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THE POLITICAL PROCESS OF STANDARD-SETTING AND ITS
IMPLICATIONS FOR THE FINAL STANDARD

AN EXAMINATION OF STAKEHOLDER INFLUENCE IN THE DUE PROCESS OF
IFRS 16 LEASES

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Abstract

We have performed a single case study of the public consultation process of an accounting standard with major financial implications, making it prone to induce intense lobbying. We studied the ability of the standard setting board, the IASB, to remain independent, i.e. not unduly affected, by either a stakeholder group or a certain type of comment. Our findings do not suggest any disproportionate stakeholder influence, nor any disproportionate favoring of a certain type of argument. This predominantly is aligned with previous literature.

Key words: Influence, IFRS 16, Accounting regulation, Accounting standard, IFRS, IASB, CIG

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List of Abbreviations

CIG – Coalition and Influencing Group

FASB – Financial Accounting Standard Board

IAS – International Accounting Standards

IASB – International Accounting Standard Board

IFRS – International Financial Reporting Standards

KPI – Key Performance Indicator

SEC – Security and Exchange Commission

ETAG – Economic Theory of Democracy Group

PATG – Positive Accounting Theory Group

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1

Introduction

In this chapter we provide some background to the studied topic. Further, we present our research questions, the aim of the study and how it may contribute to the current body of research.

The International Accounting Standard Board (IASB) is an independent group of experts (IFRS, 2020a) responsible for developing International Financial Accounting Standards (IFRSs) of good quality which entails “standards that bring transparency, accountability and efficiency to financial markets around the world” (IFRS, 2020b). In the aim of creating high quality standards, independence in the standard-setting process is highly important. According to the IASB, the standards are to serve the market participants in making informed decisions and states that: “The confidence of all users of financial statements in the transparency and integrity of those statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth” (IFRS Foundation, 2016, p. 4).

In its independent decision-making, the IASB has developed a standard-setting process with the ambition of it being conducted in a transparent manner. One of the guiding principles is *full and fair consultation*. For the IASB, the consultation process consists of voluntary as well as mandatory activities. The board may publish a discussion paper of the proposed standard where the public gets the opportunity to convey its opinion. The mandatory activities includes a similar process where the public is invited to comment on an exposure draft of any proposed standard (IFRS Foundation, 2016).

Extensive participation among the stakeholders is deemed detriment to the output quality of the process, since it enables a comprehensive understanding of the opinion on the proposed standard (Durocher & Fortin, 2011). However, achieving fairness is not straightforward (Bamber & McMeeking, 2016). This is partly because the consultation process provided by IASB creates opportunity for constituents to lobby in their own self-interest (Alali & Cao, 2010). Some constituents will be better informed than others and the standard-setter will, at times, deliberately favor some requests (Bamber & McMeeking, 2016).

In the development of the leasing standard IFRS 16, many stakeholders expressed concerns about the proposed standard. In total, over 1700 comment letters were

submitted (Mellado & Parte, 2016) and the duration of the process amounted to almost 15 years (IFRS, 2016). We appreciate that the strong debate was a product of leasing previously having been under-regulated (IFRS Foundation, 2016; Giner & Arce, 2012). The debate took place in the international media as well as in the substantial amount of comment letters provided in the public consultation rounds during the standard setting process (Mellado & Parte, 2016).

While a lack of constituent participation may compromise the quality of the standard-setting efforts, lobbying is a self-interested intervention with an objective that may not conform to the mission of the standard-setting body (Durocher and Fortin, 2011; Gipper, Lombardi & Skinner, 2013). Hence it follows that, a study examining the IASB's ability to sustain its independence, is applicable in the context of a standard-setting process characterized by high degree of lobbying activity. This is known to be the case in the development of the lease accounting standard IFRS 16 (Mellado & Parte, 2016).

1.1 Discussion of research problem

In his (1977) paper, Watts provides a financial statement theory where financial statements are viewed as products of markets and political processes. Individuals contribute to the product by interacting in these processes and they are assumed to act in a way that maximize their expected utility. Watts and Zimmerman (1978) identify factors that encourages managers to lobby in the standard setting process. The authors conclude that as long as accounting standards create implications for cash flows, there will be corporate lobbying in the standard setting. Zeff (2002) specifically underscores the challenges that IASB face with political lobbying, when attempting to develop, eliminate or change accounting regulation. Zeff (2002) labels the process of standard-setting as political. "Political" is defined as "self-interested considerations or pleadings by preparers and others that may be detrimental to the interest of investors and other users" (ibid, p. 43). Similarly, Gipper et al. (2013) describe political influence over standard-setting as being a purposeful intervention by an economic entity with the goal of affecting the outcome to achieve a self-interested purpose incongruent with the mission of the standard setting body. As defined here, an economic entity includes, but is not limited to, parliament, government agencies, managers, companies and industry associations. Further, in conjunction with wanting to improve the overall quality of financial reporting, accounting firms are assumed to practice lobbying on behalf of their clients, who incidentally belong to the aforementioned stakeholders.

The assumption that standard-setting is political, where constituents lobby in their self-interest, implies that the desired independence of the standard setter may be threatened, consequently impeding the quality of the standard and, by extension, market efficiency. This necessitates an improved understanding of the political process and its possible implications for the final standard. Several studies have examined the political process of standard setting. One study describes how companies use various forms of lobbying, however most likely in combination with submitted comment letters in public consultation rounds (Georgiou, 2004). Another finding is that

preparers submit more comment letters than users (Jorissen, Lybaert, Orens, & Van Der Tas, 2012), and there are indications of stakeholders being disproportionately favored (Kwok & Sharp, 2005). Yet, other studies have not been able to demonstrate any significant stakeholder influence during the standard-setting process (Hewa, Mala & Chen, 2018; Giner & Arce, 2012).

However, according to Bamber and McMeeking (2016), the previous research on standard setting is lacking in that it ranked comments in the consultation process equally and defined success as the number of accepted comments. Therefore, the authors developed a methodology where the level of strength in the proposals was taken into account. Bamber and McMeeking (2016) found nothing that supports the idea of disproportionate influence. Nevertheless, accounting firms were found to have less impact than the other stakeholder groups which suggests some bias in the standard-setting process. In order to evaluate the objectivity of IASB, it is pertinent to examine the nature of the arguments of those proposals that successfully altered the standard. Giner and Arce (2012) examined the manner in which arguments are used throughout the standard setting process, as well as their consequent impact on IASB's decision making. Preparers and consultants frequently used economic arguments in the earlier consultation rounds, but shifted to conceptual arguments in the later phases of the process. With the assumption that stakeholders following an economic logic would benefit disproportionately, Giner and Arce (2012) proposed that the IASB should set aside economic consequences arguments. This suggestion is aligned with the findings of the very same study in which the IASB exclusively considered conceptual arguments.

Bamber and McMeeking (2016) remark that the responses to the exposure draft in focus of the study could have been a part of a larger political or technical agenda, meaning that it would be relevant to explore whether the results are generalizable between standards. Similarly, Giner and Arce (2012) state that single-case studies like theirs should be reviewed in the aggregate of evidence obtained from related studies. Thus, this study attempts to generalize and build upon the findings in the aforementioned studies by combining their methodologies and applying them in another context. To the best of our knowledge, this is the first study that examines stakeholder influence over the IASB's standard setting process while taking both the strength and the characteristics of the individual stakeholder proposal into consideration.

Previous lease accounting, regulated in standard IAS 17, classified leases as either operational or financial, where the latter was capitalized while the former was not. The off-balance sheet financing offered by operating leases has been a matter of contention, and in 2005, the Security and Exchange Commission (SEC) raised concerns over the lack of transparency in financial statements. At that point, lease obligations, originating from operating leases, did not appear on the balance sheet. As a response, the IASB and the US national standard-setting body, the Financial Accounting Standard Board (FASB), initiated a project in a joint effort to improve lease accounting (IFRS, 2016). Since IFRS 16 was presumed to bring all leases on the balance sheet, significant change to the accounted capital structure of companies that previously had leasing contracts defined as operational was hypothesized to follow.

As a consequence, financial ratios would thus be affected (Fülbier, Lirio & Pferdehirt, 2008). According to Fitó, Moya and Orgaz (2013), companies that expected to be negatively affected by the new rules, lobbied for a delay or cancelation of the standard. Due to its high level of stakeholder engagement, IFRS 16 will provide an appropriate context for evaluation of the independence of the IASB.

1.2 Purpose and research questions

The aim of this study is to improve the understanding of the political process within the IASB's standard-setting process. This will be accomplished through the identification of potential disparity in stakeholder power in and between the different consultation rounds of IFRS 16, as well as the characteristics of the arguments supporting the proposals in accepted comments. The following research questions have been constructed:

1. How was lobbying activity related to IFRS 16 distributed across stakeholders and the three public consultations rounds?
2. How was potential influence on the standard, measured as the relative and proportionate number of accepted proposals, distributed across stakeholders and the three public consultation rounds?
3. If at all, were the proposals accepted by the IASB predominantly characterized by either conceptual or economic arguments?

1.3 Contribution

This study is inspired by Bamber and McMeeking (2016) and Giner and Arce (2012). Both studies examine comment letters in public consultation rounds in the standard setting process and the potential influence by different stakeholders on an accounting standard. As single case studies, they both call for replication in order to increase generalizability of their results. We aim to contribute to the existing stream of lobbying research, more specifically to the CIG (Coalition and Influencing Group), which examines the impact of lobbying on standard setters (Jorissen et al., 2012). We will attempt to identify indications of generalizability in the context of IFRS 16. The model of Bamber and McMeeking (2016), used for coding of comments, will serve as our point of departure. Additionally we will consider the characteristics of the arguments in the comments accepted by IASB in a similar manner as Giner and Arce (2012), which will contribute to the discussion of IASB's success in maintaining independence throughout the standard setting process and how this in turn affects the intended quality of the standard.

Our study contributes to the research on the politics of standard setting in three main ways. Firstly, we consider both the potential impact and the strategy of persuasion of the submitted comment. Secondly, this study attempts to generalize the findings on the use of persuasion to influence the IASB in the context of lobbying behavior, as well as the consequent impact on the IASB's decisions. Thirdly, our study reviews

the development of a salient standard setting project with significant impact on financial reporting.

In addition, the practical contribution includes an improved understanding and awareness of when and how the impact of participation in the formal public consultation is greatest. This can be useful for constituents in developing their participation strategy. A greater awareness of the political process may also help the IASB to prevent themselves being unduly influenced and hence maintain its independence.

2

Institutional Background

This chapter outlines the context of the study.

2.1 IASB and the standard setting process

The due process of standard-setting executed by IASB, is built upon three principles. The first being *transparency*, meaning that IASB should execute the standard-setting process in an transparent manner. The standard should also be issued with the principle of *full a fair consultation*, which refers to a process where the full spectrum of stakeholder opinion regarding the standard should be considered carefully. The third principle is *accountability*, meaning that the board should consider the consequences of the proposals and motivate their decisions in the standard-setting process (IFRS Foundation, 2016). With these principles as a base, the IASB aims to fulfill its main objective, namely to “develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards” (ibid, p. 4).

There are four major steps in the due process including an *agenda consultation* every fifth year, where the board makes a comprehensive review of the plan regarding potential change or creation of standards. A new project usually starts with a *research program* where the board discusses issues and examines suitable, appertaining solutions. Commonly, a discussion paper is also prepared for public consultation. If the board identifies an accounting problem that requires amendment, a *standard setting program* is initiated. Consultation on any discussion paper is considered, and an exposure draft for public commentary is produced. Once a standard is issued, a *maintenance program* carries forward, where the board supports implementation of the new or amended standard and evaluates its function in practice (IFRS, 2020c).

A highly functional standard-setting process is crucial for developing high quality standards (IFRS Foundation, 2016), and consequently bringing stability to financial markets (IFRS, 2020b). It is assumed that a transparent process, which entails consultation with interested parties, will enhance the quality of the final standard. For that purpose, procedures for such activities have been developed. There are several activities that can be used for consultation purposes, where one is invitation to comment on public published documents, i.e a discussion paper or an exposure

draft (IFRS Foundation, 2016). The exposure draft is mandatory whereas the discussion paper is published only when the board needs public consultation on the conclusions drawn from the research project (IFRS, 2018). The discussion paper outlines the accounting issue as well as possible solutions, including the preliminary views of the board. An exposure draft is more definitive in its proposals and therefore more similar to a final standard. Comment letters play a crucial role in the formal consultation process since that is how public and deliberate feedback is provided (IFRS Foundation, 2016).

2.2 IFRS 16

2.2.1 The development of IFRS 16

A consequence of the lack of information concerning leases on the balance sheet, was that investors and analysts were not provided a complete picture of the financial position of a company, hindering true comparability. The proposed changes to lease accounting as a response to this issue, incited a high level of involvement among those with a vested interest in lease accounting.

There was a substantial number of comment letters received during the three consultation periods. Of those, approximately 300 were received when the 2009 discussion paper was issued, almost 800 were submitted upon the publication of 2010 exposure draft, and about 650 were sent in after the 2013 exposure draft. There were several delays of the effective date of the standard, which suggests that the high engagement among stakeholders majorly impacted the standard setting process (Mellado & Parte, 2016). IFRS 16 was issued in January 2016 with an effective date as of January 1st 2019 (IFRS, 2016).

2.2.2 The contents of IFRS 16 and its effects on the standard-setting process

The previous lease standard, IAS 17, differentiated between leases that were economically similar to a purchase (a financial lease) and those who were not (an operating lease). The financial leases were to be reported on the balance sheet as assets, while the operating leases were to be expensed in the income statement. The different classification of leases is disregarded in IFRS 16 and all leases are to be treated as finance leases, hence accounted for as assets. The capitalization of leases happens through the recognition of the present value of lease payments. Simultaneously, lease payments that are paid over time are to be recognized as a financial liability (IFRS, 2016).

An increase in lease assets and financial liabilities is the most substantial change following the new requirements in IFRS 16. This will influence financial metrics regarding assets and liabilities, such as leverage ratios. In terms of KPIs (Key Performance Indicators) derived from the income statement, the operating lease expense is replaced with a depreciation charge for lease assets as well as an interest expense on lease liabilities, meaning that these consequences will not alter the

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reported net income materially. Finally, as the amount of cash transferred will remain the same, thus IFRS 16 will not affect the sum of reported cash flows (IFRS, 2016).

3

Literature and research question Development

In this chapter we present the literature deemed to be relevant for our study.

Research regarding participation in the standard-setting process can be divided into three main streams; Economic Theory of Democracy Group (ETAG), the Positive Accounting Theory Group (PATG) and the Coalition and Influencing Group (CIG) (Durocher, Fortin and Côté, 2007). ETAG studies general constituent participation, whereas PATG attempts to outline the incentives as well as characteristics of the participating preparers. The point of departure for our study is the CIG, which focuses on the impact that stakeholder participation has on a final standard, i.e. the extent to which lobbying influences the decision making of the standard setters (Jorissen et al., 2012). However, an understanding of the level of participation among stakeholder groups, in and across the different consultation rounds, is deemed a prerequisite for performing such a study thus making the ETAG stream of research an appropriate element to also include.

3.1 Participant distribution and timing

Most research regarding the decision to participate in the standard-setting process and the consequent participant distribution in terms of stakeholders relies on a cost/benefit model originally developed by Sutton in 1984 (Jorissen et al., 2012). The model by Sutton (1984) originates from the Downsian (Downs, 1957) voting model and predicts that a party will lobby in a standard-setting process if the gains from doing so, while considering the probability of successfully altering the standard are predicted to exceed the costs. This implies that preparers are expected to lobby more than users since they usually possess more wealth that is less diversified, meaning that they have financial capacity as well as incentive to hinder new accounting rules that would alter the financial reporting in an unfavorable manner for them. Several studies have confirmed the preparer-user hypothesis (Weetman, Davis & Collins, 1996; Seamann, 1999; Durocher et al., 2007; Jorissen et al. 2012; Giner & Arce, 2012; Mellado & Parte 2012; Reuter & Messner 2016). In addition, preparers tend to have shared interest in configuration of financial accounting, and they can reap the economic benefits of scale by lobbying in groups (Sutton, 1984). This suggests

that industry organizations can be expected to participate to a high degree. Further, in accordance with the theories on low participation rates among users provided by Sutton (1984), Georgiou (2001) argue that the relatively few user generated comment letters can be explained by indirect participation in the process through trade associations. Further, Sutton (1984, p. 86) states that “Lobbying will be concentrated among those producers on whom the “real” effects of a standard are likely to bear most heavily (e.g. an industry-specific standard; a general standard with a differential impact across industries.)”

The theories regarding lobbying activity of the accounting profession are divergent. Some argue that the accounting profession will lobby in its own self-interest, meaning that it favors accounting regulation that will increase the demand for its services. Consequently, the costs of preparing financial statements increase, implying that there is a conflict of interest between the accounting profession and its clients (Puuro, 1984). On the contrary, agency theory predicts that the accounting profession will act on behalf of its clients, i.e. the preparers, theorizing an alignment of incentives (Reuter & Messner, 2015). Jorissen et al. (2012) found the accounting profession to be the second most active stakeholder, measured in the number of comment letters submitted in response to exposure drafts. However, in regards to discussion papers, the accounting profession was shown to be the most active lobbying group (ibid.). Reuter and Messner (2015) found that the accounting profession lobbied more frequently than did preparers, which is aligned with the findings by Jorissen et al. (2012), in regards to discussion papers.

In their 2016 study of the due process of accounting standard-setting with a focus on relative levels of stakeholder and jurisdictional influence, Bamber and McMeeking (2016) found that accounting firms made the most number of comments per letter, while Regulatory and Professional Bodies (RPBs) produced the highest number of letters as well as comments in total. The authors note that the lower response levels among preparers is not aligned with the previous findings of similar research: “It is possible that the decrease in individual preparer responses is offset by the increase in the quantity of RPB responses i.e. representative organisations are responding on behalf of their members” (Bamber & McMeeking, 2016, p. 67). This is in agreement with the predictions made by Sutton (1984) regarding the shared interest of preparers and the cost-benefit of lobbying in groups.

Regarding timing, Sutton (1984) predicts that lobbying will be most effective in the early stages of the standard-setting process, when the standard-setters have yet to decide on the specifics. Overall, Georgiou (2004), found that companies lobby during the stages of the process at which public consultation takes place, i.e. formal lobbying is more common, even though literature (Sutton, 1984; Jordan, 1991) suggests that such lobbying is less effective. Georgiou’s suggested explanation for this was a reluctance by participants to admit early phase lobbying activities or that they may be unaware of the advantages of pre-public phase lobbying. In terms of the public phase, Giner & Arce (2012) found that preparers sent more letters in response to the discussion paper than in response to the second exposure draft, as opposed to the other stakeholder groups. Contrary, Jorissen et al. (2012) observed that preparers submitted the majority of its letters in the later stages of the process.

In the light of previous research outlined above, we may expect that the accounting profession was the major stakeholder group in the early phase of the IFRS 16 consultation process, while this would shift to the preparers in the later phase – perhaps in the aggregate form of industrial organizations. Further, since IFRS 16 will affect those that make use of leasing, specifically operational leasing, we expect companies within leasing intense industries (such as airlines and retailers) to lobby the most.

It is not immediately clear that findings which suggest that early pre-public phase lobbying is more effective can be used to infer a preference to lobby early in the public consultation rounds. However, it is conceivable that the early stages of a lengthy public consultation process, such as that of the IFRS 16, could be analogous to the prediction of Sutton (1984). If so, we may generally expect higher levels of lobbying in the earlier consultation rounds of IFRS 16. While the purpose of this study is to improve the understanding of the general impact that stakeholder participation has on a final standard in and across the different consultation rounds, in order to take the relative stakeholder power into account, we deemed it a prerequisite to outline the participation distribution among stakeholder groups. Our first research question consequently proceeds as follows:

RQ1: How was lobbying activity related to IFRS 16 distributed across stakeholders and the three public consultations rounds?

3.2 Stakeholder influence

Kwok and Sharp (2005) conducted a study with the aim of understanding the process of the International Accounting Standard Committee (IASC) and how the power inherent to that process has impact on emerging standards. While the IASC Framework states that the standard-setting process is to serve the needs of users who provide capital to enterprises, combined with the finding that interviewees in the study proclaimed that the commission of IASC is to serve the needs of the capital markets, the study itself showed otherwise. It appears that the final standard mostly caters to the preference of preparers. Moreover, the final standard appears to be weaker than initially proposed in that it allows for more flexibility (Kwok & Sharp, 2005).

Cortese, Irvine and Kaidonis (2010) examined the power dynamics of a standard-setting process. The authors conclude that the IASC/IASB's international accounting standard setting process risk being co-opted by powerful interest groups, which was the case in their study. While it is widely known that the standard-setting process is political, Cortese, Irvine and Kaidonis (2010) state that their research study specifically charts the source, nature and effect that the politicization has on the final outcome. The characteristics of the companies in the study were generally high profile, economically important, and globally present. Cortese, Irvine and Kaidonis (2010), argue that the due process functioned as a forum for powerful and opportunistic constituents. However, Bamber and McMeeking (2016), found no significant results to support the idea that preparers' proposals are being favored in terms of acceptance

rates, while they did find that accounting firms had significantly less influence than other stakeholders. Similarly, the analysis of interest group influence performed by Giner and Arce (2012), showed that none of the interested parties' proposals had a dominant effect.

Previous research (Kwok & Sharp, 2005; Bamber & McMeeking, 2016; Giner & Arce, 2012) on stakeholder influence in the context of accounting standard-setting appears to be inconsistent, thus making it relevant to examine further in an attempt to substantiate and generalize previous findings. This leads us to our second research question:

RQ2: How was potential influence on the standard, measured as the relative and proportionate number of accepted proposals, distributed across stakeholders and the three public consultation rounds?

3.3 Influence of arguments

Sutton (1984) describes two features of lobbying, where one of them regards the increasing use of economic arguments in the US to support the lobbyist's opposition, and the other concerns conceptual (technical) arguments. According to Sutton (1984), conceptual arguments are more prone to be rejected by the board due to the incontestable nature of the conceptual framework. Economic arguments, however, lie outside its competence and, more importantly, its authority.

Some later studies examine how constituents argue their opinion on a proposed standard by using conceptual and/or economic arguments (Giner & Arce, 2012; Jupe, 2000; Tutticci, Dunstan & Holmes, 1994). The definition of the two kinds of arguments differ slightly between the studies, even though the core concepts are very similar. According to Giner and Arce (2012), these definitions posit that a conceptual argument is one that refers primarily to the accounting notions linked to the Conceptual Framework as well as technical issues related to the topic under consideration. An economic argument, however, is one that refers to economic changes associated with the proposed standard and the implications of those changes (Giner & Arce 2012).

Since lobbying is assumed to be an activity performed in self-interest purposes, it can be expected that participants will motivate the position by economic or self-referential arguments (Giner & Arce, 2012; Tutticci, Dunstan & Holmes, 1994). However, in their study of the Australian standard E49, Tutticci, Dunstan and Holmes (1994) found that most of the participants supported their position with the use of conceptual arguments. The authors explained this by suggesting the possibility that the respondents may think that they would have a higher probability of success if they used conceptual arguments, as economic arguments can be viewed as self-serving. Giner and Arce (2012) proclaimed that economic arguments may not be a marker of professionalism, and for that reason, preparers of financial statements instead rely on conceptual arguments to gain support for their proposals. Further, the standard setter was assumed to foremost consider conceptual arguments in order to maintain their perceived objectivity. In the same study, it was found that prepares

and consultants used economic arguments frequently, however replacing them with conceptual arguments in the later phases of the standard-setting process. The authors explain the shift in arguments by an increasing awareness among constituents about the kind of arguments associated with success in influencing the IASB. In regards to the influence of arguments in the study, only conceptual arguments were taken up by the board.

Researching IFRS 1, Jupe (2000) found that constituents who were positively affected by the new standard used self-referential (economic) arguments to support their position 50% of the time, most commonly in combination with conceptual ones. Those that were negatively affected by the the new standard used self-referential (economic) arguments entirely. The author provides a possible explanation for this pattern, where he states that constituents who experienced negative effects from the standard had fewer inhibitions against using self-referential (economic) arguments.

While Sutton (1984) argues that is easier for the board to neglect conceptual arguments, Giner and Arce (2012) find evidence in favor of the standard setter primarily considering conceptual arguments. Since acceptance of economic arguments can be considered a threat to the objectivity of IASB in the due process (Giner & Arce 2012), and consequently the quality of the standard (Hewa, Mala & Chen, 2018), we find it appropriate to examine the kind of arguments put forward in the *accepted* major proposals. However, the assumption that conceptual arguments are inherently more neutral could, in fact, be disputed by the findings of Giner and Arce (2012) themselves. The constituents replacing economic arguments for conceptual viewpoints as the commenting period progressed, may suggest an awareness of the higher success probability of conceptual arguments, which may imply a Trojan horse.

Hence, our third research question is as follows:

RQ3: If at all, were the proposals accepted by the IASB predominantly characterized by either conceptual or economic arguments?

4

Methodology

In this chapter we describe the research strategy and research design, followed by a summary of the literature review. Lastly, the methods used for data collection and data analysis are presented, as well as a discussion on the chosen methods.

4.1 Research strategy and research design

The characteristics of the standard-setting process performed in the preparation of IFRS 16 were deemed relevant for the examination of IASB's ability to remain independent in the consultation process. Consequently, IFRS 16 was chosen as an object of study. The collected data consisted of written documents, mainly available for download at the IFRS website. The qualitative data was interpreted using quantitative content analysis, and thus, the research includes a mixture of qualitative and quantitative elements.

4.2 Literature

In the initial phase of this study a literature review was made in order to outline the existing research field, and to find potential inconsistencies where we could contribute to knowledge, as well as suitable methods to reach the stated aim. Academic articles were predominantly used. The articles were mainly found through independent searches and in references from already retrieved literature. The choice of articles was based on relevance of topic, number of citations as well as the journal's reputation. The majority of the articles had been published in journals with a high score in the Journal Quality List's (JQL) 66th edition (Harzing, 2020). A small number of the articles used were, however, not published in such journals, and some articles had few citations. Yet, the absence of those quality markers were generally not jointly true.

4.3 Data collection

The data used for analysis in this study primarily consisted of comment letters submitted during the three public consulting rounds in the due process of IFRS 16.

The consultation rounds encompassed a discussion paper, an exposure draft, and a revised exposure draft. The discussion paper itself as well as the two exposure drafts and the final standard functioned as supporting material. The above-mentioned documents are publicly available and have been accessed from the IFRS website. The number of comment letters mentioned in the comment letter summary constructed by the board and the amount available for download diverged, but no auxiliary information was found. For that reason, we chose to download all zip-files available on the website. After correcting for duplicates, there were 302 letters received for the discussion paper, 774 letters for the first exposure draft and 650 letters for the revised exposure draft.

4.4 Data analysis

4.4.1 The model

The model derived by Bamber and McMeeking (2016) was the outset of our study. According to Bamber and McMeeking (2016), previous research has measured the level of influence on the standard by the relative *number* of submitted proposals that had an affect on the standard-setters' decision. In congruence with Bamber and McMeeking, we chose to rank proposals on the basis of their material impact on the standard if accepted. However, whereas Bamber and McMeeking (2016) examined all arguments indiscriminately, we focused entirely on arguments that requested fundamental change. Further, succeeding Giner and Arce (2012), we determined how many of the major proposals were based on conceptual and economic arguments, respectively. Finally, we examined how many of those proposals that were accepted by the board and thus influenced the final standard.

4.4.2 Software

Software programs do not create codes or decide how to analyze or draw conclusion from the data provided. For that purpose the human creativity needs to be involved. However, softwares can expedite the process (Bengtsson, 2016). We used Nvivo for the analysis of our qualitative data. This enabled us to organize the large set of data in the comment letters for a more effective and purposeful analysis.

4.4.3 The coding process

The procedure for the coding process is presented below.

Stakeholder groups

To answer the first research question, we divided the submitted comment letters into groups based on which stakeholder the submitter belonged to. We followed a categorization scheme similar to that employed by the IASB (IASB & FASB, 2009) in the IFRS 16 due process, and categorized the participants into the following groups: *preparer*, *user*, *industry organization*, *professional organization*, *accounting*

firm, standard setter and *other*. Deviating from the IASB's grouping, we decided to include *individual, government agency, academic, and regulator* into *other*.

Preparers include both lessees and lessors and consist mainly of companies involved in leasing activities. Users are defined as those that analyze financial statements, e.g. for investment purposes. Real estate companies are classified as preparers and banks are classified as users if not clearly stated otherwise. We define an industry organization as an association working in the interest of companies in a specific industry or division. Further, we define a professional organization as an association that operates in the interest of a particular profession. Accounting firm refers to consulting firms that offers accounting or auditing services.

Sampling

The number of letters submitted during the three public consultation rounds was extensive. For that reason, we chose to sample 150 comment letters from each consultation round. It is important that the units in the sample are representative of the population (Krippendorff, 2004). In this study, we chose a stratified sampling technique where comment letters were selected randomly within the stratas, guided by stakeholder group proportion (ibid.). This sampling method was considered appropriate since the proportions between stakeholders groups was a fundamental aspect of the study.

Identification of major proposals

To answer the second and third research question, we needed to identify the major proposals made in the comment letters. The definition of a major proposal originates from the definition used by Bamber and McMeeking (2016), however we decided to modify it into a more inclusive concept. In the (2016) study of Bamber and McMeeking, a major proposal was defined as one that had not previously been considered by the board. In our opinion however, we consider proposals consisting of views discussed but not preferred by the board to be major. The codes for the content analysis were decided on beforehand, and divided into three groups. The first group signifies the subject of the proposal, based on questions provided by the board in each consultation round. The second group covers the effect of the proposal, labeled as "accepted" or "not accepted". If accepted, the proposal did influence the final standard. The third and second group determines the type of argument used when presenting the proposal. In accordance with Giner and Arce (2012) the proposal was either categorized as *conceptual* or *economic*. The coding system was fully established in advance of the coding process. However, as the coding proceeded, further clarification of definitions was made to ensure that the codes were clear and coherent. Consequently, the coding process was partly inductive. Further, we used latent analysis, meaning that we stayed close to the actual text and did not search for underlying meanings inherent to the words provided in the data (Bengtsson, 2016).

A classification and coding scheme is presented in Table 4.1, where the concept definitions are outlined.

CLASSIFICATIONS

Concept	Description or definition
Major proposal	<p>Proposals that request fundamental changes (Bamber & McMeeking, 2016). Redefined as:</p> <ul style="list-style-type: none"> • A clearly stated, elaborate request of change to considered requirements in the proposed standard such as: <ul style="list-style-type: none"> – A removal of proposed/discussed rule – A suggestion of a new rule – A suggestion of a considerable stronger rule – A clear stance in multiple choice questions. Multiple choice questions include those that require a yes/no, where the boards have not yet decided on a preliminary view or where the boards have different views. • General thoughts or ideas do not qualify as a request of change • Agreement to the proposed standard does not qualify as a major proposal • Clarification requirements do not qualify as a major proposal
Categories of discussion paper	<ul style="list-style-type: none"> • Scope of lease accounting standard (ch 2) • Approach to lessee accounting (ch 3) • Initial measurement (ch 4) • Subsequent measurement (ch 5) • Leases with options (ch 6) • Contingent rentals and residual value guarantees (ch 7) • Presentation (ch 8) • Other lessee issues (ch 9) • Lessor accounting (ch 10)
Categories of exposure draft 2010	<ul style="list-style-type: none"> • The accounting model • Definition of a lease • Measurement • Sale and leaseback • Presentation • Disclosure • Transition • Benefits and costs

Categories of revised exposure draft 2013	<ul style="list-style-type: none"> • Scope • Accounting Model • Measurement • Transition • Disclosure
Economic consequences arguments	Refer to economic changes associated with the proposed standard and the implications of those changes (Giner & Arce, 2012).
Conceptually based arguments	Refer primarily to the accounting notions linked to the Conceptual Framework or to technical issues related to the topic under consideration (Giner & Arce, 2012).

Table 4.1: Classification and coding scheme.

Analysis was performed on the effect of the accepted proposals and their connection to stakeholder group and type of argument.

4.4.4 Statistical analysis

In order to enhance the trustworthiness, we conducted chi-square tests to examine the significance of the obtained results. We tested the acceptance rate of proposals for each stakeholder group respectively as well as the acceptance rates of conceptual versus economic arguments. Our null-hypothesis was that the observed values should not differ significantly from the expected values. We compared the chi-square statistic to the critical chi-square value derived from the chi-square distribution table using a 5% significance level. The chi-square values were calculated using the following formula:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

The expected values for the accepted proposals by stakeholders were, here illustrated by the example of preparers in the discussion paper, calculated by multiplying the total amount of *accepted* proposals (633) with the number of submitted proposals *by preparers* (391) divided by the *total number of submitted proposals* (1125). Hence the expected value for accepted proposals by preparers was $(633 \cdot 391) / 1125 = 220$. This was then compared to the observed value of accepted proposals of 214 and used

to calculate the total chi-square value to be compared with the critical chi-square value of 12.59.

When testing if the acceptance rates for economic and conceptual arguments were significantly different from the expected values, here illustrated by the example of conceptual arguments in the discussion paper, it was calculated as the total number of *accepted* arguments (633) times the total number of *conceptual* arguments (1006) divided by the *total number of arguments* (1125). Hence, the expected value of accepted conceptual arguments in the discussion paper was $(633 \cdot 1006) / 1125 = 566$. After calculating the total chi-square value it was then compared to the critical chi-square-value of 3.84.

4.5 Methodology discussion

Content analysis can be used both as a quantitative and qualitative method, where the former aims to quantify qualitative data for statistical analysis while the latter aims to facilitate sense-making. This enables the researcher to discern patterns within the data that otherwise would have been hard to distinguish (Krippendorff, 2004). The method is considered beneficial in that it transforms large amounts of unstructured data into practicable material (Silverman, 2006). The content analysis of this study has qualitative as well as quantitative characteristics. Since the data under scrutiny is expressed in writing, paired with the fact that there is a substantial amount of documents, we considered a mixed method to be appropriate for the purpose of this study. The comments letters were individually studied in order to make sense of the content for further quantitative and statistical analysis.

Qualitative content analysis does not entail a large set of rules due to its non-reliance on any particular science. However, it is always important to ensure that the research is carried out in a manner that achieves the highest trustworthiness possible. As opposed to other methods within qualitative research, content analysis offers the possibility to use concepts traditionally linked to quantitative research when discussing trustworthiness. The importance does not lie in the concepts that are used, but rather in the way that they are assessed (Bengtsson, 2016). The discussion on trustworthiness and quality in this study, will refer to concepts used in quantitative research.

Reliability and Replicability

Reliability refers to the the method being robustly repeated on the same object of study generating the same results, whereas *replicability* refers to the method allowing other researchers to come to the same results (Collis & Hussey, 2014). Content analysis requires creativity provided by human beings (Bengtsson, 2016). However, this also promotes disparity in the interpretation of the text and may hence impair objectivity when performing the study. Silverman (2006) argues that it is important to create categories that are precise enough to ensure that different researchers arrive at the same results if analyzing the same material. This in order to secure replicability. Maintaining reliability and replicability appears to be a challenging facet of this study. With the intent of promoting reliability and replicability, we

created distinct codes and classifications, and constructed a coding scheme for each consultation round, where the codes and interpretations were clearly defined and thoroughly described. Initially we coded 10 letters together, where we tested our codes, discussed their shortcomings and adjusted for them. Further, we paid close attention to any unforeseen ambiguities and discussed them whenever they appeared in order to make sure that we were in full agreement on the definitions.

Generalizability

This study was performed on a single case, which inherently carries the risk of in-depth analysis happening on the expense of generalizability. Bamber and McMeeking (2016) as well as Giner and Arce (2012) questioned the generalizability of the results because of the single-case design of their respective studies. While the single case may be the main focus for many researchers, repeating studies within the same context may also serve an implicit aim to change practice in the area (Bold, 2012). We aimed to contribute to generalizability within the context of the IASB's standard setting process by combining relevant aspects of the two studies. Further, in order to make statements about generalizability in the political process of standard setting, it seems crucial that the context within one process can be translated into another. The well developed procedures for the IASB's standard-setting should make the process as such similar from time to time. Variance in this should thus mostly stem from the characteristics of the particular standard developed. The form of generalization here is analogical in that it attempts to generalize from one case to another analogous case, through analogical reasoning, searching for pertinent features that are common across the cases. The amount and relevance of the similarities between cases are crucial for plausibility of the generalizations made (Parker & Northcott, 2016). More specifically, in this context, from one standard-setting process to another.

Validity

An important aspect while evaluating the quality of a study is validity, which refers to the ability of the test to measure what it was supposed to measure (Collis & Hussey, 2014). In this study, the ambient aim is to assess if the IASB was successful in its mission to maintain independence during standard setting process of IFRS 16. A proxy for this is proportionate stakeholder influence as well as proportionate influence of argument type. We measure the relative influence from the identified set of stakeholder groups over the final standard. This is measured using the percentage of accepted proposals per group. If each group had the same share of their proposals accepted, the IASB may be considered independent. However, this assumes that each constituent and proposal is equal in terms of competence, relevance and quality, which is an issue we attempt to mitigate through exclusively looking at major proposals. Further, we assess which type of argument had the most impact on the standard. This is determined through comparing the number of accepted conceptual arguments to the number of accepted economic arguments, where the latter has previously been assumed to have a greater inherent risk of making the board inclined to accept proposals that will benefit some stakeholders in an unduly manner. Our assumption is that the board is independent if they accept economic and conceptual arguments in a proportionate manner.

5

Results and analysis

In this chapter we present our observations of participant distribution and timing, a summary of stakeholder proposals and how they correspond to the potential influence on the standard and characteristics of the arguments and, finally, we outline our findings on the influence of these arguments.

5.1 Participant distribution and timing

As can be seen in table 5.1, *preparers* constitute the largest stakeholder group throughout the process, and its relative participation increases over time. The opposite pattern can be seen in the case of *professional organizations*, *standard setters* and *accounting firms*, with a slight increase in the last round regarding the two latter groups. *Industry organizations* and *others* acted invertedly, where the former had a higher level of participation in the first and last rounds, whereas the latter focused on the second round. The level of *user* participation is stable throughout the three rounds.

CONSULTATION ROUND	Discussion Paper		Exposure Draft 2010		Exposure Draft 2013	
	No	%	No	%	No	%
STAKEHOLDER						
Preparer	117	39%	350	45%	318	49%
Professional Organization	40	13%	79	10%	54	8%
Industry Organization	56	18%	104	13%	110	17%
Standard Setter	23	8%	24	3%	30	5%
Accounting firm	11	4%	23	3%	29	4%
User	16	5%	46	6%	37	6%
Other	39	13%	148	19%	72	11%
TOTAL	302	100%	774	100%	650	100%

Table 5.1: Distribution of comment letters

5.2 Stakeholder influence

The stakeholder comments have been scrutinized in regards to level of alignment with the final standard, IFRS 16. The results are presented in Table 5.2. In total, the acceptance rate amounted to 56% in the discussion paper, 47% in the first exposure draft, and 38% in the second exposure draft. The relative number of accepted proposals hence decreased substantially throughout the three consultation rounds. *Preparers* accounted for the largest proportion of accepted proposals in all three consultation rounds, 19%, 26% and 20% respectively. The remaining stakeholder groups had an even share of accepted proposals, with no group exceeding 10%.

CONSULTATION ROUND	Discussion Paper			Exposure Draft 2010			Exposure Draft 2010		
	T, No (%)	A, No (%)	R, No (%)	T, No (%)	A, No (%)	R, No (%)	T, No (%)	A, No (%)	R, No (%)
Preparer	391 (35)	214 (19)	177 (16)	316 (54)	152 (26)	164 (28)	275 (50)	112 (20)	163 (29)
Professional Organization	183 (16)	112 (10)	71 (6)	53 (9)	31 (5)	22 (4)	32 (6)	10 (2)	22 (4)
Industry Organization	229 (20)	102 (9)	127 (11)	61 (10)	22 (4)	39 (7)	89 (16)	28 (5)	61 (11)
Standard Setter	114 (10)	75 (7)	39 (3)	32 (5)	12 (2)	20 (3)	45 (8)	20 (4)	25 (5)
Accounting firm	59 (5)	36 (3)	23 (2)	31 (5)	17 (3)	14 (2)	34 (6)	11 (2)	23 (4)
User	49 (4)	32 (3)	17 (2)	35 (6)	15 (3)	20 (3)	30 (5)	13 (2)	17 (3)
Other	100 (9)	62 (6)	38 (3)	64 (10)	32 (5)	32 (5)	50 (9)	17 (3)	33 (6)
TOTAL	1125 (100)	633 (56)	492 (44)	592 (100)	281 (48)	311 (53)	555 (100)	211 (38)	344 (62)

Table 5.2: Effect of proposal – summary. Accepted (A) and Rejected (R) in relation to the Total (T) number of proposals

The chi-square tests, with results depicted in Table 5.3, show no significant difference between actual and expected distributions of accepted proposals. Thus, it does not appear to have been any disproportionate influence over the final standard.

DISCUSSION PAPER					
STAKEHOLDER	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
Preparer	214	220	-6	36	0,16
Professional Organization	112	103	9	82	0,79
Industry Organization	102	129	-27	721	5,60
Standard Setter	75	64	11	118	1,84
Accounting firm	36	33	3	8	0,24
User	32	28	4	20	0,71
Other	62	56	6	33	0,58
TOTAL:					9,92

EXPOSURE DRAFT 2010					
STAKEHOLDER	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
Preparer	152	150	2	4	0,03
Professional Organization	31	25	6	34	1,36
Industry Organization	22	29	-7	48	1,67
Standard Setter	12	15	-3	10	0,67
Accounting firm	17	15	2	5	0,35
User	15	17	-2	3	0,16
Other	32	30	2	3	0,09
TOTAL:					4,32

EXPOSURE DRAFT 2013					
STAKEHOLDER	Observed (O)	Expected (E)	O - E	(O - E) ²	(O - E) ² / E
Preparer	112	105	7	56	0,53
Professional Organization	10	12	-2	5	0,39
Industry Organization	28	34	-6	34	1,01
Standard Setter	20	17	3	8	0,49
Accounting firm	11	13	-2	4	0,29
User	13	11	2	3	0,22
Other	17	19	-2	4	0,21
TOTAL:					3,13

Table 5.3: Stakeholder influence – observed Chi-square value

5.3 Influence of arguments

The major proposals coded in the comment letters submitted in the three consultation rounds were categorized in terms of conceptual or economic reasoning and are displayed in Table 5.4 for each stakeholder group. The principal amount of proposals was composed of conceptual arguments throughout the three consultation rounds (89%, 64% and 83%, respectively). *Professional organizations, accounting firms and standard setters* were the three stakeholder groups that used conceptual arguments to the largest extent.

CONSULTATION ROUND	Discussion Paper			Exposure Draft 2010			Exposure Draft 2013		
STAKEHOLDER	T, No (%)	C, No (%)	E, No (%)	T, No (%)	C, No (%)	E, No (%)	T, No (%)	C, No (%)	E, No (%)
Preparer	391 (35)	333 (30)	58 (55)	316 (54)	199 (34)	117 (6)	275 (50)	218 (39)	57 (10)
Professional Organization	183 (16)	177 (16)	6 (1)	53 (9)	36 (6)	17 (3)	32 (6)	31 (6)	1 (0)
Industry Organization	229 (20)	197 (18)	32 (3)	61 (10)	34 (6)	27 (7)	89 (16)	68 (12)	21 (4)
Standard Setter	114 (10)	107 (10)	7 (1)	32 (5)	23 (4)	9 (2)	45 (8)	42 (8)	3 (1)
Accounting firm	59 (5)	57 (5)	2 (0)	31 (5)	25 (4)	6 (1)	34 (6)	32 (6)	2 (0)
User	49 (4)	44 (4)	5 (0)	35 (6)	18 (3)	17 (3)	30 (5)	25 (5)	5 (1)
Other	100 (9)	91 (8)	9 (1)	64 (10)	43 (7)	21 (4)	50 (9)	44 (8)	6 (1)
TOTAL	1125 (100)	1006 (89)	119 (11)	592 (100)	372 (64)	214 (36)	555 (100)	460 (83)	95 (17)

Table 5.4: Type of Argument – summary. Conceptual (C) and Economic (E) in relation to the Total (T) number of arguments

The accepted proposals predominantly consisted of conceptual arguments in all three consultation rounds (89%, 72% and 88% respectively), as displayed in Table 5.5.

CONSULTATION ROUND	Discussion Paper			Exposure Draft 2010			Exposure Draft 2013		
TYPE OF ARGUMENT	T, No (%)	C, No (%)	E, No (%)	T, No (%)	C, No (%)	E, No (%)	T, No (%)	C, No (%)	E, No (%)
Accepted	633 (56)	564 (89)	69 (11)	281 (48)	202 (72)	79 (28)	211 (38)	185 (88)	26 (12)
Rejected	492 (44)	442 (90)	50 (10)	311 (52)	176 (56)	135 (43)	344 (62)	275 (80)	69 (20)
TOTAL	1125 (100)	1006 (89)	119 (11)	592 (100)	378 (64)	214 (36)	555 (100)	460 (83)	95 (17)

Table 5.5: Effect of proposal – type of argument. Conceptual (C) and Economic (E) in relation to the Total (T) number of arguments

The chi-square tests, with results depicted in Table 5.6, show no significant difference between actual and expected distributions in regards to the discussion paper and second exposure draft. The null hypothesis can however be rejected for the first exposure draft: it appears that the board has favored conceptual arguments in a disproportionate manner.

DISCUSSION PAPER					
STAKEHOLDER	Observed (O)	Expected (E)	(O - E)	(O - E) ²	(O - E) ² / E
Conceptual	564	566	-2	4	0,01
Economic	69	67	2	4	0,06
TOTAL:					0,07

EXPOSURE DRAFT 2010					
STAKEHOLDER	Observed (O)	Expected (E)	(O - E)	(O - E) ²	(O - E) ² / E
Conceptual	202	179	23	510	2,84
Economic	79	102	-23	510	5,02
TOTAL:					7,86

EXPOSURE DRAFT 2013					
STAKEHOLDER	Observed (O)	Expected (E)	(O - E)	(O - E) ²	(O - E) ² / E
Conceptual	185	175	10	102	0,59
Economic	26	36	-10	102	2,83
TOTAL					3,42

Table 5.6: Influence of arguments – observed Chi-square value

6

Discussion

In this chapter we discuss our findings in relation to previous research.

Aligned with the findings of several studies (Weetman et al., 1996; Seamann, 1999; Durocher et al., 2007; Jorissen et al., 2012; Giner & Arce, 2012; Mellado & Parte 2012; Reuter & Messner 2016) preparers did submit more comment letters than users and any other stakeholder group. Since preparers are likely to be immediately, and most severely, affected by the requirements of IFRS 16, the high level of participation is quite predictable. Sutton (1984) expected preparers to lobby more than users since their wealth is less diversified and consequently more exposed to the impacts of accounting regulation. This also follows the verdict of Watts and Zimmerman (1978), deeming that there will be corporate lobbying if the proposed standard is presumed to affect cash flows. Industry organizations constituted the second largest submitter, which is in agreement with the argument of Sutton (1984) regarding the inclination of preparers to lobby in groups. Companies' preference to lobby during public consultation rounds (Georgiou, 2004) is perhaps illustrated by our observation that preparers constitute the largest stakeholder group throughout the process. The proportion of comment letters submitted by preparers increased over time and the total amount of comment letters were higher in the later consultation rounds, which is in conflict with the opposite findings of Giner and Arce (2012) and the predictions regarding timing by Sutton (1984).

The findings of our study do not suggest that there has been any significant amount of disproportionate influence over the final standard. This generally supports the observations by Giner and Arce (2012) and Bamber and McMeeking (2016). Preparers being the largest, and arguably most affluent stakeholder group, at least in the aggregate, yet failing to substantially influence the IASB outside the realm of its size, could be an indication that formal lobbying is not very effective (Sutton, 1984; Jordan, 1991). Nevertheless, in actual terms, the amount of accepted proposals – across the board – are correlated with the amount of submitted comments. The sheer number of letters and comments from preparers, did impact the standard. Following the logic of the cost/benefit model, this may very well have been a rational strategy (Sutton, 1984).

Our results affirm the findings of Giner and Arce (2012), namely that conceptual arguments were favoured by the board in absolute terms. However congruent with

our assumption that both types of argument should be considered in an equal manner, this was primarily a result of the large proportion of conceptual arguments. For the first exposure draft, we did find significant bias in favor of conceptual arguments. While Giner and Arce (2012) assumes that conceptual arguments are more neutral, we do not necessarily agree. Participants may be well aware of the higher probability of success using conceptual arguments and hence use them in a persuasive manner.

Zeff (2002) specifically underscores the challenges that IASB face with lobbying, and the standards-setting process in which IFRS 16 was developed appears to have been no exception. Preparers and industry organization predominantly represented lease intense industries such as oil- and gas, shipping and retail, which is aligned with what Sutton (1984) predicted. The letters often referred to the specific consequences that the proposed standard would have on the individual business, and circumvented the content and substance of the IASB proposal. However, the IASB seems to have remained independent throughout the process, with the exception of disproportionate acceptance rates of conceptual arguments in the first exposure draft. Further, the aim of public consultation is not for the IASB to remain completely unswayed, but to consider proposals in a reasonable manner.

Using the context of IFRS 16, our aim was to identify indications of generalizability regarding the findings by Giner and Arce (2012), and Bamber and McMeeking (2016). Our results are consistent with both studies, barring nothing to suggest that the accounting profession was any less influential than other stakeholder groups, nor that there was any materially disproportionate favoring of conceptual arguments.

7

Conclusion

In this chapter we conclude our findings and reflect upon limitations inherent to the study. Given these limitations, we provide suggestions for future research.

The distinctive pattern of participation throughout the consultation process of IFRS 16 is the majority presence of preparers and their increasing participation over time. Regarding accepted proposals, the rates decreased during the process and amounted to 56% in the discussion paper, 48% in the first exposure draft, and 38% in the second exposure draft. Preparers submitted the largest proportion of the accepted comments. The characteristics of the submitted arguments were mainly conceptual and amounted to 89%, 64% and 83% respectively.

Our analysis show no disproportionate influence by any stakeholder on the final standard, measured as the amount of accepted proposals of total proposals made in each consultation round. Further, no uneven treatment of proposal regarding type of argument used could be found for the discussion paper or second exposure draft. However, during the consultation round of the first exposure draft, disproportionate favoring of conceptual arguments was statistically significant. Notwithstanding this, the accepted proposals were mainly conceptual, meaning that conceptual arguments had the most impact in actuality.

7.1 Limitations

The study was based on a model originally developed by Bamber and McMeeking (2016) where the level of strength in the proposals was considered. We deemed it appropriate to target proposals that would have a major impact on the standard if accepted, since an equal treatment of proposals would presumably skew the interpretation of actual influence. However, in our study, all major impact proposals have been treated as being equally important and of equal quality. In actuality, this is unlikely to be true. Some proposals concern fundamental aspects of the standard while others answer to more peripheral features. Further, the quality of the proposals will vary, which in turn is likely to have affected the rates of acceptance.

The content analysis was more complex than anticipated. It required an unforeseen amount of judgment, in regards to the development as well as to the application of codes and classifications. It was particularly difficult to classify some comment letters

by stakeholder group, e.g. there is generally not a clear-cut distinction between users and preparers. Further, many of the arguments were not distinctly separable, making it difficult to count them in a consistent manner.

We noted that cultural differences, between countries as well as industries, will affect layout, language and tone of the letters. The make-up of these components will in turn have an effect on the overall interpretation of the proposal. Strong opinions expressed in an understated manner may for instance have been overlooked in this study. Finally, there are other, less overt, lobbying methods, which we do not touch upon in this study. Here, the level of influence is solely based on a proxy using the number of accepted proposals.

7.2 Suggestions for future research

While our objective to generalize the findings of Bamber and McMeeking (2016) and Giner and Arce (2012) appears to have been mostly fulfilled, there is still a need for more similar studies in order to draw any robust conclusions. For that reason we encourage additional replications. The various cultural aspects could be valuable to consider in another study. Enhancing the singular proxy of accepted letters by using additional material such as interviews with the representatives from the IASB could provide a more comprehensive understanding of the standard-setting process.

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