain/provide sufficient space to include all pertinent details on how to do particular things. In other cases, it is deliberately concealed, as Collins (2010) notes, due to “...the relations between
people that arise out of the nature of social life” (Collins, 2010, p. 11). Two points warrant emphasis before continuing: One, I suggest some knowledge was unintentionally concealed from ED by the IASB. The resulting omissions made it onerous for accounting experts to make sense of the draft instructions. Two, the board did not relinquish all knowledge on how to apply the acquisition model after respondents asked the IASB for more guidance on how to account for a business combination. This is an impression that I form based on my judicious examination of the board and the secretariat’s deliberations in 2006 and 2007. I expound on this argument further in section 8.5.

Collins (2001) argues that knowledge remains tacit due to the problem of mismatched saliences. In their characterization of mismatched saliences, Collins and Evans (2007) state, “There are an indefinite number of potentially important variables in a new and difficult experiment and (A and B) focus on different ones. Thus, A does not realize that B needs to be told to do things in certain ways, and B does not know the right questions to ask” (p. 40). In the context of the forthcoming analysis, I suggest that one reason why respondents did not fully grasp the instructions in ED 3 was that they did not understand how particular variables bear on the application of the acquisition model. For one, respondents expressed confusion on how to measure specific assets, like heritage assets, at fair value, being as no readily observable markets exist for heritage assets. This is one example of what I regard as an instance of mismatched saliences. The analysis suggests that in several cases respondents and the IASB focused on different sets of variables in relation to the application of the acquisition model. To the extent that the IASB’s instructions were not attentive to variables that accounting experts regarded as salient to acquisition accounting, the latter were confused on how to apply the instructions. Accordingly, respondents argued that the IASB needed to provide more guidance on how to account for specific variables in their application of IFRS 3.

Collins and Evans (2002, 2007) and Collins (2010) note that a failure to transmit tacit knowledge via written instructions can also result from the problem of ostensive knowledge. Collins and Evans (2007) state, “Words, diagrams, or photographs cannot convey information that can be understood by direct pointing, or demonstrating, or feeling” (p. 40). One point warrants emphasis here: In the forthcoming analysis, I examine three examples elaborated in Appendix A of ED 3. I argue that these examples gave rise to the problem of ostensive knowledge, and they did not convey information that could potentially have been more readily conveyed through direct interactions between the IASB and commentators. Collins would argue that face-to-face visits would have been fruitful: members of the IASB could have systematically worked their way through the examples alongside commentators to mitigate particular points of confusion. Significantly, however, as the analysis progresses, it becomes apparent that respondents regarded the three examples as confusing not only due the problem of ostensive knowledge but also due to problems of concealed

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99 The work of Hooper, Kearins, and Green (1988) investigates some reasons why New Zealand museums contested the requirement to measure and recognize of heritage assets in financial statements.
knowledge, mismatched saliences, unrecognized knowledge, and what I characterize as logical inconsistencies. In sum, the problems are not mutually exclusive.

In their analysis of unrecognized knowledge, Collins and Evans (2007) state, “A performs aspects of an experiment in a certain way without realizing their importance; B will pick up the same habit during a visit” (p.40).

Unrecognized knowledge is akin to tacit assumptions. It is specialist tacit knowledge in the strongest sense. In the forthcoming analysis, I suggest that one reason why the IASB did not convey particular knowledge on how to apply the acquisition model was that it did not articulate its base assumptions as they bore on the instructions. In other cases, I argue that the IASB had yet to construct the knowledge on how to apply certain aspects of the acquisition model. As an example, the IASB wasn’t clear about how to measure and recognize income tax uncertainties at fair value on the acquisition date. As another example, several members of the secretariat and the board expressed confusion on how to allocate goodwill between the controlling and noncontrolling interests in the case of a partial acquisition. This was a point of confusion that a majority of respondents alluded to in justifying that the IASB should abandon the full goodwill method. These points are covered in section 8.6 when I consider conversations between the board and the secretariat.

I add to Collins’s work by suggesting that written instructions are confusing if they are inconsistent with other instructions. I call this problem logical inconsistencies. In the context of the chapter, logical inconsistencies are conceived as contradictions within ED 3 and between ED 3 and the IFRS framework. The inconsistencies led respondents to request confirmation on which incongruous principles, guidelines, procedures, attributes, qualitative characteristics, and so forth they should observe in their application of the acquisition model. To illustrate, on the one hand, ED 3 suggested that all assets, liabilities, and businesses have a “fair value.” On the other hand, it indicated that preparers need to account for a bargain purchase as a reduction in the group’s goodwill. The tension was raised by a number of constituents who expressed confusion on how to determine the fair value of assets, liabilities, and businesses in situations in which fair values vary significantly, which was a point that was acknowledged in parts of the draft dealing with the accounting for bargain purchases and premium purchases. Having analyzed several reasons why formalized instructions can fail to transfer specialist tacit knowledge from one group of experts to another group of experts, I continue now by exploring the guidance contained in ED 3.

8.3 The Acquisition Model

Before analyzing the guidance in ED 3, it is worth clarifying some of the terminology contained in it. ED 3 stipulated that acquirers apply the acquisition model in both the case of a partial acquisition and a complete

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100 In extreme cases, neither A nor B will even realize that anything important has been passed on.
101 Defined as a transaction where the acquirer pays less than “fair market value” for the target.
acquisition. As noted, a business combination occurs when one company purchases a controlling interest in another company. (See Figure 8.1.) The acquisition model means that the company purchasing the target company is required to account for the target company at what is believed to be its “fair value.” There are at least two types of business combinations. First, there are transactions in which the acquirer purchases all of the acquiree. This transaction is called a full acquisition. (See Figure 8.1 “Full Acquisition.”) Alternatively, a company can purchase between 51% and 99% of the acquiree. This transaction is called a partial acquisition. (See: Figure 8.1: “Partial Acquisition.”) In the case of a partial acquisition, ED 3 stipulated that the acquirer must measure and recognize the entire acquiree at what is purported to be its “fair value.” Finally, ED 3 provided instructions on how to account for a bargain purchase and a premium purchase. A bargain purchase occurs when the acquirer purchases the acquiree (or a portion of the acquiree) at a price that is said to be less that what other willing market participants would pay (i.e., less than “fair value”). A premium purchase is the inverse of a bargain purchase. Bargain and premium purchases occur in both full and partial acquisitions.

**Figure 8.1: Types of Acquisitions**

<table>
<thead>
<tr>
<th>Acquisition (a.k.a. Business Combination)</th>
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<tr>
<td><img src="image" alt="Diagram" /></td>
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<table>
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<tr>
<th>Full Acquisition</th>
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<td><img src="image" alt="Diagram" /></td>
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<th>Partial Acquisition</th>
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<td><img src="image" alt="Diagram" /></td>
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8.3.1 Appendix E (“Fair Value Measurements”)

As noted, the acquisition model requires the acquirer to account for the entire target company at its fair value. Appendix E was a component of ED 3, and it provided six-and-a-half pages of instructions on how to measure all aspects of a business combination at fair value. I suggest that the guidance was relatively
undeveloped, a point that was acknowledged by no less than the IASB itself. During the IASB’s public deliberations in October 2006, for instance, former board member Mary Barth remarked, “We have a definition of fair value that doesn’t have a lot of detailed guidance around it” (IASCF, 2006ad).

Appendix E outlined three valuation approaches to determine the fair value of assets, liabilities, and businesses:

1. **Market Approach**: Fair values are derived from observable prices and other data gathered from actual transactions involving identical or comparable assets, liabilities, and/or businesses.
2. **Income Approach**: Fair values are derived from calculating the net present value of an asset and/or liability’s projected discounted future cash flows.
3. **Cost Approach**: Fair values are based on estimates of the replacement cost of an asset.

Each of the valuation approaches incorporates what are said to be “market inputs”—which the appendix defines as “assumptions and data that marketplace participants would use in their estimates of fair value” (IASCF, 2005b, p.131). A number of respondents expressed confusion about the IASB’s assumption that fair values can be discerned from the market economy (i.e., “unrecognized knowledge”). As an example, Industrie-Holding and Fletcher Building Limited argued that it is more realistic to assume that assets, liabilities, and businesses do not exhibit what the IASB assumes to be a fair value:

> We emphasize that, even with the guidance given, the measurement would reflect a high level of subjectivity (…) Novartis recent offer of $40 per share for the remaining 57.8% of Chiron compared to a stock market price of $36.44 before the bid and a price of $48.13 in early trading after the bid. An 18% spread of possibilities, and that in a highly liquid market for a quoted US company (Industrie-Holding, 2005, p.4)!

The ED seems to be driven by an extremely academic view of fair value as if there is one right answer. The price paid for an acquisition can easily vary for many different factors, or by different bidders. Does this means that all of them, apart from the one version of the truth, are wrong? In the pursuit of technical purity I believe that we have lost sight of common sense (Fletcher Building Limited, 2005, p.2).

Appendix E stated market inputs include (a) quoted prices, bid and asked prices, rates, and so on; (b) data on interest rates, yield curve, volatility, default rates, credit risk, and so forth; and (c) specific and broad credit data and other statistics. The appendix affirmed that preparers could identify market inputs in exchange markets, dealer markets, brokered markets, and principal-to-principal markets. In addition, the appendix included a preliminary version of the *fair value hierarchy*, which was based on the FASB’s *exposure draft on the proposed fair value hierarchy*.102 (Recall from chapters 3 and 4 that the IASB has an institutional preference for harmonizing IFRS with U.S. GAAP to retain the support of actors like the International Organization of

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Securities Commissions [IOSCO] and the SEC.) In other words, IFRS 3 was based on a fair value standard that had yet to be finalized. And it would not be until May 2011 that the IASB would issue IFRS 13 (“Fair Value Measurement”),103 which contains more complete instructions on how to measure things at fair value. The purpose of the fair value hierarchy was to provide instructions to preparers on how to select “the inputs that should be used to estimate fair value” (IASCF, 2005b, p. 132). The hierarchy gave the highest priority to “level 1 estimates” and the lowest priority to “level 3 estimates.” Level 1 estimates were characterized as ones based on “quoted prices for identical assets or liabilities in active reference markets” (ibid, p. 133). The appendix stated that level 1 estimates should not be adjusted104 to determine fair values. However, multiple markets tend to exist for specific assets, liabilities, and businesses. The appendix provided the following guidance: “For the purposes of determining the most advantageous market, costs to transact in the respective markets shall be considered” (ibid, p.133).

The appendix noted that when level 1 estimates are infeasible, preparers should make level 2 estimates, which are estimates based on active markets for similar assets or liabilities. The estimates are adjusted to “correct” for discrepancies between the “fair value” of assets and liabilities traded in different but similar markets. The draft stated: “For a Level 2 estimate, the price effect of the differences must be determinable objectively (sic)” (IASCF, 2005b, p. 134). However, as FAR stated, knowledge was withheld from the appendix on how to make the determination:

Guidance is needed to implement concepts such as objectively determinable as it relates to level 2 estimates and how to evaluate undue cost and effort for measurement techniques related to level 3 estimates. The accounting guidance must be operational, minimize diversity in valuation practice and the resulting information should be auditable (FAR, 2005, p. 6).

In the cases in which level 2 estimates are infeasible – that is, in the cases where no observable market exist – the appendix instructed preparers to make level 3 estimates, which states: “Fair value shall be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those multiple techniques is available without undue cost and effort” (IASCF, 2005b, p. 134). Hamberg, Paananen, and Novak (2011) state, “In recent years, several accounting standards, including IFRS 3, issued by the IASB, substitute historical cost with fair value measures and so provide managers with increased discretion to determine fair value without an actual market for the asset” (p. 264). One reason why they have more discretion is that Appendix E did not provide guidance on which multiple techniques should be used, and this is another example of knowledge that remained hidden. The appendix emphasized that the results of the multiple techniques should be evaluated in terms of their relevance and reliability, and that they should be “adjusted as appropriate” (ibid, p.134). “The reasons for adjustments to quoted prices will vary” (ibid, p.134). Finally, the appendix suggested that in

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104 With the exception of principal-to-principal trades occurring after the close of the market but before the end of the reporting period. The draft provided no guidance on how to value these trades.
certain cases market inputs are not available. The appendix noted that in these cases preparers must use “significant entity inputs derived from an entity’s own internal estimates and assumptions” (p. 135).

Recall from chapter 6 (i.e., Q4) that 84% of respondents argued that Appendix E did not impart enough instructions on how to measure and recognize all aspects of a business combination at fair value. A majority of respondents tried to persuade the IASB that the instructions contained in Appendix E lacked clarity:

(The) fair value proposals are nearly impossible to implement (Barclays Bank PLC, 2005, p.2)

We believe that the fair value guidance is overly theoretical and may prove impossible to apply in practice (Royal & Sunalliance, 2005, p.3).

The amended version of IFRS 3 does not explicate the fair value guidance contained in Appendix E. In fact, Appendix E was removed from IFRS 3, without explanation.

8.3.2 The Acquisition Model

The Exposure Draft comprises a total of 300 pages. This represents a formidable set of documents for many intelligent, committed but essentially lay users of accounts. Such an approach, therefore, runs the risk of discouraging discussion of these highly important issues by the very people for whom these statements are claimed to be drawn up - the users of financial reports. A shorter, more succinct paper would have facilitated and encouraged a much wider debate amongst the user community (UK Society of Investment Professionals, 2005, p.1-2).

As the U.K. Society of Investment Professionals argued, one reason that the draft guidance was confusing for constituents was due to the draft’s sheer length and complexity. In an effort to clarify it, I use basic algebra to elaborate how the acquisition model works. Before continuing, let us define the following list of symbols:

\[ A_1 = \text{The acquirer. It is the entity that obtains control of the acquiree.} \]
\[ A_2 = \text{The acquiree. It is the entity that } A_1 \text{ obtains control as part of a business combination.} \]
\[ x = \text{The fair value of the consideration exchanged on the acquisition date. } A_1 \text{ pays } x \text{ to } A_2 \text{ in exchange for } A_1 \text{’s control of } A_2. \]
\[ w = \text{The fair value of } A_2 \text{ as an entire business. It encompasses the fair value of } A_2 \text{’s net assets (i.e., assets - liabilities) and any goodwill. (Goodwill is defined below.)} \]
\[ w_o = \text{In a partial acquisition, } w_o \text{ represents } A_1 \text{’s controlling interest in } w. \]
\[ w_e = \text{In a partial acquisition, } w_e \text{ is } A_2 \text{’s non-controlling interest in } w. \]
\[ y = \text{The fair value of 100% of } A_2 \text{’s net identifiable assets on the acquisition date.} \]
\[ y_o = \text{In a partial acquisition, } y_o \text{ is } A_1 \text{’s controlling interest in } y. \]
\[ y_e = \text{In a partial acquisition, } y_e \text{ is } A_2 \text{’s noncontrolling interest in } y. \]
\[ g = \text{Goodwill. Generally, goodwill is: } w - y. \]
\[ g_o = \text{In a partial acquisition, } g_o \text{ represents } A_1 \text{’s portion of goodwill.} \]
\[ g_e = \text{In a partial acquisition, } g_e \text{ represents } A_2 \text{’s portion of goodwill.} \]
\[ CI\% = \text{In a partial acquisition, } CI\% \text{ represents } A_1 \text{’s interest in } A_2 \text{ as a percentage.} \]
\[ NCI\% = \text{In a partial acquisition, } NCI\% \text{ represents } A_2 \text{’s interest in } A_2 \text{ as a percentage.} \]
The acquisition model necessitates that $A$ complete four steps:

Step 1: Determine $x$

$A$ determines $x$ by adding both monetary and nonmonetary consideration exchanged. Nonmonetary consideration is measured at fair value as per Appendix E (“Fair Value Measurements”).

Step 2: Determine $w$

Next, $A$ measures and recognizes $w$. In most full acquisitions: $x = w$. In most partial acquisitions: $x = w$. However, in a full acquisition that sees a bargain purchase, $w$ is measured and recognized in terms of valuation techniques in Appendix E. Also, in a partial acquisition, whereby $A$ purchases $A'$s widely traded shares, then $w = x/CI\%$.

Step 3: Determine $y$

$A$ measures and recognizes $y$ in terms of the guidance in Appendix E.\(^{105}\)

Step 4: Determine $g$ and its allocation

Finally, $A$ determines $g$. In most cases, $g = w - y$. However, in a full acquisition that sees a premium purchase, $g = x - y$; and, in a full acquisition that sees a bargain purchase, $g = (w - y) - (w - x)$; if $(w - y) - (w - x) < 0$ then $g = 0$ and a gain is recorded in profit, $|(w - y) - (w - x)|$. In the case of a partial acquisition, $A$ must split $g$ into $g_1$ and $g_2$. In a partial acquisition that sees neither a bargain nor a premium purchase, $A'$s distribution of $g$ is $g = w - y$; $g_1 = w - y$; $g_2 = g - g_1$.

8.4 Arguments Against the Proposed Amendments of the Acquisition Model

A majority of accounting experts argued that they need more guidance from the IASB:

> The proposed guidance is complex, and subjective and will introduce unnecessary uncertainty into financial reporting. Current guidance is clear, understandable, and the values reported in the financial statements are relevant and reliable (UBS, 2005, p.1).

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\(^{105}\) But recall from chapter 6 (i.e., Q9) that assets held for sale, deferred taxes, operating leases, employee benefit plans, and goodwill are not accounted for at “fair value.” Also: ED 3 provided additional instructions on how to measure and recognize acquired/assumed valuation allowances, contingencies, liabilities associated with restructuring or exit activities, leases and intangible assets at “fair value.”
The IASB will need to allow for a lengthy transition period and may need to work with local standards setters on a significant education campaign (Australian Institute of Company Directors, 2005, p.1).

Standards being too complicated, that use theoretical concepts or a philosophy that is not evident or self-explanatory from the preparers’ practical experience, run the risk of not being generally understood by all persons involved. This constitutes an often neglected burden to the timing demands and to the quality of the accounting process and has to be countered by even more educational/instructional efforts (Swedish Enterprise Accounting Group, 2005, p.1).

The lack of guidance is very disappointing for preparers that have to account for such operations. The result is that different criteria may be applied by different entities so that the financial information under IFRSs reported by entities will neither be consistent nor comparable (Deutsche Telekom, France telecom & Telefonica, 2005, p.6).

There are concerns among users of financial statements that the information currently provided is too complex. This proposal would only serve to increase that complexity (HSBC, 2005, p.2).

In this section specific consideration is given to three examples contained in Appendix A (“Application Guidance”) from ED 3. The purpose of Appendix A was to provide specific illustrations on how to apply the acquisition model. By analyzing constituents’ arguments in relation to the three examples, I identify specific ways in which the examples (and more broadly the draft instructions) obscured knowledge due to the problems associated with concealed knowledge, mismatched saliences, ostensive knowledge, unrecognized knowledge, and logical inconsistencies. As noted in the introduction, each example gave rise to ostensive knowledge. Collins and Evans (2007) argue that written examples and illustrations do not convey information as effectively as face-to-face meetings. Yet upon further analysis, it becomes apparent that the three examples were also hampered by limitations linked to concealed knowledge, mismatched saliences, unrecognized knowledge, and logical inconsistencies.

8.4.1 Appendix A: Example 3

The purpose of example 3 is to illuminate whether \( x \) can be used to derive \( w \) in a partial acquisition. Here are the specific details from example 3: The acquirer (hereafter AC) purchases 60% of the subsidiary (hereafter TC) for a price of CU\textsuperscript{106} 81 million.\textsuperscript{107} Further, \( w_2 = \text{CU} \text{ 40 million} \) because the total trading value of the remaining 40% of TC’s widely trades shares is worth \text{CU} \text{ 40 million}. On this basis, the conclusion is made that AC pays too much for its share of TC. That is, “willing market participants” would only pay \text{CU} \text{ 60 million}; nevertheless, \( w = \text{CU} \text{ 121 million} \). Recall from chapter 6 (i.e., Q12) that the IASB concluded that there is no reliable basis to measure a control premium, and therefore the premium is subsumed into \( g \) (and by extension \( w \)). Many respondents found the example confusing. BDO stated:

\textsuperscript{106} CU denotes the monetary unit used in the example.

\textsuperscript{107} All three examples concern AC’s acquisition of TC.
There is not enough guidance on how to gross up the consideration transferred in such cases, and insufficient guidance on determining which cases it would not be appropriate to use the consideration transferred as an indicator of fair value (BDO Dunwoody, 2005, p. 6).

This is an example of concealed knowledge: There is no guidance provided about when $A$ should use $x$ to determine $w$. The draft suggests that in some cases it is permissible, but in example 3 it is stated otherwise. Accounting experts wanted to know why. Another example of knowledge that is concealed from example 3 concerns how AC should apply valuation techniques outlined in Appendix E to verify that $w = \text{CU } 121$ million. No guidance is provided on how $A$ should apply them. Additionally, it is unclear under what circumstances preparers are obliged to corroborate $w$ with figures derived from valuation techniques. Many respondents asked the board to improve the draft instructions:

GASB also thinks that it is not sufficiently clear to what extent the preparer is obliged to prove that the consideration transferred is the best basis for measuring the fair value of the acquirer’s interest and for the fair value of the acquiree as a whole. Taken into account that example 3 requires: (sic) “AC should refine its initial estimate of the fair value using other relevant valuation techniques.” (sic) this requirement seems to be too broad and might cause excessive efforts and burden respectively. (…) From GASB’s point of view the reasons given above show that the application guidance does not achieve the intended objective measurement of the fair value of the acquiree. It rather demonstrates that the fair value model is not workable (German Accounting Standards Board, 2005, p.10).

Estimating the fair value of the non-controlling shares would have required the use of valuation techniques as discussed in paragraphs A20-A23 (…) clarification on the application of minority discounts as well as marketability discounts (discounts for lack of liquidity) should be provided” (Duff & Phelps, 2005, p. 3).

Collins argues that in any experiment there are an indefinite number of salient variables. A set of instructions gives rise to a problem of mismatched saliences when it does not specify which variables and inputs are germane to the application of a technology. It is problematic insofar as experts can focus on erroneous variables or they may not perceive the ones that count. Several respondents expressed confusion on how to handle variables that are not addressed in example 3. As an example, L’Autorité des normes comptables wondered how the settlement of contingent consideration would affect the allocation of $g$ between $A$ and $A_2$.

The only example which could be the most useful to allocate goodwill between parent and non controlling interest is example 3 (and it) is flawed as it only deals with synergies only available to the acquirer and not with a potential control premium. There is no example for contingent consideration which is used mainly in cases where acquirer and seller disagree on the fair value such as the acquisition of a start up company (my emphasis) (L’Autorité des normes comptables, 2005, p.10).

Collins argues that no set of instructions can broach all the variables necessary to implement a technology. For one, all knowledge in written form is based on tacit knowledge, and as Wittgenstein (1981) argues, all instructions are partial and incomplete. When different groups of experts try to apply technologies by

\begin{itemize}
  \item [108] Recall from chapter 6 that 84\% of respondents did not think that the fair value guidance in Appendix E was satisfactory (i.e., Q4).
\end{itemize}
observing instructions, they will invariably focus on different sets of variables as they bear on the application of the technology. The above excerpt suggests that the L'Autorité des normes comptables was particularly perplexed about how to account for contingent consideration in a business combination, but this is something that is not reflected anywhere in example 3.

Another case of mismatched saliences is apparent. Example 3 deals with the application of the acquisition model in terms of AC's acquisition of a publicly traded corporation. What would happen if TC was privately owned? What would be the basis for determining whether TC paid too much for AC? None of the examples in the Appendix—including example 3—provide instructions on the application of the acquisition model apart from public acquisitions. Here are excerpts from comment letters suggesting that respondents were confused about how to account for private acquisitions:

Example 3 in A15 also demonstrates some of the difficulties. (...) We emphasise that, even with the guidance given, the measurement would reflect a high level of subjectivity, especially when unquoted businesses are acquired (my emphasis) (Roche, 2005, p.4)!

We believe that, in practice, the fair value of an acquiree as a whole is not always easily derived from quoted market prices. (...) We note that the acquirees in A17 (example three) are quoted entities and that the measurement of the fair values of unquoted entities is not illustrated in any example. The measurement of the fair values of these types of entities may incur an even greater degree of uncertainty (Redovisningsrådet, 2005, p.9).

In other cases, respondents' comments suggest that they did not comprehend some of the IASB's fundamental assumptions as they bore on example 3. When a set of instructions does not elucidate the fundamental assumptions underpinning the application of a technology, it gives rise to what Collins calls a problem of unrecognized knowledge. This problem is particularly acute because experts can be unaware of their own assumptions. (Ergo, they do not formally address them in written instructions.) Taking this into account, both the draft and example 3 do not precisely explain the assumptions underpinning the IASB's notion of “fair value.” On the one hand, the draft states, “fair value is the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties” (IASCF, 2005b, p. 25). On the other hand, example 3 suggests that the price that other knowledgeable bidders would pay for TC is irrelevant to the determination of \( w_1 \). This is also an example of a “logical inconsistency” within the draft because fair value is purported to be two separate things. Several respondents asked the IASB to clarify what fair value means:

In situations where fair value is to be used then in our opinion the guidance provided in this section proposals is insufficient. Example 3 (A 15) highlights some of the difficulties where it implies that what other bidders are prepared to pay is irrelevant in determining the fair value of the acquiree; this concept is not clear to us (Unilever, 2005, p.4).

We refer to Example 3 in A15 (...) The example gives the impression that what the other bidders were prepared to pay for the interest in the acquiree is of no relevance in determining the fair value
of the acquiree as a whole. We would have thought that information about other potential bidders may well be relevant. Therefore, either we have misunderstood what the IASB is trying to achieve, or the example has overlooked some important factors; either way, the exercise acquirers are being asked to do is not as straightforward as it may at first seem (EFRAG, 2005, p. 11).

The fair value of the acquiree is the price that a knowledgeable, unrelated, willing party would pay. However, Example 3 gives greater emphasis to quoted share prices than to amounts that other potential acquirers might be prepared to pay (Ernst and Young, 2005, p.3).

These respondents argued that the IASB needed to clarify its implicit assumptions as they bore on the fair value determination of AC. Does $A_d$ determine $w$ based on “the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties” (IASCF, 2005b, p. 25)? Or, as suggested in example 3, does $A_d$ determine $w$ based on $x$, which in the example is an amount that other bidders would not be willing to pay? Just what is fair value? The above excerpts also suggest there was a problem of mismatched saliences: Both Unilever and EFRAG suggested that they felt that the amount that other bidders would pay for TC is an extremely relevant variable to the measurement of AC, but example 3 suggests the contrary.

Finally, a number of respondents argued that example 3 was confusing because it is inconsistent with the IASB’s conceptual framework and other IFRS. This is another example of what I characterize as a logical inconsistency. Specifically, AC’s overpayment is buried into $g$ in example 3 because the IASB “concluded that it is not possible to measure an overpayment reliably at the acquisition date” (IASCF, 2005b, p.11). (See chapter 6.) In contrast, its framework stipulates that overpayments are measured and recognized as losses (IASCF, 2001). Conversely, IFRS 9 (“Financial Instruments”) (formerly IAS 39) requires preparers to account for a day 1 loss immediately where an entity pays more than “fair market value” for a tranche of financial instruments (IFRSF, 2009c). UBS stated,

We have concerns that Example 3 in paragraphs A15-17 conflicts with the measurement principles of a block of shares in IAS 39. IAS 39 paragraph AG72 states, “The fair value of a portfolio of financial instruments is a product of the number units of the instrument and its quoted market price”. As such, if an entity were to purchase a block of shares at a premium, they would recognize a day one loss. Example 3 suggests that the controlling interest be measured at the purchase price (13.50/share) while the non-controlling interest should be recognized at a different amount (10/share). We question, why it is appropriate to measure a block of instruments at a premium under ED IFRS 3 and not under IAS 39 (UBS, 2005, p.5).

Several respondents argued that the IASB should resolve the inconsistencies so that it would be clearer to them which conflicting rules they should observe in practice.

8.4.2 Appendix A: Example 4
Example 4 illustrates the accounting for a partial acquisition in which there is no evidence of either a bargain or a premium purchase. It seeks to impart guidance on how \( A \) calculates \( g \) and then how \( A \) splits \( g \) between \( g_1 \) and \( g_2 \). Here are some specific details from example 4: \( AC \) purchases 80% of \( TC \) for CU 160 million (i.e., \( x = CU 160 \) million); \( w = CU 195 \) million; \( g = CU 45 \) million; \( g_1 = CU 40 \) million; and \( g_2 = CU 5 \) million.\(^{109}\)

Generally, respondents argued that example 4 covered a simple scenario that bore little resemblance to the complexities preparers face in practice. Redovisningsradet remarked,

We believe that the guidance provided in the ED regarding level three of the fair value hierarchy in ED-IFRS \& E19-E21 is too general and vague and, therefore, of limited practical use. Examples 4 (…) in the ED (…) provides good illustrations of the mathematics involved but provide only limited information as to the manner in which the components of the calculations are to be obtained. In our opinion, the proposed measurement approach lacks the quality of reliability (Redovisningsradet, 2005, p.5).

The simplicity of the example exacerbates the problems of experts trying to communicate information to other experts by way of written instructions alone. Simple examples conceal knowledge. The accounting for business combinations is complex. Simple examples disguise that complexity. Simple examples do not elaborate how particular variables bear on the application of a technology, particularly a multifarious one like the acquisition model. And simple examples, as Collins suggests, have the tendency to not clarify assumptions that experts must observe to build elaborate technologies like TEA lasers. Taking this into account, respondents argued that the “simple” examples in Appendix A, including example 4, did not make it apparent how to account for the seemingly endless dimensions of a business combination. Deloitte submitted a comment letter to the IASB in which it demonstrates that if one variable in example 4 is slightly modified, the resulting financial reporting doesn’t make any sense:

The final Standard should include an example similar to that in paragraph A63, except that the consideration transferred is CU170 (my emphasis). This results in an initial calculation indicating that the goodwill attributable to the controlling interest is greater than the total goodwill. The example should show that the maximum goodwill that can be assigned to the controlling interest is the total goodwill, and that the noncontrolling interest is not allocated any goodwill (Deloitte, 2005, p. 16).

Deloitte shows that if \( x \) is changed to CU 170 million, then \( g = CU 45 \) million; \( g_1 = CU 50 \) million; and \( g_2 = -CU 5 \) million. In short, \( AC \) is allocated a greater share of \( g \) than the total amount of \( g \) accounted for in the acquisition!\(^{110}\) Deloitte’s comments suggest yet another instance in which the acquisition model breaks down when experts feed different variables into the model. This is regarded as another case of mismatched saliences. Deloitte’s comments suggest that the IASB didn’t consider how the model would work in the event that \( g_1 > g \), which would then logically result in \( A \) being assigned a liability to offset the imbalance. To whom is the liability payable? Both the IASB’s and Deloitte’s calculations are mathematically correct. But from Deloitte’s analysis it is apparent that the model has the potential to yield incomprehensible accounting

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\(^{109}\) See: “Step 4: Determine \( g \) and the allocation of \( g \).”

\(^{110}\) Deloitte’s calculations are mathematically correct. Further details about Deloitte’s calculations are available upon request from the author.
figures depending on the variables encountered in practice.

A significant number of respondents argued that the IASB needed to clarify its assumption concerning the calculation of $g$ in Example 4. Their inability to comprehend the IASB’s notion of $g$ (and its subsequent allocation of $g$) is conceived as another instance of how unrecognized knowledge can make it difficult for experts to apply a technology by reading instructions. The comments made by multiple respondents suggest that they clearly didn’t understand the fundamental assumptions underpinning the IASB’s calculus for determining $g$ and then prorating $g$ in the fashion demonstrated in example 4. Several respondents were so perplexed by the assumptions underscoring example 4 that they assumed that the IASB had made a mistake. To illustrate, the Institute of Chartered Accountants of India encouraged the IASB correct the error in example 4:

The Example 4 in A-63, goodwill allocated to the non-controlling interest in TC of CU 5 is not correct (my emphasis). (…) The goodwill of non-controlling interest should be equal to the proportion of the non-controlling interest in the excess of the fair value of the acquiree, as a whole over the amount of the recognised identified assets and liabilities. Accordingly, in the relevant example at A-63 the goodwill of the non-controlling interest should be CU 9 (my emphasis) (The Institute of Chartered Accountants of India, 2005, p. 3).

One may surmise the Institute, along with several other respondents, assumed that an error had been committed in example 4 given that 89% of $g$ is allocated to AC but AC only owns 80% of TC. Yet the process of distributing $g$ is not always proportional allocation. Rather it is $g = w − y; g_1 = w_1 − y_1; g_2 = g − g_1$. This is something that was lost on many respondents as evidenced by their comments. Other constituents, like The Australian Accounting Standards Board (AASB), presumed that another error was made in the example:

As the parent paid $160 for its shares in the subsidiary, and the parent's share of the fair value of the subsidiary is $156, then the $4 difference is combination goodwill, and in the absence of evidence that these earnings will flow to both entities, would be allocated to the parent. Goodwill allocated to the parent then totals $40; while goodwill allocated to the non-controlling interest is $9 (The Australian Accounting Standards Board, 2005, p.3).

The AASB’s comment suggests it assumed that goodwill is the difference between the “fair value” of AC as a whole and the “fair value” of the AC’s net assets. It can be noted that the AASB makes the following calculations: $g = CU 49 million; g_1 = CU 40 million; and g_2 = CU 9 million.111 Again, it is patently clear that the AASB conceives of goodwill quite differently than the IASB does. More specifically, the IASB’s notion of goodwill (as suggested in the example) is based on the assumption that the entire residual difference (i.e., CU 49 million) is not booked to $g$. In contrast, only a portion of it (i.e., CU 45 million) is subsumed into $g$, while the rest is not. In contrast, respondents like the AASB assumed that the entire residual difference factors into $g$. Several respondents argued that the board needed to clarify what assumptions it was observing in

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111 The AASB’s calculations are mathematically correct. Further details on the calculations are available upon request from the author.
determining precisely how much of the residual difference should (and should not) be incorporated into $g$ in a partial acquisition.

8.4.3 Appendix A: Example 6

Example 6 relates to a partial acquisition where there is a bargain purchase. It seeks to impart guidance on how $A$ determines $g$ and then breaks $g$ into $g_1$ and $g_2$. Here are some details from example 6: AC purchases 80% of TC for CU 152 million; $w =$ CU 225 million; and $y =$ CU 200 million. AC benefits from a bargain of CU 28 million. It follows that $g =$ CU 25 million; $g_1 =$ CU 20 million; and $g_2 =$ CU 5 million. However, in accordance with step 4 (“Determine $g$ and the allocation of $g$”) $A$ reduces $g$ by the bargain amount. The draft stipulated, “goodwill related to that business combination is reduced to zero, (my emphasis) any remaining excess shall be recognized as a gain attributable to the acquirer on the acquisition date” (IASCF, 2005b, p.40 – 41). The draft guidance suggests that $g$ should be zero. Ergo, a CU 3 million gain should be recorded. But it’s not.

Rather, in example 6 only AC’s share of goodwill (i.e., CU 20 million) is reduced by the amount of the bargain. A gain of CU 8 million is recorded in the journal entry. And then TC’s share of goodwill is not accounted for at all in the journal entry! If $g$ in its entirety is reduced by the amount of the bargain then $g = 0$ and a CU 3 million gain should be recorded. If only AC’s share of goodwill is reduced by the amount of the bargain then $g =$ CU 5 million and a CU 8 million gain should be recorded. But the figures in the example relate to neither approach, which several respondents thought was confusing. Given the inconsistency between example 6 and the guidance provided in the draft, several respondents argued that the IASB needed to clarify what was happening in example 6. Deutsche Telekom, France Telecom, and Telefonica stated,

There is an inconsistency in the limitation to the gain recognition attributable to the non-controlling interest. (…) We have concerns regarding Example 6 in ED-IFRS 3.A67. In this example, AC acquires an 80 per cent interest and only AC’s share of goodwill (CU20) is reduced to zero. In our view it would be more consistent with the full goodwill method to reduce full goodwill (CU25) to zero. Otherwise, the non-controlling interest’s share of goodwill (CU5) is recognized in the financial statements although the business combination did not give rise to any goodwill (Deutsche Telekom, France Telecom & Telefonica, 2005, p.12).112

The South African Institute of Public Accountants mentioned another problem:

We note that paragraph 61 requires the amount of goodwill that otherwise would be recognised to be reduced by any excess of the fair value of the acquirer’s interest over the consideration transferred. If the goodwill related to the business combination is reduced to zero, any remaining excess shall be recognised as a gain attributable to the acquirer. We understand this to mean the total amount of goodwill and not only the portion of the goodwill allocated to the acquirer. However, in example 6, the portion of goodwill allocated to the acquirer is reduced to zero and the remaining excess is recognised as the gain. We believe that the final standard should clarify the correct

112 Deutsche Telekom’s calculations are mathematically correct. Further details on them are available upon request from the author.
It is also not clear, based on the inconsistency between paragraph 61 and example 6, what the correct approach should be if the excess is less than the total amount of goodwill, but is equal to or greater than the portion of goodwill allocated to the acquirer. It would be useful if the final standard clarified this (The South African Institute of Public Accountants, 2005, p. 10).

The above comments by the South African Institute of Public Accountants are particularly astute because they draw attention to something the IASB failed to consider in drafting the standard. This is conceived as another case of mismatched saliences. The South African Institute of Public Accountants pointed out that the IASB needed to clarify—in the case of a partial acquisition that sees a bargain purchase—how to reduce $g$ by the amount of the bargain, specifically where the amount of the bargain is greater than $g$ but less than $g$, because the draft states that it is conceptually incorrect to “allocate goodwill to the controlling and non-controlling interests on the basis of their relative ownership interests in the fair value of the acquiree” (IASCF, 2005b, p. 181). Having investigated a number of ways in which the draft guidance did not clarify to accounting experts how to apply the acquisition model, I proceed to analyzing the IASB’s formal deliberations in 2006 and 2007 concerning the proposed amendments to IFRS 3. My purpose is to consider the dynamics of the board and secretariat’s deliberations, and more specifically how their interactions along with the IASB’s institutional preferences can be associated with the IASB’s not adding guidance to IFRS 3 (third dimension).

8.5 The IASB’s Post-Exposure Draft Deliberations

In the final section, I consider the IASB’s formal deliberations after it reviewed comment letters from constituents. Here, specific attention is given to discussions between the secretariat and the board. Recall from chapter 6 that the IASB did not modify any of the draft’s requirements apart from its original specification that the acquiree apply the full goodwill method. More significantly, however, it is worth stressing that the amended IFRS 3 is a 50-page document, while ED 3 totaled close to 300 pages. As noted, Collins argues that in some cases, experts intentionally conceal knowledge by withholding it from written instructions. In his analysis of concealed knowledge, Collins (2001) states: “A does not want to tell ‘the tricks of the trade’ to (B)” (p.72). He states that concealed knowledge is weak tacit knowledge:

> Weak tacit knowledge is knowledge that is tacit for reasons that are not philosophically profound but have to do with the relations between people that arise out of the nature of social life. The reasons range from deliberate secrecy to failure to appreciate someone else’s need to know. (...) That not all of it can be rendered explicit at any one time has to do with logistics and the way societies are organized (Collins, 2010, p. 11).

I argue that the IASB has power over commentators in the way it reduced the guidance rather than expanded it. But why did the IASB not ameliorate its instructions when asked by a majority of accounting experts to do so?
The general thrust of my argument is that the IASB did not construct or convey the expert knowledge in IFRS 3 for two reasons. One, its actions were made in a reaffirmation of its institutional preferences (third dimension), including its partiality for FVA (e.g., Cairns, 2006; Perry & Noelle, 2006), principles-based accounting standard setting (Bennett, Bradbury, & Prangnell, 2006; Carmona & Trombetta, 2008; Nobes, 2005; Nobes & Parker, 2008), and converging IFRS with U.S. GAAP (e.g., Botzem, 2012; De Lange & Howieson, 2006). Expressed differently, the IASB’s decision not to illuminate particular weak tacit can be associated with mobilization of the IASB’s political bias (dimension three). Two, and perhaps most significantly, the IASB had yet to construct the knowledge on how to do certain aspects of acquisition accounting. This is a powerful example of Lukes’s third dimension since it shows the way in which ideology works; beyond the consciousness of the actors but nevertheless powerful in terms of the way in which the board and the secretariat sustain a specific logic of regulation. It is also a good example of Collins’s ideas about how expertise works and reproduces expert power; that is, not by deliberate evasion or strategies, but by highlighting the importance (and difficulty in sharing) tacit knowledge.

8.5.1 Institutional Preference: Principles-Based Accounting Standard Setting

As noted, the IASB has an institutional preference for principles-based accounting standard setting (see Bennett, Bradbury, & Prangnell, 2006; Eaton, 2005; Largay, 2003; Nelson, 2003; Nobes, 2005 and 2008; Street, 2006). I suggest that one factor associated with the IASB failure to convey clearer instructions in the amended IFRS 3 is that the IASB promulgates principles-based guidance as opposed to highly prescriptive guidance. Where other accounting standard setters, such as the U.S. FASB, are believed to promote more rules-based accounting standards, the IASB has an institutional preference for principles-based accounting standards (see Alfredson et al., 2007; Bennett, Bradbury, & Prangnell, 2006; Benston et al., 2007; Carmona & Trombetta, 2008; Foran & Foran, 1987; Gerboth, 1987; Nobes, 2006; Penno, 2008). The difference between the two is that while rules-based accounting standards are comprised of a detailed list of rules, principles-based accounting standards are designed to be used as conceptual bases for accountants, in that they set out a number of key objectives, qualitative characteristics, concepts, principles, and so forth. [See Clarke’s juxtaposition (2006) between the two.]

I suggest that at least two factors contribute to the IASB’s institutional preference for principles-based accounting standards. For one, the diffusion of the IAS/IFRS framework has been accomplished, in part, as a consequence of the inherent flexibility of the framework. Camfferman and Zeff (2007) argue that the flexibility of IAS helped preparers apply IAS in a variety of jurisdictions, using slightly different methods, so as not to violate local GAAP. As noted in chapter 3, Carmona and Trombetta (2008) argue that the inherent flexibility of the IAS/IFRS framework has facilitated the global adoption of what it purported to be a universal set of accounting standards:
(The) global acceptance of IAS/IFRS, we argue, largely rests on its principles-based nature. These ideas are instrumental in accommodating diverse institutional settings and traditions under a common set of standards. (p.457) (...) We argue that the inner flexibility of the principles-based approach enables the application of IAS/IFRS in countries with diverse accounting and institutional environments (ibid, p.459).

Another reason why the IASB promulgates broad reporting principles rather than detailed rules is to discourage what the SEC has characterized as a sort of "check-the-box mentality that inhibits the application of professional judgment." (See also SEC, 2003; Schipper, 2003; Shortridge & Myring, 2004). Former board member Mary Barth explained that the application of accounting principles requires judgment as opposed to preparers’ memorizing and applying rules:

Practitioners need to understand IFRS, not simply memorize their requirements. Most requirements in IFRS follow from principles and require judgment to apply (IFRSF, 2011b, p.6). (...) To a large extent, financial reports are based on estimates, judgments and models rather than exact depictions. The Framework establishes the concepts that underlie those estimates, judgements and models (ibid, p. 14).

From observation of the IASB’s deliberations on the amendment of IFRS 3, it can be discerned that the secretariat and the board’s approach for developing IFRS is first to establish the principles underpinning a particular standard and then determine whether exceptions should be granted to the principles. The board’s deliberations do not focus on the precise application of IFRS principles. As an example, the IASB evaluated the accounting for partial acquisitions during its public deliberations in December 2006 (IASCF, 2006a). In its preparation of staff paper 2A (IASCF, 2006f), the secretariat concluded that the measurement principle for the noncontrolling interest is fair value rather than accumulated cost. A number of board members expressed concern that the principle lacked clarity. One member noted that the principle was insufficient given that auditing firms applying the same principle specified in SFAS 141 had developed five separate methods of accounting for partial acquisitions at fair value. Other board members remarked that A1 does not remeasure A1’s liabilities at fair value on the acquisition date. Why would it follow that A1 would measure the noncontrolling interest at fair value? Other board members argued that measuring a noncontrolling interest at fair value yields little more than a “theoretical number.”

However, the head of the business combinations team encouraged the board to set aside its concerns about how to precisely apply the fair value measurement principle. This is one example of how the secretariat has significant agency. He recommended to the board that it should focus its energies on determining whether the measurement attribute of the noncontrolling interest is fair value as opposed to accumulated cost. He

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114 The head of the business combinations team, Alan Teixeira, is a senior member of the secretariat. The business combinations team was a working group at the IASB. Recall from chapter 5 that the purpose of its working groups is to report directly to the board. See Figure 5.1.
explained that in a principles-based standard, it is more important to establish the measurement principle rather than just “telling” preparers how to measure the noncontrolling interest at fair value:

As we develop a standard there are going to be issues that will arise from time to time that require us to revisit standards and its very important to us that we get, that we get, in place a solid framework and set of principles in which to develop if we need to further implementation guidance and so on. Last February and March (…) we agreed that we’d establish clear principles and then we’d identify, and justify, and rationalize any exceptions we made to those, and the idea of that thinking was that in future if we came back to revisit standards, and try to improve them on an ongoing basis we would generally be attacking the exceptions, and it may well be that the time is not right for some of the intangibles we’ve identified, that some of the valuation techniques are new (…) (but) as times develop people have got better and better techniques, and so it may well be that we’ll come back and revisit some of the exceptions we have for intangibles. What we want to do is establish very clearly what the principle is for noncontrolling interest (…) we want a clear principle (…) I need to know whether you agree in principle that fair value is the right measurement attribute, if it’s not the right measurement attribute, what should it be? And cause I think (that) the staff would be unhappy if we then ended up saying, well, we’ll avoid that question, we’ll just tell ‘ya how to measure it (IASCF, 2006ae).

Further, the head of the business combinations team actually encouraged the board not to provide detailed guidance on how to measure intangible assets at fair value. Again, he suggested that it is more important for the IASB to formulate principles rather than to provide detailed guidance on how to apply them to the accounting for intangible assets. In its preparation for the board’s deliberations on the proposed accounting for intangible assets, the secretariat drafted Agenda Paper 2B (IASCF, 2006e). Unlike the exposure draft, the staff paper provided elaborate instructions and illustrations on how to measure intangibles at fair value. Agenda Paper 2B, for instance, contained information on how to measure intangibles in the absence of active markets for the intangible assets. It also laid out procedures on how to measure specific intangibles at fair value, like how to account for customer relationships at fair value. When the chairman of the board praised the staff’s work, the secretariat emphasized that it would not be prudent to include the guidance in the final standard.

Board member: I was going to ask about the appendix, ah, you know, there’s some good stuff in the appendix, is that, that, going to end up in some form of document or…?

Staff Member: There’s a real risk I think of ah, putting valuation techniques in, in a document that’s one of our’s because these things evolve over time so we, we, we’re reticent of doing, to do that.

Board Member: But I thought it was quite useful dealing with the lack of markets and the fact that isn’t necessarily an excuse (for not measuring intangibles at fair value). Maybe you could just paraphrase some of it ah, (pause) ok good paper (IASCF, 2006ac).

However, it can be observed that the Board did not add the guidance contained in Agenda Paper 2B to IFRS 3 (or “paraphrase” the guidance in IFRS 3). I suggest that while the IASB did not add the guidance for the reason elaborated by the head of the project team—that is, the expertise is rapidly evolving—I also suggest
an important reason that the IASB failed to add the instructions to IFRS 3 (2008) was to better ensure that IFRS 3 “follow(ed) from principles (that) require judgment to apply” (IFRSF, 2011b, p.6).

8.5.2 Institutional Preference: Fair Value Accounting (FVA)

In addition to its institutional preference for principles-based guidance, I suggest that the IASB also has one for FVA (Barth, Hodder, & Stubben, 2008; Cairns, 2006; Damant, 2003; Laux & Leuz, 2009; Perry & Noelle, 2005 and 2006; Ryan, 2009). In spite of the criticisms that FVA has garnered for being pro-cyclical in the wake of the ongoing financial crisis (see Allen & Carletti, 2008; Persaud, 2008; Plantin, Sapra, & Shin, 2008), the IASB remains committed to the expansion of the fair value paradigm in the IFRS framework as evidenced, for instance, by the IASB’s release of IFRS 13 (“Fair Value Measurement”) in 2011 and its subsequent expansion of the scope of IFRS 13 in December 2013.115 Proponents of FVA, such as former board member Mary Barth,116 maintain that FVA is not pro-cyclical. They also suggest that FVA is more germane for investment decision-making. In this vein, the IASB has stated, “Fair value accounting benefits investors” (from Ryan, 2009, p. iv). It can be observed that over the course of the IASB’s post-exposure draft deliberations that the IASB routinely argued that FVA is the optimal measurement attribute for business combinations, and it often based its assertion in this regard on discussions it had with users of the financial statements. I suggest that this reason is important and that the IASB remained steadfast in its efforts to expand the scope of FVA in IFRS 3.

The IASB acknowledged that the details on how to conduct FVA were ambiguous in particular respects. As an example, members of the IASB acknowledged that even business valuators expressed uncertainty on how to apply Appendix E. Recall that the IASB incorporated Appendix E into ED 3 to provide some guidance on how to measure things at fair value (IASCF, 2005b). The appendix was based on a preliminary version of SFAS 157 (“Fair Value Measurement”), which the U.S. FASB subsequently finalized in 2006 (IASCF, 2004d; 2004f; 2004g).

Board Member: Well, one source that we ought to ought to look to is our friends and neighbors at the IBSC (pause) ah, I was at one their conferences a couple of weeks ago and the clear impression that I took away was that business valuators, who do almost exclusively business combinations work view (Appendix E) as significantly changing what they would do (pause) and we ought to able to sit down with them and ask them and see if we can identify where there those areas are (pause) because they had just gotten (Appendix E) and just started to read it but their general impression was, hey, we’re gonna have to change the way we make valuations.

Staff Member: I just wonder though, why and whether that’s isn’t symptomatic of fairly general lack of understanding of what we think we mean by fair value and valuators think what we mean by fair value. And we’d have a discussion around this table with some valuators and I think they’ve indicated to me fairly on the level of lack of level of understanding.

116 Mary Barth has since returned to academic life where she remains an outspoken proponent of FVA.
Board member: Yeah, there’s certainly a lot of discontinuity there and that’s clear (IASCF, 2006ad).

One reason for the “lack of understanding” was likely related to the discontinuity in the definition of fair value in SFAS 157 versus the one in IFRS 3. SFAS 157 expresses fair value as an exit price, while ED 3 characterized fair value as an exchange price. What is particularly interesting about the requirement in ED 3 that A measure and recognize all aspects of an acquisition at fair value is that both the IASB and the secretariat expressed confusion about what fair value would mean under IFRS 3. Bearing this in mind, I suggest that one reason why the IASB failed to explain how to apply the acquisition model was that the IASB itself had yet to construct the knowledge on how to do FVA in relation to the accounting for a business combination. Consider the example in the following paragraph.

During the IASB’s public deliberation in October 2006, the board and the secretariat discussed whether the amended version of IFRS 3 should define fair value as an exchange price or as an exit price (IASCF, 2006s). (Recall that one of the IASB’s purposes over the course of Phase II was to achieve a greater level of alignment between IFRS 3 with SFAS 141.) An exchange price is believed to be the price that an asset or liability can be exchanged in a current transaction between knowledgeable, unrelated willing parties. In contrast, an exit price is thought to be the price received by somebody when they sell an asset or the price somebody pays to transfer a liability in an orderly transaction between market participants at the measurement date.117 In its preparation of staff paper 2e (IASCF, 2006s), the secretariat asked the board whether the final version of IFRS 3 should define fair value as either an exchange price (i.e., “Alternative A”) or an exit price (i.e., “Alternative B”) (IASF, 2006s). The resulting discussion within the board suggests at least three things. First, several board members didn’t understand to what extent the two notions of fair value diverged from one another. Second, some board members didn’t comprehend what fair value meant under the forthcoming IFRS 3. Finally, some board members expressed the view that while the draft defined the notion of fair value as an exchange price, the valuation techniques elaborated in Appendix E appeared to be more consistent with an exit price notion of fair value.

Staff Member: The exposure draft proposed recognizing the assets acquired and liabilities assumed at their acquisition date fair values. The exposure draft defined fair value (…) (as) an exchange price notion. (…) Last month the FASB issued Statement 157, which clarifies that the objective of fair value measurements in U.S. GAAP is an exit price. (…) In redeliberations the (IASB) affirmed a fair value measurement attribute for business combinations, however, we did not discuss the definition of fair value at that time. (…) the staff is assuming that the (IASB) doesn’t want to distinguish between entry and exit prices as part of the business combinations project. (…) We seek input from the board.

Board Member #1: Ok, does anybody believe we that should move off our fair value definition at the moment?

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117 The two fair value models only yield comparable figures in perfect markets where there are no transaction costs.
Board Member #2: Actually I (pause) I prefer Alternative B or at least a discussion of it. (…) We have a definition of fair value that doesn’t have a lot of detailed guidance around and it’s not (pause) so it’s not totally clear what the differences are going to be between what we do and what the FASB does if we leave our definition of fair value in there. So I would ah, I would at least like to give (Alternative) B ah, a shot.

Board Member #3: A question (staff member). (…) Did you say in recommending Alternative A that you also would then provide some discussion of circumstances where you thought (the preparer) might get a different measure under IFRS 3 and (SFAS) 157?

Staff Member: That’s our initial plan right now.

Board Member #1: (Staff Member) have you got any idea if there are any differences? (Followed by laughter.)

Board member # 2: Well that’s, well that’s, I mean that’s, that’s the question! (Continued laughter.)

Board Member #3: Umm, as, as you know, I’ve been fretting about this issue for a while. (…) The fact is that we don’t have the faintest idea what the differences would be for two reasons. But one of them would be that we don’t have the faintest idea what fair value means in IFRS 3. And since we don’t know, we’re not going to be able to articulate for sure what the differences are and it seems to me that, that the chances that people could get and clearly comply with IFRS 3 to the same answer as in the FASB document (is unlikely). (…) It seems to me that what we need to do is make sure we understand (…) when (to) use an in-use value versus an exchange price or in-use price versus an exchange price because I then think (…) we’ll minimize dramatically the distinctions between entry and exit prices. But I don’t know that for sure but I’ve come to believe that. But it’s a belief that’s maybe more based on religion than rationale. (…) There’s something almost oxymoronic about an in-use exit price. And yet that’s what the document calls for and, and it may be just bad words but the notion clearly is that it’s the price using it in that place of business. (…) I would rather have (the staff member) work with some of the fair value concepts team and make sure that our understanding about when we’d use that in-use versus exchange price is accurate or not.

Board Member #2: But I also think this conversation says that if we just stuck with our definition of fair value and let the FASB use theirs, we’re just leaving it to (pause) the, the entities to figure it all out. It’s obviously not totally clear or we would know the answer just like that and we don’t (IASCF, 2006ad).

In the end, the IASB actually removed Appendix E from the amended IFRS 3. The IASB retained its definition of fair value under IFRS 3, and it would not be until 2011 that the IASB would to some extent clarify the differences between the FASB’s and the IASB’s notions of fair value when it released the initial version of IFRS 13.

In other cases, the secretariat and the board questioned the sincerity of respondents in their claims to be confused on how to do FVA. Recall from chapter 6 that the majority of respondents did not support the IASB’s proposed accounting for contingent consideration, which was that contingent consideration should be measured and recognized at fair value on the acquisition date (i.e., as a component of x) even though by definition the “fair value” of contingent consideration is determined after the acquisition date. Many constituents argued that it is impossible to measure and recognize the fair value of contingent considerations, given that their value is determined by the future success (or failure) of the consolidated group. They argued
that $A_1$ agrees to pay contingent consideration to $A_2$ precisely because $A_1$ and $A_2$ are unable to determine $w$ on the acquisition date. However, a number of board members and the secretariat asserted that contingent consideration is one of the least complicated assets to measure at fair value on the acquisition date:

Board member: It would seem to me that the one thing that you did sorta openly bargain day one was this contingency. I mean this is the thing, it’s the opposite of the comment letters in the way I’m starting to think about this to say, well this was unknown and that’s why it’s called contingent consideration, you say yes, and because you couldn’t agree on a price you did agree on this frankly derivative on that date, and you bargained the derivative that date. That’s the one thing I don’t need any creeping in of hindsight to be able to value. (...) I don’t see any reason for um, for the exception to the rule here.

Staff Member: I agree with you (Board Member #1) (...) It seems to me that there are other things that are much, much harder to measure in a business combination like contingencies (i.e., contingent assets or obligations), you know, I think things like an asset retirement obligation, or a lawsuit would be harder to measure than contingent consideration.

Board Member #2: I think that we did explain it. I think the implications are clear. I just think that some don’t like the outcome (IASCF, 2007w).

In the end, the IASB remained committed to its institutional preference for FVA. In certain cases, it can be noted that the IASB did not observe the “principle of charity” (Lukes, 1994) or alternatively, to invoke the terminology of Collins and Evans, the IASB’s “interactional expertise” (2007) remained latent insofar as the IASB failed to appreciate respondents’ stated concerns. Still in other cases, as I’ve eluded to, the IASB’s commitment to a particular ideology of financial reporting was powerful in that it can be associated with the board and the secretariat ultimately sustaining a specific logic of regulation that remained tacit, partial, and not completely understood. One may logically surmise that one reason that the IASB did not convey sufficient guidance to producers and preparers on how to apply FVA was that the IASB had yet to construct the expertise itself. I suggest that the IASB wanted to issue the standard so that actors applying the standard could incrementally cultivate the expertise and then this knowledge could be relayed back to the IASB, whereby it could then formalize the knowledge in subsequent amendments of IFRS 3. (I return to this point in the conclusion.)

8.5.3 Institutional Preference: Converging IFRS and U.S. GAAP

Recall from chapter 4 that the IASB remains committed to harmonizing IFRS and U.S. GAAP. The IASC/IASB has long depended on American authorities like the FASB and the SEC along with the SEC’s international mouthpiece, IOSCO, to build legitimacy. Ever since the IASB’s ratification of the Norwalk Agreement in 2002 (see Botzem, 2008, 2012; Botzem & Quack, 2006; De Lange & Howieson, 2006; FASB and IASB, 2002), the IASB’s commitment has been formally institutionalized. While the IASB and the FASB have not unified the accounting for business combinations in several material respects, it can be observed that the IASB tried to achieve a greater degree of comparability between its standard on business
combinations and that of the FASB (see Baudot, 2014). I suggest that the IASB’s efforts in this regard, at times, created a degree of confusion for constituents. It is always difficult for the IASB to converge one of its standards with one of the FASB’s standards because each IFRS/IAS is inextricably tied to the broader IFRS framework, including the conceptual framework. When the IASB amends one of its standards to be more comparable to one of the FASB’s, it can create inconsistencies between the amended IFRS and the broader IFRS literature.

Taking this into account, during the business combinations project, the proposed amendments to IFRS 3 proved to be confusing for some respondents to the extent that the amendments did not logically follow from the IASB’s other standards and its conceptual framework. Constituents argued that the IASB needed to clarify which conflicting principles they should observe in practice. As an example, the IASB’s decision to follow U.S. GAAP by abandoning the reliability criterion in IFRS 3 as a prerequisite for the separate recognition of intangible assets at fair value on the balance sheet (IASCF, 2004h) proved to be contentious for many constituents that submitted comment letters. The constituents argued that IFRS 3 conflicted with the IASB’s conceptual framework, which requires all assets to be reliably measured to qualify for separate recognition on the balance sheet (IASCF, 2001). (As noted in chapter 7, the conceptual framework is a poorly understood technology.) One member of the board was particularly dismissive of respondents’ concerns over the inconsistency, when she stated, “I just as soon not have the probability recognition criterion. Recognizing something seems better than recognizing nothing” (IASCF, 2007u). It remains unclear under what circumstances assets should be reliably measured and when they do not have to be, given the conflicting guidance provided in IFRS 3 and the IASB’s conceptual framework.

Another incident in which the IASB followed the FASB’s lead happened with respect to the accounting for premium purchases. Originally, the IASB concluded that the value of a premium purchase should be recognized as a day 1 loss in profit/loss. Its initial conclusion was consistent with its view that bargain purchases can be reliably identified and measured in practice. Subsequently, the FASB decided that the value of a premium purchase should be subsumed into goodwill because the amount of the premium cannot be reliably determined. The IASB revised ED 3 to agree with the FASB’s approach (IASCF, 2004e). Constituents argued that it was contradictory to measure and recognize bargain purchases but not premium purchases. They requested guidance on how to identify when a bargain purchase had occurred. They also remarked that the proposed accounting for bargain and premium purchases was diametrically opposed.

In several cases the IASB adopted the FASB’s proposals primarily in the interest of the convergence project. A number of the proposals adopted by the IASB in IFRS 3 (2008) were only supported half-heartedly by members of the board. In fact, the IASB expressed empathy to some extent towards constituents’ arguments against the IASB adopting the FASB’s proposals. Nevertheless, the IASB asserted that it was important to adopt the FASB’s reforms to promote a single model of accounting for business combinations.
One such incident occurred during the IASB’s public deliberations in July 2006 when the board and the secretariat evaluated the proposed requirement that \( A \) measure equity instruments at fair value (as part of \( x \)) on the acquisition date as opposed to on the agreement date (IASCF, 2006ak). Recall, a number of respondents (see, for example, Industrie-Holding’s comments above) expressed confusion about the board’s requirement that \( A \) measure equity instruments at fair value on the acquisition date in light of the spread in equity prices between early trading, trading on the subsequent bid date, and after the acquisition. As the following dialogue between the secretariat and the board suggests, the board appreciated the rationale expressed by several constituents. It can be noted in the following exchange, for instance, that both the secretariat (see staff paper 2c) (IASCF, 2006o) and the board asserted that valid arguments exist for measuring equity interests on both the agreement date and the acquisition date. However, the board concluded that \( A \) would be required to use the acquisition date so that IFRS 3 and SFAS 141 reached a point of agreement on the matter. One board member even suggested that preparers and producers would simply have to “find a way to do something about it”—that is, they would need to find a way to overcome the difficulties of measuring equity consideration on the acquisition date:

Staff Member: Agenda paper 2c addresses the measurement date of equity instruments issued as consideration in a business combination. (…) The business combinations exposure draft proposes measuring all consideration transferred as of the acquisition date. However, um, comment letters, ah, suggested that constituents have mixed views on, on this topic. (…) They were (…) concerned that, ah, measuring consideration transferred at the acquisition date would include, um, factors unrelated to the business combination, which might affect, um, the fair value of the consideration. They, therefore, feared that choosing the acquisition date would lead to an increased number of overpayment or bargain purchase situations in business combinations. (…) The staff believes (…) that both the agreement date as for, as for, the acquisition date, there are valid reasons for either, um, however, only measuring, ah, consideration as of the acquisition date would align the, the measurement of the, ah, of the consideration with the assets acquired and the liabilities assumed as part of the business combination.

Board Member #1: I think where we go with (pause) where got to before, which is there’s darn good arguments in some respects for both, and we had to pick one and this one seemed like the most sensible one to use.

Board Member #2: Ah, my comments are similar to (board member #1’s). (…) We acknowledged (before) (…) that there were valid arguments on both sides, we went back and forth between the two boards, we finally came to a joint decision. I don’t see anything new, new that we hadn’t considered at the time that would sway us, you know, more one way or the other, so I’m quite happy to go, to stay with the acquisition date and, ah, agree with the staff recommendation.

Board Member #3: There’s noise either way. (…) So I, um, understand arguments against the proposal (pause) most of these arguments against it are fears about significant changes in stock prices and, (…) they’ll have lead-time. If that’s a serious concern put some caps and floors in your deal. Find a way to do something about it.

Board Member #4: This isn’t worth arguing about anymore. But I, ah, would like the basis for conclusions to reflect the fact that there are arguments both ways, and that, ah, we made a vote in the interests of convergence to choose one of them. (…) This is in some respects an arbitrary (decision),
ah, and in some other respects, I think, an immaterial selection but ah, let’s take, take what we got and move forward (IASCF, 2006ab).

In this case, it is revealed that on some level some members of the board appreciated respondents’ concerns on how to measure equity instruments issued as part of the consideration exchanged on the acquisition date, but nonetheless, the IASB stuck with the acquisition date in the interests of convergence. To some extent, the board was prepared to let accounting experts in the field to “find a way to do something about it”—that is, they would let them figure out how to measure equity instruments at fair value as a component of x. I suggest one of the board’s primary preoccupations was bridging the gap between IFRS 3 and SFAS 141 as opposed to mitigating the logical inconsistencies within the draft and between the draft the IFRS framework.

8.6 Final Analysis

To conclude the section, I suggest two additional factors associated with the board and the secretariat’s incapacity to develop and then transmit the knowledge on how to do acquisition accounting. First, and as I’ve already noted, the IASB had yet to figure out the entire minutia related to the application of the model. Second, it was rushed—the IASB faced enormous time constraints, and as such, I suggest it couldn’t address a number of things that proved confusing for respondents.

Before continuing, one point warrants considerable emphasis: Lukes argues that if A (i.e., the IASB) can logically deduce that his or her actions will have an adverse effect on B (producers, preparers, users, etc.), we can safely attribute an exercise of power to A. Lukes emphasizes that “ignorance” does not absolve actors from acting irresponsibly; a failure to act responsibly constitutes an exercise of power to the extent that A knowingly does something that adversely impacts B. I suggest that the IASB recognized that constituents were struggling to make sense of IFRS 3, given that respondents made this patently clear to the IASB. (Refer to section 3.12.) Nevertheless, the IASB released IFRS 3 in 2008, thereby leaving it up to preparers and producers to figure out how to apply a partial standard.\textsuperscript{118} I argue that the IASB bears a significant amount of responsibility for constituents’ challenges in the field and in this specific sense exhibited power over commentators. As an alternative, for instance, the IASB could have released IFRS 3 only after it had completed other projects relevant to the application of IFRS 3. The IASB could have finalized IFRS 13 (“Value Measurement”) (2011) before requiring preparers and producers to measure and recognize all aspects of a business combination at fair value for instance.\textsuperscript{119} Additionally, the IASB could have issued a discussion paper, which is something that the IASB asserts is an integral component of its “due process” for developing IFRS (see chapter 5). This could have helped the IASB to address respondents’ concerns well in advance of the release of the exposure draft and ultimately the amended standard.

\textsuperscript{118} The IASB has since developed more comprehensive guidance on how to apply the valuation models initially elaborated in ED 3 when it released IFRS 13 ("Fair Value Measurement") in May 2011.

\textsuperscript{119} Its completion of IFRS 13 followed the FASB’s completion of the fair value hierarchy. This can be conceived as one instance of American hegemony in the global regulation of financial reporting.
I argue that one reason the IASB did not improve the instructions was that it was still trying to construct the knowledge on how to do acquisition accounting. One may surmise that if members of the IASB struggled to apply the technology, it would be difficult for other accounting experts to do so. Consider the IASB’s discussion on how to allocate goodwill in a partial acquisition. Recall that many respondents expressed confusion on how to prorate goodwill in a partial acquisition because ED 3 stated that goodwill should not be distributed in terms of $A_1$ and $A_2$’s proportionate interests in the combined entity. The following excerpts from the IASB’s public deliberations suggest that the secretariat and members of the board had multiple understandings on how to distribute goodwill in the case of a partial acquisition. We can say not only did the IASB struggle to communicate knowledge to the consumers of IFRS 3, but also the secretariat and the board also struggled to relay their knowledge to one another. Here, a member of the secretariat discusses how several members of the secretariat calculated different figures in relation to the examples in Agenda Paper 2f (IASCF, 2006u), which dealt with the procedures for allocating goodwill in a partial acquisition:

Board Member: I wanted to do something and then I forgot to bring the ED on the plane and so I didn’t get it done. And I forgot to do it yesterday or the day before since I’ve been here but if I took your exact example that’s in Appendix B\textsuperscript{120} that you’ve worked through that showed me what the allocation of goodwill was and its measurement using what you’re calling the explicitly measuring the noncontrolling interest (pause) I don’t know what, what, what number, what’s the difference the number would be from the ED?

Staff Member: There’s no difference in the number. There’s a difference in the way you come up with the number. We’re not saying you necessarily need to explicitly measure noncontrolling interest because in a lot of cases it will be a private company and you can implicitly measure it by the transaction price and the fair value of the company as a whole, um, the part on the allocation of the goodwill (…) that’s part of the um, discussions the staff is currently going through to go, to take on this impairment testing issue.

Board Member: Yeah, well so that I would get the same goodwill number as I got under the ED, that I thought I was. Am I or not?

Staff Member: You are, but um, three, actually four or five of the staff went through that example and came up with different numbers (laughter) because of the underlying presumptions that we made because of, you know, I as a valuator, (staff member #2) as an academic (followed by more laughter).

Board member: How many different (pause) (more laughter) ok how many different numbers did you get complying to the ED methodology? Did you get four different too?

Staff member: Yes.

Board member: Ok.

Board member #2: It speaks volumes! (IASCF, 2006ad).

\textsuperscript{120} Appendix B was located in Agenda paper 2F. It contained figures relating to partial acquisitions. The purpose of the appendix material was to illuminate the process of distributing goodwill in a partial acquisition.
The preceding discussion between the secretariat and the board suggests that the distribution of $g$ in a partial acquisition depends significantly on the assumptions observed. That even the board and the secretariat observed different assumptions (i.e., unrecognized knowledge) suggests why it would be difficult for the IASB to clearly articulate a specific method for splitting $g$ into its constituent parts. In the end, the IASB discussed the matter but ultimately did not add further instructions to the draft. This is conceived as a type of nondecision being as the secretariat and the board acknowledged a problem existed, but they made the observable decision that the guidance could not be ameliorated at that point.

In other cases, the secretariat and the board recognized that it is difficult to do acquisition accounting. However, they suggested the challenges of doing it were not insurmountable. More significantly, they reasoned that the only way preparers and producers would develop the expertise was by applying the standard in practice. As part of their discussion on 22 September 2006 concerning the proposal that $A_1$ measure and recognize $A_1$’s intangible assets at fair value, the secretariat and the board affirmed that accounting experts would eventually learn how to measure acquired intangibles at fair value. Here, the secretariat acknowledges that commentators claimed to be perplexed on how to measure intangibles as a component of $y$:

**Staff Member #1:** The majority of respondents disagreed that an intangible asset that is identifiable can always be measured reliably. Respondents expressed concern about the lack of markets for intangible assets, and about the subjectivity of valuation techniques used to measure intangible assets.

**Staff Member #2:** The most common comments from the respondents was that the valuation of intangible assets is subjective, involves various assumptions and um, valuation techniques. Some said that they believed that these assumptions are often arbitrary (IASCF, 2006ac).

In response, the secretariat remarked that constituents outside of the United States would eventually develop the expertise to measure intangible assets at fair value. As evidence, for instance, they suggested that preparers in the United States had made significant inroads in measuring intangibles at fair value, given that they had been required to do so at that point for 5 years in their application of SFAS 141 (2001).

Furthermore, it was noted at the same meeting that constituents could draw on the fair value guidance provided in SFAS 157. In its preparation of Agenda Paper 2E, the staff remarked that SFAS 157 “includes several examples that refer to the accounting for assets acquired in a business combination (e.g., licensing arrangements and finished goods inventory in paragraph A24)” (IASCF, 2006s, p.3). The discussion proceeded as follows:

**Staff Member #2:** The staff would like to point out that the valuation of intangible assets is a relatively new practice and only started to become common with the implementation of Statement 141 in 2001 in the U.S. (…) Outside the U.S. there is less history in the valuation of intangible assets
since IFRS 3 was only implemented last year. It seems that companies used to dealing with Statement 141 generally don’t have problems applying IFRS 3. (…) The experience gained in the U.S. over the past several years though has helped these constituents with the application of IFRS 3. Also the evolution of the recognition of and valuation of intangible assets under Statement 141 has been very helpful in practice outside the U.S. Having said that, the the staff realizes that not everyone has access to the knowledge and experience gained from the application of Statement 141. Because of this it is likely that constituents' confidence in the application of IFRS 3 and IAS 38 will proceed slowly but based on the history of what happened with Statement 141 the staff does not think this is insurmountable (IASC, 2006ac).

The secretariat also affirmed that the technologies for measuring intangible assets at fair value are improving by leaps and bounds, and these advances would better enable preparers to measure intangibles at fair value. The staff also remarked that there are a number of ways for preparers and producers to verify the reliability of fair value estimates of intangible assets.

Staff Member #2: New methodologies are continuously being developed to handle the various situations that the respondents brought up in the comment letters. As the valuation of intangible assets becomes more common throughout the world this will help alleviate many of the concerns brought up by the respondents. The staff agrees with respondents that the valuation is subjective and debatable in both methodologies and assumptions used but that does not mean that it is arbitrary. (…) In practice there are procedures in place to ensure that subjectivity is kept to a minimum and also help increase reliability. These include, ah, audit reviews of, ah valuations done, um by the, ah, acquiring company's audit firm, um, this serves as a second level of diligence, um. The reconciliation of the components of goodwill can also be done so that the sum of the parts of the various components, such as synergies, control premia, assembled workforce, future customers and technologies, and other things, um, can be compared to the amount that is calculated as the residual (IASC, 2006ac).

The secretariat concluded that it is in fact possible for constituents to measure intangibles at fair value. However, the secretariat remarked that producers do not want to do so in an attempt to maximize reported earnings; that is, their resistance was not motivated by confusion but rather by a desire to avoid the “economic consequences” (Zeff, 1978) of the amended standard. The secretariat reaffirmed that the only way that constituents would ever construct the expertise needed to measure intangibles at fair value was to do it in practice:

Staff Member #2: In practice many constituents seem to have a motivation to allocate as much value to goodwill as possible. Arguments against the recognition of separable intangible assets such, um, as those given in the comment letters, ah, might be based on this motivation. It’s not uncommon to hear in practice the phrase that something is not reliably measurable right after hearing that you need to put as much value into goodwill as possible. (…) Not requiring separate recognition of intangible assets, ah, would serve to perpetuate the belief that these assets are not reliably measurable and the experience does not exist to do so, and a never ending cycle would exist such that intangible assets would not be recognized. And since they are not recognized they are not valued, and since they are not valued then no one gains the knowledge of how to value them reliably (IASC, 2006ac).
In the ensuing dialogue between board members, the board supported the secretariat’s view that constituents have sufficient access to other literatures to reliably measure intangibles at fair value. The board also echoed the secretariat’s belief that the reason that producers don’t want to measure intangibles at fair value was motivated by their desire to maximize reported earnings:

Board Member #1: Difficult, you know, doesn’t mean unreliable!

Board Member #2: Yeah, but I agree with what you said (staff member #2) (…) we just keep hearing this over and over again in all of our different projects.

Board Member #3: If you narrow it down to the group (of intangible assets) that is required to be separately identified some of those arguments (in the comment letters) aren’t very compelling. (…) I think what we really ought to do is try and send a signal that if this set (of intangible assets) can’t be amortized the only solution is just to amortize goodwill over three years and go ahead dump ‘em in there. And I betcha they’d get an amazing amount of expertise in a hurry. (Followed by laughter.)

Board Member #4: I don’t buy most of the arguments the constituents make either. (…) I think that arguments about not being able to amortize things, or forcing people, or trying not to amortize things that otherwise would be amortized I think it, are, are erroneous because I think IFRS 3 made perfectly clear that if, if something was separable by definition you would be able to value it. (…) To my mind it’s not (pause) I’m not worrying about the whether it’s hard or the whether it’s subjective, or whether it’s any of those things, because I don’t think that (pause) I don’t think any of those are reasonable arguments (IASCF, 2006ac).

The above excerpts suggest another episode in which the secretariat and the IASB had power over commentators in the sense that they regarded respondents’ concerns as disingenuous. I suggest that members of the IASB remained so committed to a particular logic of reporting that they were unable to be reflexive; that is, they struggled to appreciate the potential that accounting experts were in fact looking for assistance to apply the standard. Still in other cases, no less than the board and the secretariat acknowledged that the draft didn’t contain enough instructions. This was never problematized, however, largely because members of the IASB seem to believe wholeheartedly that in time accounting experts in the field would draw on various resources to build the skills required to account for an acquisition. Their view was largely informed by what they characterized as the “American experience.”

8.6.2 Time Constraints

In other cases it can be observed that there was a tremendous sense of urgency to release the amended IFRS 3. I suggest that another reason why the IASB did not clarify particular aspects of the acquisition model was that it faced time constraints. As an example, prior to the commencement of Phase II, the IASB affirmed that it would not promulgate extensive fair value guidance to assist preparers to apply the acquisition model in practice:
The Board (…) agreed that it should not develop any additional implementation guidance on measuring the fair value of the net assets acquired as part of (the) project. Any such guidance should be developed as part of a broader consideration of fair value measurement issues” (IASCF, 2003b, p.1).

Often the board and secretariat asserted that future guidance on how to apply IFRS 3 would be cultivated once the IASB completed separate projects. To illustrate, the chairman of the IASB reminded the board and the secretariat that it would not be possible to finalize a standard on FVA during the business combinations project:

We, we want to get this project done and what worries me is that you can get into a black hole here. Ah, but I think hopefully (staff member) we do need to do that work because I don’t, we can’t leave people without any sort of indication as to what the implications of staying with IFRS 3 is. But I certainly don’t want to do the fair value measurement document in this project. That’s my concern (IASCF, 2006ad).

As another example, the board had previously decided that in a business combination, $A_1$ should measure and recognize an asset that is subject to an operating lease at fair value at its acquisition date, where $A_2$ is the lessee. The IASB concluded that a separate asset or liability must be recognized in the event that the terms of the operating lease are favorable or unfavorable relative to what are purported to be market terms (IASCF, 2006aj). However, several respondents noted that ED 3 remained mute on the accounting treatment for operating leases, whereby $A_2$ is the lessee (i.e., concealed knowledge, mismatched salience). They tried to persuade the board to add additional guidance to IFRS 3 to explain what to do. During a particularly heated debate between board members and the secretariat on the proposed accounting for operating leases, the head of the business combinations team encouraged the board not to get bogged down in trying to provide more explicit guidance on leases. He proposed that the accounting for leases would be broached as part of the IASB’s projects on fair value options, leases, and fair value measurement.

Staff Member: As we said in the paper the, this is an issue that exists under the current IFRS 3, so it’s not a new issue, um, it’s an issue though that’s clearly of concern to our constituents. We want to make it clear in our paper that, um, we don’t need to resolve this as part of bus com II. Heck, we would be concerned if we, ah, put resources into this now, because it could end up delaying the whole project while we got this resolved so what our intention is to do, and we’re asking, is seeking board, um, agreement on this is that we take this, um, effectively to another stage and then we’ll continue to do some work on it but we’re not gonna, um, allow this to hold up the bus com II process, um, listening to the discussion today it seems relatively clear that, um, there’s no simple answer that we could get a consensus on, um, relatively quickly. (...) We expect to continue to work on this process, um, give it reasonable priority, but not as, um, necessarily holding it up, um, as trying to incorporate any of this into bus com II, that is, we keep the existing guidance only for, um, operating leases.

Board Member: Do you think that this is an annuity or something this project? Is this biz comb three starting now? (Followed by laughter) (IASCF, 2007v).

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121 Tweedie was making reference to work that would identify differences between the IASB and the FASB’s respective notions of FVA.
122 The board member jokingly reminded the secretariat that the project was not an annuity; that is, the project needed to be completed soon.
In light of the time constraints, both the secretariat and the board stated that the knowledge on how to do acquisition accounting would follow the completion of future projects at the IASB. In fact, in certain cases the secretariat actually encouraged the IASB to “remain silent” on particular issues raised by respondents because the IASB intended to deal with those issues in separate projects.\(^\text{123}\) It can be observed that the board treated the secretariat’s advice seriously when it abstained from adding more guidance to the final standard in some cases. This again provides another very significant example of how the secretariat is instrumental in shaping the decisions made by the board. Recall that in chapter 7 I suggested that the secretariat does not just follow instructions it receives from the board. Here is a specific example of how the secretariat directed the board to do something, and the board complied with the secretariat’s recommendation.

A number of respondents argued that the IASB needed to clarify how to measure and recognize income tax uncertainties at fair value on the acquisition date. In its preparation of agenda paper 2E, the secretariat acknowledged that neither the exposure draft nor the IFRS Framework illuminated how to report income tax uncertainties at fair value:

The IASB’s deliberations in Convergence Income Taxes focuses on developing an overall approach for the accounting for tax uncertainties. The IASB has not considered whether changes in uncertain tax positions acquired in a business combination should be reflected as adjustments to goodwill or income as part of those deliberations (IASCF, 2007p, p.19).

During its public deliberations in January 2007, the board was encouraged by the secretariat to refrain from providing additional guidance on how to account for income tax uncertainties at fair value until the IASB amended IAS 12 (“Income Taxes”) (IASCF, 2007z). The secretariat noted,

(Agenda Paper 2E) deals with the treatment of uncertainties (pause) of tax uncertainties, after the business combination. But in fact IAS 12’s silent on how you treat tax uncertainties (…) we think it would be better due process if we dealt with uncertainties, tax uncertainties in the proposed amendments to IAS 12 that we’re developing, and once we know what we’re doing with them generally, we can then make an amendment to the biz com [business combinations] standard and make that line up as well, ah, and in the meantime it’s probably best to remain silent (IASCF, 2007u).

In sum, there was a tremendous sense of urgency to release IFRS 3 expeditiously. The FASB had already released the amended SFAS 141 in 2007.\(^\text{124}\) Given the IASB’s institutional commitment to harmonize IFRS and U.S. GAAP, the IASB was under pressure to avoid further delays in releasing IFRS 3. As noted in chapter 4, IOSCO had just ratified the IASB’s stable platform of standards back in 2004. The IASB wanted to retain IOSCO’s backing by ensuring that it kept pace with the FASB. Prior to the release of the original version of IFRS 3 (2004), the IASB and the secretariat had actually concluded that Phase II would wrap up no later than 2006 (IASCF, 2003c), but it eventually dragged on longer, in large part, because the IASB was

\(^{123}\) This can be conceived as another empirical instance of what Lukes calls “nondecision making.”

in the midst of finalizing changes to the IFRS framework in 2004 to facilitate convergence in the European Union (see Bruce, 2004; Ding, Richard & Stolowy, 2008; IASC, 2004a; 2005a; Parker, 2004a, 2004b; Schipper, 2005; Tricks, 2005). Resolving controversy over the highly contentious IAS 39 (see, for example, Walton, 2004) consumed much of its formal agenda at the time of the business combinations project. In light of these pressures confronting the IASB, it established boundaries for what could be achieved in Phase II. I suggest that many of these boundaries, which included its stated decision not to tackle the fair value hierarchy as part of the project, meant that the IASB released a standard that would require subsequent amendments to help preparers apply it.

In the section, I’ve paid particular attention to the secretariat’s interactions with the board. The analysis, like that in chapter 7, suggested several additional ways in which the secretariat plays a pivotal role in the promulgation of IFRS. As noted above, the secretariat exhibited a type of power over respondents, for instance, when it encouraged the board to abstain from providing instructions imparted by Agenda Paper 2B on how to measure intangible assets in the absence of active markets. Although the board initially questioned the secretariat’s recommendation, it later assented, and I suggest that this can be associated, in part, with the IASB’s institutional view that IFRS need to be sufficiently pliable to accommodate diverse national reporting jurisdictions (see Carmona & Trombetta, 2008). More generally, I advanced the argument that members of the IASB had power over commentators by reducing the scope of instructions provided in IFRS 3 in a reinforcement of particular institutional preferences. Ideology can be confusing. The IASB continues to push the frontiers of financial reporting by displacing historical cost accounting with the fair value paradigm. As noted in chapter 4, this is not happenstance. It reflects and reinforces fundamental changes in the market economy, such as the increasing financialization of the global core (e.g., Arnold, 2012; Müller, 2013; Noelle & Perry, 2007; Perry & Noelle, 2006).

That the IASB had yet to construct, in several instances, the expertise on how to apply the acquisition model (which involves accounting for all aspects of a business combination at fair value) showed its struggle to share knowledge. Recall that this is a strong manifestation of what Lukes conceives as the third dimension of power. It suggest how ideology works, which is somewhere beyond the realm of actors “intentionality” and their own self-awareness of the world but still powerful in the sense that the secretariat and the board promotes a specific mode of regulation that strengthens “The actions of marginal buyers and sellers, driven by the views of dominant market analysts and pundits who do not necessarily make the long-term calculations which reflect broader societal interests” (Perry & Noelle, 2006, p.566). It is also speaks to Collins’s argument on how expertise works in practice to reproduce a type of expert power, not through the intentional or conscious circumvention of knowledge but rather—to paraphrase Polanyi (1962)—in relation to the difficulty of communicating things that we know more about than we can say.

8.7 Conclusion
Chapters 7 and 8 form a unified whole. In them, consideration has been given to the important role that the secretariat plays in the development of IFRS. In the previous chapter, the argument was made that the secretariat is instrumental in assisting the IASB to comprehend and to apply the conceptual framework to specific projects, like the one on business combinations. I argued that the secretariat plays an important part in shaping the overall construction of the IASB's technical agenda by extrapolating project-specific principles from the categories underscoring the framework. It was shown how, in the case of Phase II, the principles mediated, in part, the types of issues that were mobilized for standard setting action on the board's technical agenda. For one, the secretariat's principles were invoked as a type of sorting mechanism to determine what types of concerns raised in comment letters were appropriate problems that would be granted access to the decision arena. To the extent that the secretariat shapes the construction of the political agenda, I suggested Lukes's notion of the second dimension of power bore particular relevance to the analysis.

In contrast, the current chapter looked more specifically at the interactions between the secretariat and the board as part of an overall analysis on how the IASB handled concerns raised by accounting experts that IFRS 3 lacked sufficient clarity to be applied. Drawing on the works of Collins, I suggested that a majority of respondents resisted the proposed amendments to IFRS 3 (recall analyses in chapter 6) because ED 3 did not convey enough guidance due to the problems issuing from concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge. In an attempt to build on Collins's work, I suggested that another reason why ED 3 did not clearly explicate the application of the acquisition model was associated with what I termed logical inconsistencies. As the preceding analysis suggested, a number of commentators expressed confusion about which incongruent principles, guidelines, rules, and so forth they should observe. As an example, they didn't fully understand whether they should measure all assets with reliability—as the conceptual framework requires them to do—or whether they should adhere to the exposure draft, and in doing so, forgo measuring intangible assets with reliability.

More generally I made the argument that the secretariat and the board have power over commentators. In the case of Phase II, the IASB eventually reduced the scope of the guidance in IFRS 3 relative to the comparatively detailed instructions initially provided in ED 3. One can say that members of the IASB responded to accounting experts' confusion by further reducing the scale of the instructions provided in the amended standard. One can observe, for instance, that in the end the IASB removed the fair value guidance from IFRS 3, and it would not be until 2011 that the IASB would finalize a standard on FVA. The argument has been advanced that the IASB's failure—not necessarily an “intentional” failure—to build and relay the expertise on acquisition accounting to other accounting experts constitutes a form of power in the way that it sees preparers and producers shoulder much of the responsibility for constructing the expertise needed to apply IFRS 3. I suggest that this is a type of power because it diverts their energies and resources away from achieving organizational mandates and instead directs them towards building a body of knowledge that
reinforces a specific logic of regulation, one that is believed to be particularly conducive to disseminating information favorable to the needs of investors and creditors making “economic” decisions as opposed to the information needs of the overwhelming majority of society (see, for example, Cooper & Morgan, 2013). In some ways, the IASB can be conceived as a repository, wherein preparers and producers add accounting expertise as they produce it in practice. The secretariat then subsequently takes that knowledge and assists the board to tidy-up and finesse a standard based on “lessons learned in the field.” This was the case, for instance, when the secretariat—as part of the IASB’s 2010 Annual Improvements to IFRS—formalized more specific instructions on how to measure and recognize noncontrolling interests and replaced share-based payment awards and transitional arrangements for contingent consideration.125

Chapter 9 Conclusion

The conclusion features three sections. First, in section 9.1, I carefully revisit the dissertation’s empirical questions (see Table 1.1). Here I relate its principal findings to the original queries specified in chapter 1 and revisit the importance of the dissertation’s topics and related insights. I further reflect on the theoretical ramifications of the work; that is, how the findings relate to (and extend) Lukes’s “multidimensional framework of power” (1974, 2005) and Collins’s works on the transmission of knowledge through written instructions (e.g., 1974, 1992, 2000, 2001). Section 9.2 then focuses on the dissertation’s limitations and how some could be moderated through an analysis of additional texts constructed prior to and during the secretariat and the board’s amendment of International Financial Reporting Standard 3 (“Business Combinations”) (IFRS 3). Finally, in section 9.3, I outline several possibilities for extending the work described in the dissertation.

9.1 Principal Findings and Implications

In chapter 4 the dissertation featured a brief analysis on the emergence of the International Accounting Standards Committee (IASC) in 1973. Although I argued that greater cognizance needs to be given to the organization of the International Accounting Standards Board (IASB)—wherein International Financial Reporting Standards (IFRS) are procured—it would be a mistake to overlook the IASB’s broader institutional context. Simply put, things happening elsewhere affect the secretariat and the board’s development of IFRS.

The analysis in chapter 4 showed that the IASB’s precursor organization emerged in the wake of the Bretton Woods System collapse (see, for example, the works of Botzem, 2012; Camfferman & Zeff, 2007). The 1970s saw a systematic reconfiguration of the World System (e.g., Arnold, 2012; Germain, 2010). In the West’s efforts to counteract a number of economic challenges, it undertook the liberalization of the capital and financial market (see Figure 4.1). One facet of this project yielded an exponential rise in the level of direct foreign investment, and this phenomenon included spiking levels of international business combinations (see Figure 4.1). Against the backdrop of what Wallerstein and Hopkins (1982) and Wallerstein (2004) characterize as the “Global Core’s” restructuring of global finance, the IASC precipitated in 1973. In addition, chapter 4 scrutinized some of the early debates on the accounting for business combinations. Here the work provided details on the developments leading up to the IASB’s Phase II of the Business Combinations Project.

However, previous suggested that the emergence of the IASC extended beyond the expansion of global trade. As an example, notable figures in the U.K. accountancy profession hoped that the establishment of the IASC would insulate the United Kingdom from the European Economic Community’s directives.
(2002–2007). In short, the analysis proposed that the IASC/IASB’s development of International Accounting Standards 22 (“Business Combinations”) and IFRS 3 followed significantly from the United States Financial Accounting Standard Board’s (FASB) work on the accounting for business combinations, particularly the FASB’s promulgation of Statement of Financial Accounting Standard 141 (SFAS 141, “Business Combinations”) (2001, 2007). The IASB’s development of IFRS 3 (2004) was also affected by the work of the short-lived G4+1, wherein senior members of the FASB played an instrumental role in crafting the group’s research papers. The papers addressed how to unify accounting standards around the world. The analysis showed that the IASB acquiesced to the FASB and the G4+1’s requests to prohibit the pooling method and to replace the amortization of goodwill with the impairment test (see Beresford, 2001; Ramanna, 2008; Zeff, 2002, 2012). I argued that the IASB’s motivation to pattern IFRS 3 after its U.S. Generally Accepted Accounting Principles (GAAP) counterpart was largely related to the IASC/IASB’s broader mandate to secure the Securities and Exchange Commission and the International Organization of Securities Commissions’ formal endorsement of IFRS—a mandate that increasingly consumed the energies of the IASC commencing in 1987 (e.g., Camfferman & Zeff, 2007; Hallström, 2004).

From here, the work in chapter 5 delved into the organization of the IASB. I argued that if we want to better understand how accounting standards are promulgated, then it is necessary to treat seriously the formal organizations of the standard setting project, wherein the development of accounting standards is ordered and structured. The organization was conceived as the public accountability and governance structures of the IASB and its reliance on a model of using “independent expert standard setting.” A central underpinning of the chapter was that the organization of the IASB is itself constitutive. Beginning with the seminal scholarship of Burchell, Clubb, Hopwood, Hughes, and Nahapiet (1980) and Burchell, Clubb, and Hopwood (1985), an extensive literature has emerged that situates accounting in its organizational and social context. From this body of research, we can see that accounting is constitutive; that is, accounting shapes, orders, and structures organizations, not to mention actors’ perceptions of organizations. Accounting renders particular organizational realities important, that is, visible (e.g., organizations’ net assets, cash-flows, revenues, and so on), while subordinating others, to the extent that they do not factor into the organization’s accounts (e.g., its child labor practices, carbon dioxide emissions, policies on gender equality). While accounting is constitutive, I affirmed that the organization of the IASB is also constitutive. I argued that the configuration of the IASB can be associated with some of the most influential institutions in economic, financial, and political spheres, conferring upon IASB the power to develop IFRS.

Chapter 5 featured an analysis of the IASB’s “democratic legitimacy,” which is a concept drawn from recent debates regarding European governance (e.g., Scharpf 1997, 1999; Zürn, 2000). It is important to assess the legitimacy of the IASB’s process of promulgating IFRS to better determine whether it adheres to its stated protocols for what it calls a “due process” for developing IFRS. If the public and various national and international authorities are to have faith that the IASB’s work is “appropriate,” then they must be reassured
that the IASB maintains high standards of input, throughput, and output legitimacy. (Recollect that the IASB’s democratic legitimacy was defined in terms of its maintaining said standards.) If the IASB loses the public’s and the authorities’ confidence, its “jurisdictional claim” (i.e., Abbott, 1988) for converging GAAP will be vanquished. Accounting researchers like Eberlein and Richardson (2012) characterize the IASB as a “private authority,” which means that the IASB lacks the coercive power to enforce preparers’ compliance with IFRS. The IASB depends significantly on external actors’ formal endorsements of IFRS. To maintain their support, the IASB must convey the appearance of being a “good” accounting standard setter. The IASB’s efforts in this regard would seem to be particularly germane at present, being as American authorities continue to fiercely contest any arrangement that would see the U.S. FASB handing over the reins of standard setting to the IASB (see Alloway, 2012; Dye & Sunder, 2001; Hughes & Sanderson, 2010; Jones, March 2011, April 2011, July 2012).

The analysis in chapter 5 began by examining some of the ways in which the IASB has been discursively constructed as an “appropriate” accounting standard setter. To illustrate, the IASB claims to follow a “due process” for developing IFRS, whereby the public is afforded the opportunity to participate in its work. The IASB’s claim to consult the public suggests that it tries in earnest to maintain standards of input and throughput legitimacy. Conversely, the IASB is thought to be a legitimate accounting standard setter in the way that the Monitoring Board (MB) and the International Financial Reporting Standards Foundation Trustees (IFRSFT) judiciously oversee the work of the IASB. Their oversight is thought to further support the “public interest” by ensuring that the IASB doesn’t operate as an island unto itself. The extent to which the IASB is a self-characterized expert body can be associated with its attempt to build output legitimacy. Drori and Meyer (2006) argue that “experts” making claims based on highly rationalized knowledge are commonly seen to be acting separately from money and politics (but see Latour, 2004; Malsch, 2013); thus, they are purported to be serving the “public interest.”

Further work endeavored to evaluate the IASB’s democratic legitimacy. To this end, I arduously juxtaposed the IASB’s discourses of public accountability, governance and oversight, and independent expert standard setting127 with its observable organizational practices. I concluded that in several cases, its organizational practices are decoupled from its discourses; therefore, I stated that the IASB exhibits what political scientists like Majone (1998) and Moravcsik (2004) call a “democratic deficit.” A handful of reasons existed, leading to my reaching this conclusion. Contrary to the IASB’s assertion that the MB and the IFRSFT appoint all board members, it is patently clear that some of the most influential members of the board, including its current chairman, are self-appointed. Hans Hoogervorst, for instance, served as the head of the MB before he assumed the chairmanship of the board. In other cases, board members are self-appointed by the IASB’s advisory bodies, and the advisory bodies extend beyond the “gaze” of both the MB and the IFRSFT. As another example, the IASB conveys an appearance of

127 Particularly as they are rendered manifest in its organizational rules, policies, procedures, and so on.
openness and transparency to the public. However, in many respects its decision arena remains a private space, concealed from public observation, and this, I suggested, contravenes its claim to uphold high standards of throughput legitimacy. To illustrate, the IASB asserts that the public can access podcasts of all of the board and the secretariat’s deliberations. However, this is not always the case in practice. Bearing these points in mind, the work in chapter 5 concluded by considering some ways in which the IASB could moderate its democratic deficit. I argued, for instance, that the IASB could better adhere to high standards of input, throughput, and output legitimacy by encouraging a highly deliberative approach to the development of IFRS. Alternatively, I suggested that accounting intellectuals could play a vital role in helping the IASB to recognize how the “public interest” extends beyond investors making “economic” decisions.

The works in chapters 6, 7, and 8 focused specifically on the secretariat and the board’s recent amendment of IFRS 3.

*The work in chapter 6 followed primarily from what Lukes calls the “first dimension of power” (1974, 2005). In it, consideration was given to the association between the (a) stated preferences of lobbyists expressed in comment letters and (b) IASB’s observable decisions on the amended IFRS 3. One important reason for examining the distribution of power within the standard setting arena is to better ensure that the development of IFRS does not become the exclusive domain of particular actors. If the IASB intends to develop standards that maintain a broad spectrum of the “public interest,” the development of IFRS should be full of contestation, which in turn sees the IASB making a series of compromises to balance the preferences of different types of actors with an interest in financial reporting.*

*Initially it appeared as though lobbyists exercised power over the IASB in relation to its amendment of IFRS 3. The data showed that approximately 80% of respondents did not support the IASB’s proposed full goodwill model. Subsequently, the IASB retracted the model from IFRS 3 (2008). However, further investigation of the data suggested to me that the proposed adoption of the full goodwill model produced serious consternation for four of the nine board members that initially voted in favor of including the model during the pre-exposure draft phase of the project (2002–2005) (e.g., IASCF, 2005b). They stated that the full goodwill would be too onerous for preparers to apply in practice. Nevertheless, in their hope of converging IFRS 3 and SFAS 141, they voted in favor of including the model in exposure draft 3 (ED 3). However, they also stated that if the secretariat and board’s subsequent deliberation (2006–2007) did not alleviate their concerns, they would withdraw their support, which is what happened in 2007. In sum, the work showed that the single discrepancy between ED 3 and IFRS 3 had relatively little do with lobby pressures exerted on the board. Rather, the full goodwill model was challenged from inside the IASB as early as the project’s inception in 2002, and four members of the board recanted their support of the model by 2007.*
Further analysis showed that an overwhelming majority of constituents rejected all aspects of the proposals (with few exceptions). But the IASB incorporated all of the proposals laid out in ED 3 (2005) into the amended IFRS 3 (2008). This suggested that the IASB’s amendment of IFRS 3 did not see power shared “pluralistically” amongst lobbyists; that is, the board did not make compromises in its attempt to strike a balance between the stated preferences expressed in 158 comment letters regarding the IASB’s invitation to comment on ED 3. Further work evaluated the extent to which the stated preferences of a so-called “lobbying elite” closely resembled the IASB’s observable decisions. The data did not indicate such an association. That is, no group (or coalition) of lobbyists supported all of the proposals apart from the full goodwill model. And fewer than 7% of respondents supported at least half of the proposals adopted. Emphasis is warranted on there being no similarities in the demographic characteristics of the handful of lobbyists that expressed a very moderate amount of support for the proposals adopted in IFRS 3 (2008).

In sum, I argued that the case of Phase II suggests a sort of “regulatory elitism,” whereby the IASB reserved the right to make all decisions on the amendment of IFRS 3 irrespective of widespread concerns expressed by the public regarding the proposals. To invoke the terminology of Collins and Evans (2002, 2007), in the case of Phase II, the “locus of legitimate interpretation” appears to have been situated closer to the “producer” (i.e., the IASB) than the “consumer” (i.e., the respondents). While the IASB is said to undertake extensive consultations as part of what it asserts as a “due process,” the case of Phase II implies that the IASB maintains power over commentators to make final decisions on IFRS. I suggest that a significant function of the board’s “due process” is to build appearances of input and throughput legitimacy.

Next, in chapters 7 and 8, an empirical and theoretical gaze was cast upon the works of the secretariat and the board during their post-exposure draft deliberations (2006–2007). I argued that it is important to properly recognize the secretariat’s work. The IASB is not monolithic, and the development of IFRS is not the exclusive domain of 16 board members. The secretariat affects the promulgation of IFRS in substantial ways; therefore, if we want to better understand the manner in which IFRS are procured, it is necessary to examine how the secretariat’s works shape those of the board.

Against the backdrop of Phase II, chapter 7 located the secretariat’s activities in relation to the IASB’s conceptual framework. Some accounting researchers argue that the conceptual framework fosters a type of “institutional thinking” (Douglas, 1986 from Young, 1996), which means that accounting standard setters draw on the conceptual framework to determine what types of questions are “sensible” to raise with regard to the development of accounting standards (see Mete, Dick, & Moerman, 2010; Potter, 2002; Young, 1996). The conceptual framework is believed to help standard setters construct and resolve accounting problems in “appropriate” ways. This in turn is thought to limit the possibilities for accounting change. Significantly, however, Young (1996) emphasizes that the conceptual framework would not in and of itself directly “solve”
financial accounting “problems” (p. 490). One reason for Young’s claim is that the conceptual framework is relatively opaque (see, for example, the works of Alfredson et al., 2007; Nobes, 2006).

Taking this into account, the work in chapter 7 analyzed how the secretariat at the IASB played an important role shaping the conceptual framework vis-à-vis its development of nine principles on the accounting for business combinations. Through its construction of the principles, the secretariat attributed more precise meanings to the categories underpinning the conceptual framework. I argued, this in turn further limited the possibilities for accounting change in relation to the IASB’s amendment of IFRS 3. As an example, it was shown that the conceptual framework transmits to the board multiple measurement attributes of financial statements. In contrast, the data revealed that in its construction of principle 4, the secretariat instructed the board that the sole measurement attribute of the acquiree would be “fair value.” One way that principal 4 limited the potentialities for accounting change was that it brought to a close the board’s previous discussion on whether to explore the measurement attribute of the acquirer (i.e., the fresh-start methodology).

The analysis in chapter 7 illuminated additional ways in which the nine principles were connected to the works of the secretariat and the board. For one, the secretariat applied these principles as the basis for summarizing constituents’ responses to 19 questions raised in the IASB’s invitation to comment on ED 3. This was conceived as an episode of “translation,” whereby the secretariat tried to establish a set of equivalencies between the summary text and the original 158 comment letters. The analysis showed, however, that the comment letters and the summary text had different referents. The comment letters addressed the formal invitation to comment, whereas the summary text pertained to the nine principles constructed by the secretariat. I observed that in most cases, the secretariat did not address constituents’ responses to questions that did not share a strong family resemblance to any of the nine principles in the summary text. Further analysis of the data revealed that potential issues marked for exclusion by the secretariat from the summary text (not necessarily deliberately) were rarely added to the IASB’s technical agenda. In sum, the secretariat applied the nine principles to summarize comment letters, and through this process of translation, particular concerns raised by respondents on ED 3 were “lost in translation” (i.e., Boxenbaum, 2006, p. 939).

Further analysis connected the secretariat’s principles to the topics addressed by the IASB during its post-exposure draft deliberations. It was shown, for instance, that approximately 75% of the items broached on the IASB’s technical agenda were derived from the nine principles as opposed, for instance, to categories conveyed in the conceptual framework, much less the original questions raised in the formal invitation to comment. In this regard, the analysis suggested an association between the secretariat’s principles and particular power dimensions concerning the construction of the IASB technical agenda (second dimension). The work also showed that members of the IASB appealed to the principles to make particular decisions on how to amend IFRS 3. The case of the cooperatives, for example, indicated that the board invoked the secretariat’s principles to rationalize its decision to eschew a debate on the concerns raised in comment letters submitted
by the cooperatives sector to the IASB. The episode was conceived as an empirical case of what Lukes characterizes as “nondecision-making” (1974, 2005).

The work in chapter 8 then probed the arguments made by constituents in comment letters, whereby they challenged the proposed amendments to IFRS 3. I suggested that if we want to learn more about why actors contest accounting standards, we need to treat seriously the explanations they provide in submissions as opposed to our deducing their “real interests.” Drawing on the works of Collins (1974, 1975, 1992, 2000, 2001, 2010) and Collins and Evans (2002, 2007) the analysis uncovered data showing that a majority of the constituents argued that they did not support the forthcoming IFRS 3 because the IASB had not transmitted the knowledge needed to apply the acquisition model in practice. Through my assiduous juxtaposition of the draft instructions and the arguments made in 158 comment letters, I realized that many accounting experts struggled to make sense of the IASB’s directions on how to do acquisition accounting due to problems arising from concealed knowledge, mismatched saliences, ostensive knowledge, and unrecognized knowledge. I also learned that logical inconsistencies in the draft created further confusion for respondents. In the case of Phase II, most respondents argued that the IASB needed to ameliorate the instructions on how to apply the new technology—one that can be envisioned as being on the periphery of what Kuhn conceives as “normal science” (1962).

The analysis suggested two things to me. One, constituents contest accounting standards for reasons that extend beyond what Zeff conceives as the “economic consequences” (1978). Two, the technology of accounting is itself constitutive. Against the backdrop of Phase II, uncertainty over the application of the detailed methods of accounting for business combinations gave rise to overt, covert and latent conflict.

An ensuing level of analysis focused on the secretariat and the board’s public deliberations in the wake of the trepidation conveyed by respondents to the IASB. Again the argument was made that if we want to better understand why the IASB makes particular decisions then we need to treat seriously its deliberations as opposed to merely considering its decisions manifested in IFRS. Bearing this in mind, I made a further attempt to open up the “black box” of the IASB. Through my careful examination of the board and the secretariat’s dialogues in 2006 and 2007, I came to better understand some of the factors associated with the IASB’s decision to release a significantly abridged version of IFRS 3. Recall that most respondents requested further guidance from the IASB on how to apply IFRS 3, but the IASB did not provide it (2008). The analysis suggested at least two factors related to the IASB’s inaction (third dimension).

The work showed that neither the secretariat nor the board had constructed the expertise on how to apply certain aspects of IFRS 3, particularly the requirement to measure all aspects of the acquiree at what is called “fair value.” One may surmise that the board and the secretariat could not improve the instructions because they did not know how to. A particularly strong example of the board and the secretariat’s lack of expertise was apparent in their
discussion of the process of prorating goodwill between the controlling and noncontrolling interests in the case of a bargain purchase. Further analysis of the data showed that the secretariat and the board hoped that the release of IFRS 3 would see accounting experts construct the expertise on how to do acquisition accounting extemporaneously. For example, the secretariat and the board expressed optimism that practitioners would build the expertise on how to measure and recognize intangible assets at “fair value.” In turn, this expertise could be relayed back to the IASB, whereupon the IASB would codify it as part of its annual improvements projects.

One point warrants emphasis here: Through my application of Lukes’s multidimensional framework of power, I argued that the IASB held power over accounting experts even though the IASB didn’t know how to expound the draft instructions in certain cases. But Lukes argues that if A (i.e., the IASB) can logically deduce that his or her actions will have an adverse effect on B (i.e., accounting experts), we can safely attribute an exercise of power to A. I suggested that the IASB recognized that accounting experts were struggling to make sense of IFRS 3, given that respondents made this point patently clear in their submissions to the IASB.

On the other hand, I recognized that the IASB’s failure to add further instructions to IFRS 3 was related to what Lukes (1974, 2005) would characterize as mobilization of the IASB’s political bias (third dimension). Specifically, the analysis linked the IASB’s not clarifying how to apply the acquisition model to its institutional preference for (a) principles-based accounting standard setting, (b) fair value accounting (FVA), and (c) converging IFRS and U.S. GAAP. The argument was advanced that the IASB’s institutional bias manifested in observable inaction, which Lukes argues is part and parcel of the third dimension of power. Bearing this in mind, I suggested that another reason why the IASB did not enhance the instructions on how to apply the acquisition model was out of concern that doing so would violate its institutional predispositions. As an example, the IASB has institutionalized its commitment to harmonize IFRS with U.S. GAAP. Taking this into account, the data suggested that the IASB was reluctant to elucidate the detailed procedures on how to measure all aspects of a business combination at fair value, fearing that providing said guidance would result in incongruences between the IASB and the FASB’s fair value guidance. (Recall that at the time of Phase II, the FASB had yet to finalize its fair value hierarchy.)

9.2 Limitations

The dissertation has some inevitable limitations. Some of them could have been moderated by the IASB’s cooperation. For one, it would have been fruitful to analyze a number of important IASB texts that could not be retrieved from either its website (www.ifrs.org) or the IASB directly. As noted in chapter 5, the IASB conveys an appearance of openness and transparency to the public; however, in many respects its decision arena remains a private space. Here are some of the texts that I would have liked to investigate further: (a) podcasts of the
IASB’s Phase I public deliberations (2001–2004), (b) podcasts of the IASB’s Phase II pre-exposure draft public deliberations (2004–2005), (c) podcasts and/or minutes of the IASB’s five public roundtable sessions in Fall 2005, and finally, (d) podcasts of the IASB and the FASB’s joint deliberations. The analysis in the dissertation would have benefited from a more exhaustive review of all texts constructed by the secretariat and the board leading up to and during Phase II. However, it was not possible to retrieve these data, and as a result, I supplemented my analysis of the available texts with secondary material, including (but not limited to) (a) all issues of *IFRS Update* (2001–2012), (b) Deloitte’s month-by-month analysis of the secretariat and board’s deliberations (www.iasplus.com), (c) approximately 1,000 articles published in the business press about the IASB, and (d) the extensive academic literature on the IASB.

Another limitation of the dissertation is that my investigation on the associations between power and the IASB’s development of IFRS (and more broadly its convergence project) pivoted on a content analysis of texts and a review of various literatures. Admittedly an analysis of texts—particularly what Phillips and Hardy characterize as “naturally occurring texts” (2002)—is illuminating to making sense of social developments, including accounting standard setting. In the dissertation, I adopted a social constructivist orientation, whereby I regarded the texts as more than ex post accounts of the secretariat and the board’s standard setting processes. The texts were conceived as an irreducible component of the IASB’s amendment of IFRS 3. Members of the IASB (and lobbyists) constructed numerous texts to assemble, mobilize, negotiate, disseminate, contest, and so forth particular meanings related to the accounting for business combinations. As Law (2004) maintains, reading and writing facilitate learning. The construction of texts is not a passive process that is isolated from the context in which they are created. Through their construction of texts, the secretariat, the board, and other actors with an interest in the accounting for business combinations made sense of the amendment of IFRS 3. The logical corollary is that investigating the texts has helped me to better appreciate how standard setting works in the IASB.

Nevertheless, not all dimensions of accounting standard setting are discursively constructed. The IASB’s amendment of IFRS 3 was not limited to its construction of texts on how to amend the acquisition model. Much of the process was undocumented and informal, and it took place behind closed doors. To this end, Cooper and Robson (2006) state, “…much of the important work of standard setters takes place informally, is unwritten, and likely involves only a few people (Stamp, 1985)” (p. 426). As noted in chapter 7, it is virtually impossible to investigate the informal interactions between the board, the secretariat, and external actors with an interest in the accounting for business combinations. Being as it is difficult to gain access to these “unofficial interactions,” it is hard to be conclusive about “who influenced whom.” *Taking this into account, one way I can build on the work in the dissertation is by interviewing members of the board along with the four members that served on the business combinations project team to learn more about the “unofficial” aspects of the amendment of IFRS 3.*

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128 Further attention could have been given to the works of other national accounting standard setters as they bore on Phase II.
129 The team is a part of the secretariat. See Figure 5.1.
Another limitation of the dissertation is that I was not afforded the opportunity to speak directly with the constituents that drafted comment letters. I had to settle for reading comment letters and making inferences about why constituents contested IFRS 3. One way that I tried to overcome the difficulty of deducing actors’ “real interests” was by applying the “principle of charity” (Lukes, 1994; Townley, Cooper, & Oaks, 2003) to the work. This meant that I defined actors’ preferences, concerns, insights, and so forth as the things that they explicitly wrote in comment letters. (The same is true with respect to how I deduced the secretariat and the board’s “interests” on the accounting for business combinations.) Further I tried to be highly reflexive; that is, I constantly challenged my own assumptions about why actors contest accounting standards in my attempt to better appreciate the arguments elaborated in comment letters. I also looked at broader patterns in the arguments made in comment letters. Given that an overwhelming majority of respondents contested the proposed amendments for reasons having to do with the draft’s poor guidance, I had a high degree of confidence that many constituents were struggling in earnest with how to apply the forthcoming standard. Naturally, however, it is possible that constituents challenged the proposed amendments to IFRS 3 for reasons that extended beyond the warrants, claims, rationales, justifications, and so forth that they conveyed in submissions. Accordingly, Stenka and Taylor state,

Some studies suggest that lobbyists may present positions that do not reflect their true beliefs if those beliefs might be perceived as socially or politically unacceptable. Jupe (2000: 346) argues that, in their efforts to influence a regulator, respondents may have implicitly considered economic consequences but explicitly may have used self-referential arguments that related to their own accounting practices. In addition, Weetman et al. (1996: 75) suggest that with lack of user participation in the standard setting process, preparers may be ready to advance their opinions of users’ needs in order to enhance the credibility of their own submissions. The transparency of corporate submissions has also been questioned by, for example, McArthur (1988), Tutticci et al. (1994), and Dechow et al. (1996) (Stenka & Taylor 2010, p.113).

Bearing this in mind, another way that I can build on the dissertation’s work is by interviewing commentators to learn more about the bases for the arguments they made in comment letters.

Another limitation of the dissertation is that it drew primarily on the scholarship of Lukes and Collins to evaluate the associations between power, expertise, and accounting standard setting. As noted in chapter 3, Lukes is not the first person to theorize about power, and expertise has been conceived in many ways that extend well beyond Collins’s works. This dissertation may have benefited from the application of multiple theories of power and expertise to the work. In the end, however, I decided to apply Lukes’s methodology in conjunction with Collins’s thesis because their works helped me to make sense of the IASB’s amendment of IFRS 3. Recall from chapter 3 that I applied Lukes’s multidimensional framework of power for the following reasons: (a) the methodology can be understood as a balancing point between the extremes of human agency and structure, both of which I regard as indispensable to a comprehensive analysis of power; (b) the model focuses on the locution “power over,” thereby casting an empirical and theoretical gaze upon the most conflictual aspects of power exercised
over actors; that is, those that have traditionally preoccupied students of power; (c) the framework provides a valuable lens through which I was better able to appreciate how certain issues were retained or excluded from the IASB’s amendment of IFRS 3; and (d) the methodology is versatile, thereby enabling me to apply it in conjunction with the ideas of other social theorists.

Further, the works of Collins resonated well with a significant focus of the dissertation. Recollect that Collins explores obstacles that impede the transmission of knowledge from one group of experts to another group of experts vis-à-vis written instructions. When I was conducting the empirical work, I observed that a majority of respondents challenged the IASB’s proposed amendments to IFRS 3 not because of the “conceptual merits” or the “economic consequences” (i.e., Giner & Arce, 2012) of the forthcoming standard, but rather because they claimed to be confused about how to apply the draft instructions. Collins has written extensively about the inherent limitations of the “algorithm of replication” (e.g., 1992). By studying his work on this topic, I came to better appreciate why written instruction may fail to transmit specialist tacit knowledge from one group of experts to another, which was precisely what my analysis of the data suggested had transpired over the course of Phase II. In sum, I applied Collins’s ideas because they helped me to better appreciate some of the reasons why an overwhelming majority of accounting experts contested the IASB’s draft instructions on the basis that the instructions did not fully elucidate how to do acquisition accounting.

9.3 Looking Ahead

To close, I now consider a number of specific ways that the work described in this dissertation could be extended. For one, the dissertation furnished a relatively functionalist account of the emergence of the IASC and IASB. The same can be said about the board’s various projects to harmonize the accounting for business combinations (see chapter 4). In the first instance, I argued that the emergence of the IASC in 1973 can be associated with a systematic reconfiguration of the World System. In their attempts to overcome a number of economic difficulties (like the ones related to stagflation), Western countries in the global core looked once again to the international stage to foster economic prosperity back home. More specifically, following the demise of the Bretton Woods System, the global core sought to reinvigorate global finance and trade. This aim fostered a concerted effort to liberalize capital controls around the world (see Germain, 2010). The dissertation suggested that the emergence of the IASC can be connected to this broader phenomenon, whereby the work of the IASC/IASB is believed to support economic globalization, trade, and expansion of the neoliberal project by increasing the transparency of financial reporting practices, enhancing the comparability of financial statements, and reinforcing a logic of financial reporting that prioritizes the information needs of actors in the financial sector. In the other instance, I suggested that the IASC/IASB’s projects to harmonize the accounting for business combinations are thought to have been undertaken to reduce obstacles to the

130 Certainly other changes manifested. Arnold (2012) shows, for instance, how Western nations increasingly transitioned their economies from capital accumulation to the increasing financialization of their market economies.
increasing levels of foreign direct investment—including cross-border mergers and acquisitions activity—that manifested in the 1960s and 1970s.

One way to extend the dissertation’s work is to problematize the common narrative that economic globalization spawned the IASC (see, for example, the work of Chua & Taylor, 2008). Further work can probe the IASC/IASB’s “real history” through applying Foucault’s genealogical method (e.g., 1977), whereby a concerted effort can be made to challenge what is commonly regarded as “objective knowledge” about the IASC/IASB. Taking the dissertation ahead in this manner would lead to the construction of an alternate version of the IASC/IASB’s History that would be highly attentive to the more complicated and nuanced relationships between globalization and the “sudden need” for a harmonized framework of financial accounting standards. It would be a history that would suspend the presumption that economic globalization necessitates the configuration of one set of financial accounting standards. One reason that it is worth bracketing this common perception is that globalization is not a recent phenomenon (e.g., Abu-Lughod, 1995; Harlan & Rahschulte, 2011; Hirst & Thompson, 1996); yet the convergence project is. Ergo the association between the two is unclear in spite of the IASB’s claims to the contrary. Through an application of the genealogical method, proper cognizance can be given not only to the social and historical conditions under which “divergence in practice” came to be problematized on the international stage in the 1960s (see Camfferman & Zeff, 2007) but also the conditions that bore witness to the emergence and diffusion of the discourse of convergence. In a similar vein, further attention can be given to the conditions under which diverging methods for accounting for business combinations came to be constructed as a problem in the late 1970s, whereupon the IASC first added IAS 22 to its technical agenda.

Another way to advance the dissertation’s work would be to connect the work in chapter 5 to the accounting literature on transparency. There is research examining the potential for transparency to serve as a regulatory instrument (e.g., Andon & Free, 2012; Rose, Mazza, Norman, & Rose, 2013). It is believed that various modes of transparency illuminate what would otherwise remain sequestered from public observation. Transparency is believed to promote accountability. Financial reporting, for instance, is said to enable investors to carefully scrutinize the activities of management, and this in turn is thought to build investor confidence. Transparency is increasingly revered in practitioner and policy circles as the “appropriate” solution for moderating what we might regard as various manifestations of the agency dilemma. Simply put, transparency is said to facilitate a type of monitoring at a distance, whereby we can look behind closed doors and into private spaces.

But transparency has its limits. Roberts (2009) states, “transparency works to advertise an ideal against which we will always fail so that it plays with my fears of being exposed and humiliated whilst at the same time encouraging me to take pride in what is disclosed” (p. 958). The work in chapter 5 suggested that one way the IASB seeks to build democratic legitimacy is by working in what it characterizes as a highly
transparent manner. The IASB asserts, for instance, that the public can not only observe all of the secretariat and the board’s public deliberations, but it can also actively engage the IASB as part of a “due process” for developing IFRS. Yet as the work showed, there are limits to the IASB’s transparency. Without rehashing all of them here, we can say that the data suggested certain ways in which the IASB’s claim to full transparency is symbolic to a point.

One way to build on the work in the dissertation would be to analyze in greater detail some of the impediments to the IASB’s transparency but more importantly strategies for alleviating them. As Roberts (2009) argues, transparency is generally an ideal that is difficult to uphold in practice. But Roberts doesn’t throw his hands up in frustration. Instead, he recognizes the inherent limitations of transparency and then investigates several possibilities for constructing a more “realistic” mode of transparency—something that he characterizes as a more “intelligent” approach to transparency. It is an approach that, first, centers on the realization that it is impossible to be fully transparent, if for no other reason than we ourselves are never fully cognizant of the things we do in life; therefore, it is impossible for us to relay some things to others. Chapter 5 briefly explored a few ways to build a more “realistic” mode of transparency at the IASB. I stated, for instance, that accounting intellectuals could play a pivotal role in fostering a more deliberative approach to the development of IFRS, in part by constructing what Habermas calls “ideal speech situations” (1981). Recollect that accounting intellectuals have considerable “interactional expertise” and in certain cases “contributory expertise” (Collins & Evans, 2002, 2007) on financial accounting. Accounting intellectuals can help to increase the transparency of the IASB’s work by helping the public to make sense of a highly technical and somewhat exclusive process. Further work can build on the dissertation along with Roberts’ thesis by recognizing the unavoidable obstacles to the IASB’s transparency as a first step in devising a more “realistic” mode of transparency at the IASB.

Further theoretical consideration could be given to the discrepancies between the IASB’s discourse of transparency and its manifest organizations’ practices by drawing on insights gleaned from the works Erving Goffman (e.g., 1959, 1971, 1974). Some accounting researchers examine particular ways in which transparency is part and parcel of a project of “impression management.” To illustrate, there is work showing that management endeavors to convey an appearance of good performance vis-à-vis annual results press releases, which to some extent conceal poor performance results (Osma & Guillamón-Saorín, 2011). As another example, there is research examining how U.K. investors and investees stage elaborate performances in an attempt to convey to the public their adherence to high standards of social and environmental accountability (Solomon, Solomon, Joseph, & Norton, 2013). Future research can attend to accounting standard setting on the IASB’s back and front stages, and how particular performances on its front stage seek to impress upon external actors how the IASB is a just standard setter that works in what is believed to be the “public interest.” The work in chapter 6, for instance, could be used as a backdrop against which to investigate one aspect of the IASB’s project of “impression management.” That is, in spite of the chairman of the board’s claim that the IASB is
“…unlikely to overlook issues raised around the world” (Hoogervorst, 2013, p. 3), there are data suggesting that in certain cases the IASB seems to circumvent issues raised by the public.

The work in chapter 6 could be further extended through a careful analysis of the IASB’s development of the first 13 IFRS. While the IASB asserts that it consults the public extensively on how to promulgate IFRS, future research can judiciously investigate the precise nature of its consultation process. What does its consultation process entail? Whom does the IASB consult apart from the user community, accounting standard setters, and market regulators? How pervasive is the pattern observed in chapter 6? Is it common for the IASB to release IFRS in the face of widespread opposition expressed in comment letters? How do members of the secretariat and the board make sense of concerns raised in comment letters? When is it appropriate to release an accounting standard that is widely contested and when is it not? Is it the norm for the IASB to forgo releasing a discussion paper (as it did in Phase II) in spite of its claim that its “due process” mandates the release of one prior to the release of an exposure draft? Or is Phase II more of an isolated incident, a sort of outlier? Addressing these questions would not only help us to better understand the nature of the IASB’s “due process” for developing IFRS, but it would also illuminate the extent to which the IASB employs a type of Goffmanesque, staged impression management as a basis for constructing and perpetrating myths of transparency and openness.

The analysis in chapters 7 and 8 suggested that the secretariat matters. I argued that one way that the secretariat affects the board’s work is through its construction of project-specific principles. Using the case of Phase II, the analysis showed that the principles expounded some of the basic meanings conveyed by the conceptual framework to the board, and one may surmise that this is one reason why the board invoked the principles as a set of rationales to make particular decisions, like the one to omit a comprehensive discussion on whether cooperatives should be included within the scope of IFRS 3. Further, it was suggested that the principles reduced the possibilities for particular types of problems to be attached to choice opportunities, and that the principles shaped the distribution of items addressed on the board’s technical agenda.

But how did the secretariat derive the principles? The analysis in chapter 7 suggested that the principles expounded particular facets of the IASB’s conceptual framework. However, to the extent that the secretariat constructed principles that went beyond the rudimentary categories underpinning the conceptual framework, one is left wondering how the secretariat formulated the principles. What frames of reference, knowledge, and expertise bore on its construction of the principles? An interesting way to extend the dissertation’s work would be to directly engage the secretariat to learn more about how it created the principles that eventually served as the foundation of Phase II. A broader consideration of the role of the secretariat at the IASB should also be undertaken; that is, further consideration should be given to how the secretariat operates in multiple standard setting projects. As noted in the dissertation, the secretariat does not always apply principles as a basis for translating and summarizing issues raised in comment letters. Naturally, this begs the question:
How does the secretariat’s work in Phase II compare to what it does in other projects? Were the secretariat’s activities in Phase II—particularly its construction of principles—relatively unique? Or were its activities relatively tantamount to how it approaches other projects? A further point that warrants investigation is whether the IASB has codified any procedures to guide the secretariat’s endeavors. At the time of the business combinations project, it was claimed that no such formal guidelines existed. Has this since changed? If so, in what ways? If it has not changed, then an effort should be made to interview members of the secretariat to learn more about how they conduct their work in a relatively fluid and unstructured manner.

The analysis in chapter 8 suggested that a majority of respondents contested ED 3 because they wanted the IASB to teach them more about how to do acquisition accounting. In the end, however, it was shown that the IASB did not procure further instructions on how to account for business combinations. Naturally this raises questions about how preparers and producers now apply IFRS 3 in practice. Some literature suggests that the discourse of convergence is not completely commensurate with convergence in practice (e.g., Eberlein & Richardson, 2012; Ray, 2012; Nguyen & Gong, 2014). As Daske, Hail, Leuz, and Verdi (2013) tersely put it: “…firms have considerable discretion in how they implement IFRS” (p. 495). In the context of the use and circulation of International Standards on Auditing, Mennicken (2008) reminds us that “…international accounting and audit standardisation is not just a top-down process, as much of the existing literature seems to suggest. (…) It is equally driven by the day-to-day activities of local, peripheral actors…” (p. 385).

Although IFRS are said to be applied around the world to increase the comparability of financial reporting practices, there is a body of work showing that practitioners in different jurisdictions apply IFRS in various ways.131 Rodrigues and Craig (2007) state that convergence in practice is decoupled from the discourse of convergence: “The advantage of decoupling is that it allows possible inconsistencies and anomalies of technical activities (such as accounting) to remain hidden behind the façade of a presumption that the formal structure is working as indicated publicly. Thus, although it may be claimed that formal structures and systems have been adopted, they may simply be window-dressing to impress external constituencies” (p. 743-744).

Some of these variations in practice are to be expected given that the IASB has an institutional preference for principles-based accounting standard setting (third dimension) to facilitate the global diffusion of IFRS. But the research here suggests that practitioners might apply IFRS 3 in dissimilar ways for reasons that extend beyond practitioners trying to apply IFRS 3 in ways that resonate with particular local financial and regulatory cultures. Being as the overwhelming majority of respondents requested further guidance from the IASB on how to apply IFRS 3, it stands to reason that without such guidance in place, the application of IFRS 3 may vary around the world. Fieldwork can be undertaken to learn more about how practitioners are applying IFRS 3 in practice. To the extent that I have argued that IFRS 3 does not convey to preparers how

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131 Beyond the accountancy literature there is research suggesting local compliance with international regulation is often cosmetic at best. See, for example, the work Chey (2006, 2007).
to perform all the detailed calculations related to the construction of the group accounts, it would be interesting to interview accounting experts to learn more about how they have created the expertise to apply the standard. What expertises have been constituted in the field? In what ways do said expertises deviate from one another? Are there varying permutations and combinations of knowledge concerning how to apply the acquisition model?

I suggested in chapter 8 that to some extent the IASB can be conceived as a type of depository of expertise. That is, the IASB develops IFRS, and practitioners then learn how to apply IFRS in practice. Based on the “real world” experiences of practitioners, the IASB subsequently tries to codify specialist tacit knowledge when it completes its annual improvements projects. But what happens when multiple expert knowledges materialize in practice? How does the IASB make sense of these different knowledges, and how does it then determine which expertises are appropriate to codify in the amendment of a standard? If practitioners are tasked with building the knowledge on how to apply IFRS, then are we being confronted with multiple IFRS-reporting paradigms, which can be associated in part with the translation of IFRS into certain, specific contexts? Does this mean that the convergence project is more a myth? Or is the case of IFRS 3 highly unusual?

In close, the chapter has outlined some of the possibilities for extending the work of the dissertation. It does not exhaust all possibilities, but it does suggest that the work can be used as the basis for an ongoing research project on the politics of accounting standard setting. It also elucidated how subsequent scholarship can approach the empirical finding by drawing on the insights imparted by other social theorists, such as Goffman. More broadly, the chapter has tried to distill the primary theoretical and empirical implications of the dissertation. Specific attention was given to how the work addressed the dissertation’s original research questions. Accompanying this analysis was a discussion of the dissertation’s limitations and some ways of moderating them, for instance, through analysis of additional data.
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