

Reading between the lines:  
Qualitative research on the lobbying of  
standard setters

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### **Abstract**

In this paper, I find that the explanatory value of the quantitative analysis of lobbying of standard setters is enhanced if it is supplemented with qualitative analysis. I question the adequacy of research that employs purely statistical analysis to explain lobbying behaviour and regulatory outcomes. I replicate many of the statistical tests carried out by Giner and Arce (2012) as part of their study on the lobbying of IFRS 2 on a new data set of the 333 comment letters received by the IASB in regard to the exposure drafts of its project to revise IAS 37 (known as the Liabilities Project). An interpretive documentary analysis combined with interviews of key individuals, both at the IASB and at organisations who wrote comment letters, revealed salient factors that shaped the outcome of the project. These factors could not have been uncovered by the statistical analysis of comment letters alone. The findings of the qualitative research lead me to question the validity of some of the implicit assumptions made by researchers engaging in quantitative research in this area. In particular, I identify four implicit assumptions made by Giner and Arce (2012) as being unrealistic (letter length as a proxy for intensity of lobbyist attitude, equal influence of all lobbyists, the IASB's rational response to comment letter objections and the integrity of objections made in comment letters). This paper provides detailed empirical evidence concerning the specific case of the lobbying of the IASB Liabilities Project and highlights methodological concerns with the reliance on unrealistic implicit assumptions in such quantitative research, particularly when the theories of lobbying are not predictively accurate (Friedman, 1953; Musgrave, 1981). However, its primary contribution is to demonstrate that the use of qualitative research can enrich a statistical analysis of comment letters by revealing the true motivations of those engaging the standard setting process in a way that is inaccessible using quantitative analysis alone.

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## 1. Introduction.

This paper contributes to the substantial literature on the lobbying of accounting standard setters (for example, Sutton, 1984; ?; Giner and Arce, 2012; Tuttici, 1994; ?), by demonstrating that an analysis employing both qualitative and quantitative analysis can yield different — and more useful — results than one using purely quantitative methods. I focus on a recent contribution to the lobbying literature by Giner and Arce (2012) that analyses comment letters sent to the IASB regarding IFRS 2. In order to demonstrate that the use of qualitative research methods can generate insights beyond those offered by a statistical comment letter analysis alone, I independently replicate the statistical work carried out by Giner and Arce (2012)<sup>1</sup> on a new data set extracted from the archive of comment letters received by the IASB for the two exposure drafts (EDs) for its Liabilities Project to revise IAS 37<sup>2</sup>, known as the ‘Liabilities Project’. My analysis, which incorporates both statistical and interpretive methods, demonstrates the benefits of supplementing a quantitative analysis with analysis using qualitative research methods.

While the results of studies, such as that of Giner and Arce (2012); ? deliver useful insights into the lobbying of standard setters, their use of unrealistic assumptions has significant implications for the explanatory usefulness of some of their results. First, the assumption that the page length of a comment letter is a reliable proxy for the intensity of the argument may be questioned. Second, I argue that (in an Orwellian sense), some lobbyists are potentially more equal than others — much more equal in some cases — in the sense that their comments are more influential than those made by others. Third, quantitative researchers tend to assume that the IASB amends proposed standards in response to views expressed in comment letter. Without having any way of directly accessing the individual decision-makers at standard setting organisations, these researchers must rely on making inferences about the intentions of standard setters from observed behaviour. As a consequence, quantitative researchers may be more likely to incorrectly attribute the actions of participants in the lobbying process to erroneous causal factors or to omit important reasons for action from the explanation (Lukka, 2014). Fourth, by assuming that constituents’ comments to standard setters are honest representations of their view of the proposed standard, researchers may misconstrue the reasons why constituents acted in a particular way, if they rely on an analysis of comment letters alone. Researchers may make incorrect inferences about lobbyists’ motivations if they take at face

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<sup>1</sup> This work in turn draws on the earlier work of Tuttici (1994).

<sup>2</sup>This standard addressed the reporting of contingent obligations of a nonfinancial nature, such as pending litigation, clean-up costs for environmental damage and guarantees.

value instrumental objections that are merely serving as useful vehicles for delaying or blocking a project, yet which bear little relation to the *real* reason why lobbyists object to the standard.

As a result of such problems, theories of lobbying that are developed using unrealistic assumptions and then tested using only quantitative data may omit or misrepresent key causal mechanisms as a result of erroneous inferences made from observations of regularities in the data (Lukka, 2014; Lukka and Kasanen, 1995). This study suggests that qualitative analysis has the scope to enrich quantitative studies, such as that of Giner and Arce (2012), thereby providing more useful and accurate insights into lobbyists' participation in feedback and its effectiveness. These issues have implications for the current research into lobbying based on a quantitative analysis of comment letters.

The literature relating to the lobbying of standard setters draws on three schools of thought: economic/rational choice, legitimacy-based or alternative approaches.<sup>3</sup> The 'economic' or 'rational choice' school proposes that organisations' actions aim to maximise organisational wealth (Watts and Zimmerman, 1978; Sutton, 1984) or the self-interest of managers (Dechow et al., 1996). Within this economic approach, a number of scholars have attempted to explain the effectiveness of different lobbying methods. Many scholars have argued that lobbying does influence standard setters' behaviour (Brown, 1982; Hope and Briggs, 1982; Hope and Gray, 1982; Nobes, 1992; Brown and Feroz, 1992; Saemann, 1995; Pong and Whittington, 1996; Kwok and Sharp, 2005). However, others are hopeful that lobbyists cannot, and do not, shape regulatory outcomes. In this regard, Zeff (2002) argues that "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" (pg. 52). In saying this, Zeff apparently supports the IASB's right to drive through standards that have been opposed by constituents. Some scholars in this school attempt to explain the characteristics of firms who do lobby (Larson, 2007; Stenka and Taylor, 2010; Durocher and Fortin, 2011), while others explore the reasons why they may decide *not* to lobby (Georgiou, 2002). In fact, no official requirement exists from the IASB to take into account the views of its constituents. The board members walk a thin line between providing unpopular standards that it believes to be functionally and technically superior and standards that are acceptable to powerful interest groups.

The second approach seeks to explain lobbying in terms of legitimacy theory particularly with respect to due process (Leuz et al., 2004) and the generation of 'input legitimacy' as a precursor to adoption (Botzem and

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<sup>3</sup>For an excellent review of the literature, see Gipper et al. (2013).

Dobusch, 2012). In particular, the role of due process as a legitimisation device has been discussed (Botzem, 2012; Burlaud and Colasse, 2011; Danjou and Walton, 2012; Jorissen et al., 2012). Other scholars have shown that the IASB has moved from reliance on technical competence and independence as a form of credibility, and now emphasises governance and process issues as a source of legitimacy (Richardson and Eberlein, 2010, pg. 217). Furthermore, legitimacy may be one of several important factors influencing standard setting (Durocher et al., 2007, pg. 55).

The third research project focuses on the way in which standard setters make choices about particular styles of accounting and specific technical components of standards, either by considering the effects of prior professional experience on individual standard setters (Allen and Ramanna, 2013) or the potential for group effects or ideological commitments of standard setters to shape regulatory outcomes (Morley, 2016). Other work employs analytical methods to indicate possible explanations for standard setting outcomes (Koniggruber, 2010).

The research that attempts to explain lobbying behaviour by analysing comment letters to standard setters is extensive (Dechow et al., 1996; ?). Some work has focused both on those organisations that submitted comment letters and those that did not Dechow et al. (1996). Within this literature, a recent piece of research of particular interest, by Giner and Arce (2012), conducts a statistical analysis of participation in the process of standard setting by different constituents. Their study adopts a pluralistic model to explain lobbying activity incorporating theories of rational choice, following (Sutton, 1984) and legitimacy, following Kenny and Larson (1995). They analyse 539 comment letters received by the IASB for the project to introduce share-based payments, IFRS 2. Following Leuz et al. (2004), they state that their investigation:

“provides knowledge, about such key aspects of the lobbying process as the roles of the various constituents, when lobbying practices occur, and the arguments employed by the lobbyists”

They attempt to explain the likely motivations and the effectiveness of constituent groups in shaping regulatory outcomes. With this in mind, the Giner and Arce (2012) undertake a quantitative analysis of the comment letters received by the IASB project IFRS 2 for share-based remuneration.

Consistent with the results of earlier scholars such as Sutton (1984) and Tutticci (1994), Giner and Arce (2012) find that there is greater participation from preparers than users because of their greater wealth and also because of the impact of a proposed reporting rule on their firms' earnings or net assets. They acknowledge that the IASB is not specifically required to make

adjustments to a proposed standard in response to constituents' technical criticisms (Giner and Arce, 2012, pg. 664). They pose the following four research questions.

**Research Question 1 (RQ1): Was lobbying activity relating to IFRS 2 equally distributed across interested parties and comment periods?**

First, they ask if lobbying activity is equally distributed across interested parties and over the duration of the project. They assign lobbyists to categories (regulators, the profession, users, preparers, consultants and academics) and find the distribution of comment letter categories to be consistent with the rational choice model of Sutton (1984) as two-thirds of comment letters were sent by preparers. They find that professional accounting groups were more active initially relative to preparers, who tended to become more active later in the project. This increasing participation is contrary to the predictions of rational choice theory that economically motivated interest groups would lobby earlier in the project in order that they can shape the project from the outset. Giner and Arce (2012) also find that the profession, academics, regulators and users shared similar positions whereas preparers took an opposing view. This “dichotomous classification” (pg. 674) is consistent with previous work (Stenka and Taylor, 2010).

**Research Question 2 (RQ2): Did the various interest groups demonstrate different levels of strength in their comment letters?**

In order to answer this question, Giner and Arce (2012) carry out two pieces of analysis. First, they count the number of pages and words in the comment letters, drawing on the work of Ang et al. (2000) and Tuttici (1994), making the assumption that the length of a comment letter is a proxy for the interest and strength of feeling of that constituent. They found, contrary to their initial assumption, that “the profession and academics sent the longest letters, whereas the preparers sent the shortest ones, as confirmed by a Kruskal-Wallis test. However, they find that pair-wise  $\chi^2$  tests reveal no statistical differences among professional accounting groups, regulators and academics or among users, preparers and consultants.

Second, they considered the use of conceptual or economics based arguments by the writers of comment letters. They found that respondents, particularly preparers, tended to use conceptual arguments, from which Giner and Arce (2012) infer that constituents believed this to be a “more effective way to influence the standard setter” (pg. 670). Consistent with earlier work by Stenka and Taylor (2010), they find that preparers used arguments related to economic consequences more frequently.

**Research Question 3 (RQ3): Did the various interest groups provide different arguments in their comment letters to support their positions in favour of or against the proposals?** Invoking the rational choice model of Sutton (1984), the authors hypothesised, following Jupe (2000), lobbyists might rationally be reluctant to provide purely economic arguments, for fear of weakening their case by appearing to be self-serving. They ask if interest groups provided different types of arguments at different stages of the project, with conceptual arguments being used towards the end of the project. For this question, Giner and Arce (2012) found results that were as consistent with earlier work by Tuttici (1994) that arguments against share-based payments were generally conceptual, although preparers were more likely to provide economic arguments. Nevertheless, they found that conceptual arguments were offered more frequently later in the project, although this is based on “untabulated data’ (pg. 674).

**Research Question 4 (RQ4): Was the IASB’s decision-making influenced by any interested group or type of argument more than any other group or argument?** Giner and Arce (2012) ask if the standard setters’s decision-making influenced by any interest groups or by any type of argument more than another. In order to establish the influence of lobbyists, Giner and Arce (2012) analyse changes made to the proposals following suggestions made in the comments letters to the discussion paper and exposure draft for IFRS 2. They find that,

“the IASB aligned itself with the preferences of the majority of comments letters, and that none of the groups had a dominant influence.” (pg. 677)

Giner and Arce (2012) conclude from this finding that the IASB are pluralistic in their due process. However, a potential concern with studies relying exclusively on the quantitative analysis of comment letters, is that relevant evidence of ‘off-line’ lobbying may be missed. Indeed, Georgiou (2010) suggests that participation by lobbying firms may be higher than the level of comment letters suggests.

Certain issues arose from this repeated quantitative work. Some of the proxies used in the tests were questionable and the implicit assumptions made were not necessarily realistic. For instance, the use of page length as a proxy for intensity of feeling is not convincing, as a short pithy letter may well result from stronger feelings than a verbose, lengthy piece of writing. Second, there was no obvious explanation for the areas where my findings were inconsistent with those of Giner and Arce (2012). Furthermore, there were no obvious

reasons why some of my results were consistent with Giner and Arce (2012). This is because their study is a quantitative analysis of the outputs of the feedback process, with very limited evidence of institutional or contextual factors.

This paper aims to test the effectiveness of such quantitative analysis of comment letters in explaining lobbying motivation and style in particular and the regulatory influence more generally of constituent groups, I replicate the statistical work of Giner and Arce (2012) using data from a more recent standard setting project, the IASB Liabilities Project. I highlight certain weaknesses of the study by Giner and Arce (2012) before supplementing my results for the case of the Liabilities Project with qualitative evidence, to see if this will enrich the explanatory account of the lobbying activity.

In critiquing the work of Giner and Arce (2012) and providing qualitative evidence, I make an empirical contribution to the lobbying literature. The methodological contribution of the paper is in its analysis of the importance of acknowledging that qualitative research methods are more useful for a researcher who intends to make causal inferences, than quantitative data reflecting regularities in data. Furthermore, using the example of Giner and Arce (2012), I highlight the inherent instrumentalism of quantitative research into lobbying and the importance of recognising the use of specific types of assumption in the analysis.

For the case of the Liabilities Project, this concern is of great relevance as this interview evidence revealed in this study shows that certain important motivations for lobbying by constituents were not reflected in the comment letters. The focus of this study is to identify whether additional qualitative analysis can improve upon quantitative analyses of comment letters in explaining the effectiveness of lobbying of standard setters.

The rest of the paper is divided into five sections. In Section 5.2, I provide background to the Liabilities Project. In Section 3, I set out my research methodology and potential weaknesses. In Section 4, I provide the results of the quantitative analysis of the comment letters submitted for the first and second exposure drafts for the revisions to IAS 37 (2005 and 2010), which I then supplement, in Section 5 along with the evidence obtained from interviews. In Section 6, I analyse the results of the quantitative analysis and weigh up the extent to which interview evidence corroborates or challenges these results. Drawing on these results, I suggest ways in which the conflicts between the quantitative and qualitative findings throw light on potential areas of weakness in quantitative research. Finally, in Section 7, I provide closing remarks and suggestions for future research.

## 2. The IASB Liabilities Project to revise IAS 37.

The Liabilities Project was introduced against the backdrop of an overall transnational shift towards the use of fair value accounting. The FASB, IASC and ASB had introduced fair value accounting for items such as pension liabilities and financial derivatives in the previous two decades (FAS 87; FRS 17; IAS 19; IAS 39; FAS 133).

The original standard required the satisfaction of two existence conditions before a non-financial liability was recognised. First, it had to be *more likely than not* that an obligation existed. Second, the obligation had to result in a *probable* outflow of economic benefit. In other words, if an obligation existed, but was not likely to lead to an outflow of resources, the obligation would not be recognised according to IAS 37 — *even if there existed a non-zero probability of an outflow of benefit resulting*. In contrast to this, the proposed new standard required the recognition of a liability whenever an entity generated a potential obligation through some action, for example, selling a product with a warranty for which it was required to provide after-care service.

[INSERT FIGURE 2 ABOUT HERE]

The project team proposed two major changes to the rules for representing uncertain obligations. These new decision rules for the recognition and valuation of uncertain obligations are shown in Figure 3. The project to revise IAS 37 aimed to remove the existing probability-of-outflow recognition test and replace it with an unconditional “stand-ready obligation”. A “stand ready obligation” exists if an entity is aware that an obligation may have been triggered by its actions, even if the probability of economic outflows is still low. Examples include a pending law suit, negligent behaviour which might lead to economic outflows<sup>4</sup> or an ongoing responsibility to service warranty obligations. Even if the probability of having to pay out for these stand-ready obligations is low, the new rules would require that they are recognised. It also clarified the rules for measurement by removing the distinction for measurement between large populations of items (such as warranties) and one-off items (such as an individual law suit against a company).

[INSERT FIGURE 3 ABOUT HERE]

The exposure drafts, particularly the second issued in 2010, attracted significant criticism. Since the IASB meeting to discuss comment letters in

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<sup>4</sup>The example of such a stand-ready obligation which is often cited in IASB literature is that of a burger vendor who negligently sells potentially poisonous burgers to customers.

November 2010, work on the Project has ceased. The last minuted comment from the meeting states: “The Board will schedule future deliberations based on priorities with other projects, but expect to further deliberate in 2011”. However it is currently described on the IASB website as “paused”<sup>5</sup> and a senior IASB Board member acknowledged that the project had been “shelved” (Interviewee-6).

### 3. Research Methods.

In order to identify the benefits of conducting supplementary qualitative analysis when investigating the participation in the feedback process to standard setters, I initially repeat the statistical analysis of Giner and Arce (2012) on a new data set. The new data is drawn from the the comment letters archive of the IASB and contains 333 letters submitted to the IASB regarding the two EDs for the IASB Liabilities Project (2005 and 2010). These letters were read and analysed by hand to assign them to categories for authors’ affiliation, geographical source, and types of responses to the two questions that generated the greatest amount of comment.

Each letter was manually reviewed to obtain a page count. For the calculation of the page count, I excluded all extended quotations from the ED as well as supplementary discussions of related standards (in this case of IAS 19). Because of the need to categorise and the inherent researcher-subjectivity in gauging page length, the inputs to the analysis cannot be considered objective. This is also the case for the data set analysed by Giner and Arce (2012), which not only includes categorisations of comment letter author affiliations but also the more subjective evaluation of page length. Furthermore, following Giner and Arce (2012), I categorise the argument into agree or disagree and note the kind of argument made (technical or due process related). I extend the prior analysis by including more fine grain categorisations of the arguments made in the comment letters. Specifically, I include four categories (in contrast to the binary, agree/disagree categorisation by Giner and Arce (2012) which are: strongly agree, agree, disagree and strongly disagree. For this categorisation, I employ a set of ‘agreement criteria’, set out in Figure 4 below.

[INSERT FIGURE 4 ABOUT HERE]

This study supplements the analysis of comment letters and documentation published by the standard setter with interviews with key individuals

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<sup>5</sup>As at 30th March 2015.

involved in the management of the project. I include evidence from interviews conducted with IASB staff and board members, as well as representatives of analysts organisations and a representative of the accounting profession who sits on standard-setting advisory committees. For the most part, interviewees' names have been anonymised.

Figure 5 lists the interviews conducted between February 2010 and March 2015 with IASB board members, IASB technical staff and constituents (preparers, academics and users).

[INSERT FIGURE 5 ABOUT HERE]

In order to supplement the statistical analysis, I carried out semi-structured interviews with thirteen individuals involved with the Liabilities Project. The interview duration varied between one and two hours. Five of the interviewees worked at the IASB (two were Board members during the project and were three technical staff). The remaining interviewees were who were involved in lobbying activities. These interviews contextualised the comment letter evidence and call attention to important factors which might otherwise be missed. Five of the interviewees were IASB employees, of whom three were Board members during the project. The other interviewees were technical staff at the Accounting Standards Board (the U.K. standard setter at the time), the Institute of Chartered Accountants in England and Wales (ICAEW), the European Analysts group, the *Corporate Reporting Users' Forum* (CRUF), the Chartered Financial Analysts Group (CFA) the Financial Reporting Faculty of the ICAEW.

Potential weaknesses in the reliability of interview evidence, due to lapses of memory or commitments by interviewees to represent organisational views, were mitigated through the triangulation the multiple oral and textual reports of events. This served to highlight any factual inconsistencies between accounts provided. Another potential worry is that interviewees may have felt unable to give an honest account of events if this might have conflicted with their employers' non-disclosure rules or with social norms. As a means of enabling interviewees to talk freely, I provided assurances of anonymity. Finally, it is difficult to ensure that the sample of interviewees is truly representative of the population of potential interviewees. However, I interviewed almost everyone who had worked on the project, including project leaders thus reducing sample selection bias.

Having described the methods used to obtain data, I present the results of my quantitative analysis in Section 4. I then provide supplementary qualitative evidence in Section 5, including both interpretative analysis of the content of the comment letters (rather than the presentation of descriptive

statistics and the observed associations between different categorical variables) and an analysis of interview evidence. I provide reflections on the findings from the analysis of these quantitative and qualitative data in Section 6, before providing some concluding remarks.

#### **4. Findings – IASB Liabilities Project.**

The first Exposure Draft published in 2005 considered the recognition of non-financial liabilities. It attracted 122 comment letters which were mostly negative and addressed both technical and due process issues. The second exposure draft, published in 2010 attracted 211 comment letters. Technical criticisms included the use of expected values for single events which was seen to be unreliable and the problem of revealing privileged information for a pending lawsuit (the latter raised by the 88 preparers from a range of industry sectors). Other criticisms included the inclusion of profit and risk margins in the measurement of the liability and the logical flaw in ‘copying’ the valuation of liabilities from that used for valuing liabilities in a business combination. In procedural terms, constituents criticised the inconsistency between the definition of ‘liability’ in the exposure draft and that in the IASB conceptual framework. In both sets of comment letters interest groups complain about the IASB’s due process.

##### *4.0.1. RQ1: Analysis of participation.*

The first part of this question asks if lobbying activity is equally distributed across the constituent categories. Figure 6 shows the distribution of comment letters between constituent categories and geographical location for each of the two EDs (2005 and 2010). For both EDs, the source of the comment letters is consistent with the predictions of rational choice theories of self interest and with the findings of Giner and Arce (2012).

[INSERT FIGURE 6 ABOUT HERE]

The analysis reveals that the greatest participation in standard setting is by preparers (44 per cent), followed by the professions (25 per cent) with users as the third largest category, submitting 10 per cent of the comment letters overall. Considering the comment letters for the two exposure drafts individually does not reveal a great difference from the overall results. Letters from preparers were a relatively high proportion of the total (37.7 per cent in response to the 2005 ED and 47.9 per cent in response to the 2010 ED. By contrast, users account for a relatively small proportion of comment letters,

with 10.7 per cent in response to the 2005 ED and 9.5 percent to the 2010 ED. These relative proportions are in line with the findings of Giner and Arce (2012), although they found preparers to have written a higher proportion of comment letters. This is consistent with the finding of Giner and Arce (2012) that preparers will tend to be more involved than users, especially towards the end of the project.

For IFRS 2 by contrast, Giner and Arce (2012) found that, “Two-thirds of all comment letters were sent by the preparers, which is consistent with Sutton’s model (1984) and with previous studies (Kenny and Larson, 1995; Tutticci et al., 1994).” The Giner and Arce (2012), analysis includes in the number of comment letters, “116 identical comment letters, which are treated as one in the subsequent analyses” (Table 3, pg.669). The inclusion of these duplicate letters into the analysis of may overstate the significance of preparers, because for the Liabilities Project no identical letters were included in the comment letter archive. Nevertheless, even after adjusting for the duplicate letters, letters from preparers still represented 70 percent of the total received (compared with 83 per cent reported by Giner and Arce (2012)).

I find a significant difference between the categories of institution sending lobbying letters and the comment periods in which these letters were sent (two-sided Fisher’s Exact Test,  $n = 333, p = 0.178$ ). This is not consistent with the results of Giner and Arce (2012), who find that:

“ $\chi^2$  tests confirm that participation of the groups differs statistically from the first publication of the DP to its second publication and from the second DP to ED 2. The profession was the most active group, representing 34% of the responses, when the DP was initially published – an unsurprising finding, given the professional nature of the G4+1. Later, the preparers took a much more active role (83% and 53% of responses in each of the other two periods). In contrast, the  $\chi^2$  tests show no significant differences in lobbying activity between regulators and the profession ( $p > 0.613$ ) nor between users and consultants ( $p > 0.639$ ).”

The difference in my findings and those of Giner and Arce (2012) relates only to the participation of preparers in the second period. Although they report the geographical distribution of organisations that submitted comment letters, they do not provide any further discussion.

4.0.2. RQ2: *Analysis of attitude.*

Giner and Arce (2012) find that the profession and academics wrote the longest letters on average, at 9.56 pages and 11.23 pages respectively (Table 4, pg. 671).<sup>6</sup> The replication of the analysis of page length is problematic for a number of reasons. First, it is not clear exactly what constitutes a ‘page’. Some letters, for instance, include long excerpts from the IAS 37 ‘Invitation to Comment’, and some letters are only partly devoted to IAS 37, with other parts of the letter devoted to other proposals. It is not clear what method Giner and Arce (2012) used for ensuring consistency between different letters. For instance, the length of a letter may be affected by the typeface and line spacing. It seems that issues of layout (for example the use of emphasis, of sub-headings etc.) and syntax cannot be ignored when evaluating the degree of intensity of a letter.

For my analysis of the Liabilities Project, I find that the average page length by category (for both EDs), ranged from 4.2 pages to 11.5 pages as set out in Figure 7 below.

[INSERT FIGURE 7 ABOUT HERE]

However, the results are skewed by one category, ‘EC adviser’<sup>7</sup>, which contains only two letters, one of 9 pages in 2005 and one of 14 pages in 2010. If this category is excluded, ‘standard setters’ wrote the longest letters on average, followed by regulators. Preparers wrote letters with an average page length of 6.3 pages, which is longer than the average of those written by the category of accounting profession which is 5.4 pages. These results are consistent with the Giner and Arce (2012) results in that the profession and academics sent the longest letters.

Having analysed page length, I then turned to the analysis of *strength* of the arguments provided by constituents in comment letters. For the Liabilities Project, the comment letters were analysed into four categories of response (strongly disagree, disagree, agree or strongly agree) using the criteria discussed in Section 3, *Research Methods*. It should be noted that this extends the work of Giner and Arce (2012) who use the binary classification, ‘agree’ or ‘disagree’, to reflect the attitude of the author of the comment letter.<sup>8</sup>

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<sup>6</sup>I did not replicate the tests on word count.

<sup>7</sup>This advisory group is the European Financial Reporting Advisory Group, or ‘EFRAG’.

<sup>8</sup>In this paper, when I refer to the “attitude of the author”, I am using this term as shorthand for the attitude of the organisation to which the author is affiliated, since the author’s *personal* view might differ from that expressed in the letter.

For each exposure draft, I analyse the comments made by constituents to the proposal that received the highest proportion of responses. For the 2005 ED, this was “invitation to comment’ Question 5 and one from the 2010 ED, which was one of the most contentious issues of the exposure draft and was addressed by 80.3 per cent (98) of the total 122 comment letters received. For the 2010 ED, I analysed the responses to Question 1, which elicited responses from 95.3 per cent of the 201 comment letters. Figure 8 below tabulates the constituent responses for Question 5 of the 2005 ED.

[INSERT FIGURE 8 ABOUT HERE]

**2005 ED** For the Liabilities Project, no significant association was found at the 99 per cent confidence level between categories of constituents sending lobbying letters and the strength of their responses to the invitation to comment for Question 5 in the 2005 ED (two-sided Fisher’s Exact Test,  $n = 98, p = 0.608$ ). This is inconsistent with Giner and Arce (2012) who found significant differences between the average length of letters between categories but no statistical differences within two specific groups of categories (professions, regulators and academics and users, preparers and consultants).

I extended this test by consolidating the response types into two binary responses (positive or negative), and again this yielded no significant association between the response type and the constituent category (two-sided Fisher’s Exact Test,  $n = 98, p = 0.663$ ).

As a further extension, I excluded all constituent categories except for the four that generated the most comment letters. These were preparers, professions, standard setters and users. Once again this yielded a non-significant result (two-sided Fisher’s Exact Test,  $n = 91, p = 0.341$ )

It is possible that no relationship was found between the type of institution and the response type because proposal Q5 was very unpopular. Only 12.2 per cent of all respondents gave a positive response (strongly agree or agree) to Q5, so the vast majority gave a negative response. It appears that the constituents were unified against the proposal.

**2010 ED** For 2010, the result was quite different: a positive association was observed between the constituent category and strength of argument for the invitation to comment to Q1 of the 2010 ED. The result was statistically significant at the 99 per cent confidence interval with the Fisher’s Exact Test by two-sided Monte Carlo simulation (with 10,000 iterations) yielding  $p = 0.025$  (for  $n = 201$ ).

Figure 9 below tabulates the constituent responses for Q1 of the 2010 ED.

[INSERT FIGURE 9 ABOUT HERE]

In order to establish the strength of this association I re-analysed the 2010 data, reducing the agreement categories into two categories representing the binary responses of either positive or negative. This yielded a more significant result at the 99 per cent confidence interval, again indicating a significant difference between the constituent categories' responses to Question 1 (Fisher's Exact Test by two-sided Monte Carlo simulation,  $n = 201$ ,  $p = 0.009$ ).

The quantitative analysis provided thus far supports many of the findings of Giner and Arce (2012). However, in the next section, I provide additional evidence of a qualitative nature that offers a more nuanced view of the lobbying activity and its effect on standard setters.

*4.0.3. RQ3: Analysis of the strength of arguments provided compared with the attitude of constituent categories (in favour or against the proposals).*

This research question asks if the different constituent categories provide arguments to support their stated position on a particular proposal, when stating if they in favour of, or against, a particular proposal. In earlier research, Tuttici (1994) found that none of the constituent categories provided arguments when supporting a proposal and gave conceptual arguments, if any, when objecting to a proposal. Giner and Arce (2012) found that preparers "took the most active stance against the standard. Pairwise  $\chi^2$  tests reveal that regulators, the profession, and users held similar opinions" (pg. 674).

Although I do not repeat the statistical tests of association between attitude of respondent and page length conducted by Giner and Arce (2012), I do carry out a simple analysis for the 2010 responses to Q1 of the ED. I find that letters containing disagreement with the main questions posed by the standard setter were on average longer in terms of page length than those which expressed agreement (again, excluding excerpts and discussions of other standards). The mean page length of letters for which respondents expressed agreement to the proposals in Q1 was 4.205 pages ( $n = 39$ ) compared with 5.18 pages for those who disagreed ( $n = 161$ ). However, the page length for those who expressed disagreement was potentially skewed by one comment letter from a standard setter that was 31 pages long. If this one letter is excluded, the revised mean page length for those comment letters for which disagreement is expressed for Q1 is reduced to 5.02 pages.

## 5. Supplementary qualitative evidence.

The previous section set out the results of the statistical analysis of the comment letters, demonstrating results that were in some parts consistent with that done by Giner and Arce (2012). In this section, I supplement these quantitative results, by considering qualitative data for the case of the Liabilities Project.

### 5.1. Qualitative comment letter analysis.

Almost all preparers strongly opposed the proposals in the exposure drafts. The project team acknowledged that, “a substantial number of other respondents do not support the continuation of the project in its current form” (¶2.1.2, pg. 5) and that, “[m]ost respondents disagree with the proposals and state that the Board has not made a sufficiently compelling case for the changes arising from its consideration of contingencies.” (IASB, ¶6). It should be noted that this statement underplays the negative emphasis of many of the comment letters. The two main technical criticisms raised concerned litigation and the reliability of measurements of obligations related to single-events. In addition some comment letters refer to inconsistencies between the recognition requirements in the exposure draft and the conceptual framework.

Many comment letters criticised the extension of expected values to single events. In particular, they objected to the fact that an ‘apparently precise’ probability for a single event may be misleading. For example Tata Steel Group UK, a UK preparer argued that,

“We believe that a liability measure based on the probability weightings of all possible outcomes is not the most rational measure, as the entity would calculate an amount that it would be unlikely to pay and this would not provide decision useful information” (Comment letter CL17).

The Singapore Accounting Standards Council, argued in its comment letter that,

“... for single obligations, the use of an expected value approach is likely to result in measurement at an amount that bears little resemblance to the actual outflows, which the Board recognises. It would lead to the inclusion in financial statements of amounts that, arguably, will be of very limited informational value” (Comment letter CL37).

This argument refers to the deficiencies of probabilistic valuations in cases where limited evidence exists and also highlights the belief in many constituents that the aim of providing *useful* information is simply not met by the proposed measurement rules. In response, an IASB Board member defended the proposal by arguing,

“Although there are difficulties measuring such obligations, it is better to put a number in the accounts which is greater than zero, than to throw your hands up in the air and fail to assign any value” (Interviewee-2).

However, the Accounting Standards Board, the UK standard setter was not satisfied with the approach taken in the proposed standard and argued that,

The ASB believes that the measurement proposals, similar to the recognition proposals, will not be well received. In the absence of support for both . . . and taking into consideration the IASB’s divided views as is evident with 6 IASB members offering an alternative view) the ASB is of the opinion that the IASB should defer the project until post 2011 when it should have more time available to undertake a fundamental rethink of its proposals” (CL12, Accounting Standards Board).

This comment shows that external constituencies were aware of the increasingly weak support for the project within the IASB. This vulnerability would be open to exploitation by particular interest groups who were intent on blocking the project.

**Industry-specific factors.** It is possible that industry-specific factors are important when explaining standard setting outcomes. Giner and Arce (2012) do not carry out an industry analysis of comment-letter writers. However, I find that for the Liabilities Project, twenty-two of the comment letters came from preparers primarily raising concerns about environmental liabilities. These preparers were involved in the power and utility industry or the oil, gas and mining industries. In fact, the revisions to IAS 37 would have been expected to have a cross-industry effect on the reporting of non-financial liabilities, but it nevertheless flags the possibility that industry-specific power may exert influence over regulatory outcomes. In the case of IFRS 2, it is in fact more likely that particular groups, such as internet businesses and financial institutions would be influential and potentially powerful. Yet, a quantitative analysis of a single case cannot reveal such political power. In principle, a multi-case study could identify the categories of constituent

whose lobbying activity is highly correlated with the adoption or rejection of particular proposals. But this would be subject to confounding factors. A more reliable approach to explaining the influence of particular groups of constituents would be the supplementation of a single or multi-case study with qualitative evidence, either from documentary sources or from interviews with relevant participants in the standard setting or lobbying process.

## **5.2. Interview evidence.**

Research into lobbying based on a quantitative analysis of comment letters is subject to certain weaknesses. By replicating the analysis from Giner and Arce (2012) for the case of the IASB Liabilities Project, and contrasting the results I obtained with the evidence from interviews with key figures in the standard setting process, specific issues came to the fore. Four main issues with the quantitative analysis came to light, and these are discussed below.

### *5.2.1. Intensity - does length really matter?.*

The assumption that the length of the comment letter is correlated with the intensity of the argument seems misplaced. It ignores the possibility that institutional features drive page and word counts, irrespective of the intensity of the arguments either in favour or against the proposals. Furthermore, it is not clear how to account for differences in use of extracts from the exposure draft and style issues, such the varied use of sub-headings.

Furthermore, interview evidence revealed that a small number of interest groups exerted a significant influence on the IASB, as discussed in Section 5.2.2 below. Admittedly, two of the three most influential groups did write relatively long letters (11 pages and 14 pages respectively in response to the 2010 ED), but the third group (the US standard setter, the Financial Accounting Standards Board (FASB) did not write a comment letter at all. Furthermore, other writers of letters of over 10 pages were necessarily particularly influential. These included: British American Tobacco, Bayer/Merck/Eli Lilly/Bristol Myers Squibb, the ICAEW, Department of Treasury and Finance, ASB Canada, US Chamber of Commerce, Ernst and Young, and individual student from Loyola University, the Chartered Financial Analysts Institute, the Dutch Accounting Standards Board, the Australian Accounting Standards Board and the Corporate Reporting Users' Forum (CRUF). Without knowing the institutional influences on the style of letter-writing, it does not seem reasonable to use page length as a proxy for intensity of feeling about a proposal.

*5.2.2. Some lobbyists are more equal than others.*

The study by Giner and Arce (2012) makes the implicit assumption that all constituents have equal power in their ability to influence the standard setting process. However, evidence from interviews with the IASB staff team working on the Liabilities Project suggest that this is not a realistic assumption. According to interview evidence, the main interest groups that influenced the progress of the project were professional accounting institutions, financial analysts (users), quasi-political groups such as the he European Financial Reporting Advisory Group (EFRAG), political authorities such as the European Commission (EC), other standard setters such as the FASB and the American Bar Association. An analysis of the content of the comment letters reveals that most of these groups initially raised technical objections to the project.

In order to be adopted within the EU jurisdiction, IASB reporting standards must be endorsed by the European Commission. The European Financial Reporting Advisory Group (EFRAG), a private sector body representing European organisations relating to capital markets has the role of providing technical advice to the European Commission on the endorsement financial reporting standards issued by the IASB.<sup>9</sup> The approval of EFRAG is thus extremely important for the IASB as, without EU endorsement, a reporting standard does not form part of EUIFRS and cannot apply to EU listed companies (see also Zeff, 2002, pg. 45).<sup>10</sup> The views expressed on the Project by EFRAG were generally negative. At a meeting on Wednesday March 17th 2010 between the IASB and representatives of EFRAG on convergence-related issues, the unofficial observer minutes state:

“The EFRAG representatives expressed their grave concerns about the IAS 37 proposals. The EFRAG noted that there is lots of uncertainty about the probability-of-outflow recognition criterion and urged the IASB to expose the whole Standard for a new comment period.”

The EFRAG comment letter in response to the second exposure draft states:

“[W]e do not support the measurement model proposed in the exposure draft. We believe that a case has not been made to justify how the proposed changes are likely to improve the decision-usefulness of financial information about liabilities. Accordingly,

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<sup>9</sup>Funding for EFRAG is from various business, accounting, banking, insurance and accounting federations.

<sup>10</sup>This is subject to the requirements of IAS Regulation (no.1606/2002).

in our view, the proposals set out in the exposure draft fail to satisfy the IASB’s objective to improve the quality of financial reporting.” (Comment Letter from EFRAG (CL184) 19th May 2010)

This very negative response to the exposure draft would have signalled to the IASB board that the European Commission was unlikely to endorse the standard. The board might well have seen little point in pushing through a standard that was unlikely to be endorsed.<sup>11</sup>

The political context in which the standard setters operate may have implications for the power of particular constituent groups and the consequent outcome of standard setting projects. During the development of the second ED for the Liabilities Project, the IASB was attempting to converge its reporting standards with those of the FASB, following the Norwalk Agreement in 2002. As a result, any standard setting project that risked derailing the convergence project would be particularly vulnerable to lobbying activity — although not necessarily to complaints made via comment letters. The American Bar Association (ABA) was opposed to the proposal to recognise liabilities even if they were not more likely than not to result in an outflow of resources because this would mean potentially recognising pending litigations. The ABA had been powerful lobbyists in the U.S. at the time of the development of SFAS 5 (1975), producing a policy document, *Statement of Policy Regarding Lawyers; Responses to Auditors’ Requests for Information*, which offers guidance to lawyers on communicating information about litigation to auditors. The guidance was extremely conservative, only leading to the recognition of a liability if “the prospects of the claimant not succeeding are judged to be extremely doubtful and the prospects for success by the client in its defense are judged to be slight” (American Bar Association, 1975, pg. 446–447). The application of this policy reduces the information made available to auditors on any litigation which might potentially be recognised or disclosed, except for those which are considered to be an almost certain loss. Not only did the ABA argue that recognising a stand-ready obligation could potentially prejudice the outcome of a case, but also it would lead to the requirement for lawyers to release sensitive information about their clients to accountants, which they fiercely opposed.<sup>12</sup> Interview evidence reveals that some members of staff working on the Liabilities Project were aware

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<sup>11</sup>Moreover, the perceived risk that the standard might fail to be endorsed may have increased as a result of the decision by the EU Commission not to endorse the new standard on financial instruments, IFRS 9 in November 2009.

<sup>12</sup>The equivalent US standard, SFAS 5, required recognition almost if the pending litigation was almost a sure thing.

that coming into conflict with the ABA was a mistake as it left the project vulnerable to the criticism that it risked undermining the convergence project.

At a time when the IASB was particularly keen to progress the FASB convergence project, any requirements which might be seen to cause a derailment in the process was unlikely to be approved by the IASB Board. Interview evidence with a member of IASB technical staff member revealed that IASB Board members were uncomfortable about progressing the Liabilities Project with recognition requirements which were unacceptable to the SEC, FASB and US preparers. In their paper, Giner and Arce (2012) raise the possibility that lobbyists use a specific style of argumentation in part because they are aware of the influence of the convergence project with the FASB on the IASB board's responses to lobbying. This supplementary evidence adds to their work by providing support for their intuition that the convergence project was an important driver of regulatory decision-making during the period after 2002. According to Interviewee Interviewee-9:

“The convergence project with FASB was a significant influence on the project. I the American companies argued that they would use it to block adoption and that when they were looking at barriers to US adoption they lobbied hard as this being a barrier. I think the desire for US adoption had quite a significant influence on the Board when it came to say should we go ahead with this or not. The threat of causing a problem for US adoption had some impact on their decision I think. I'm not sure if it would now, because adoption isn't such a big thing, but it was the timing as you say. The whole thing about US adoption was at its peak when people started saying the biggest barrier to adoption is this change to IAS 37.”

It is interesting to observe the ABA's apparent power to influence standard setting by the IASB, even though it was part of what we might describe as the 'core' constituency. As such, it raises questions about the accountability of the IASB.

The issue of lobbying and accountability leads to a question concerning the relationship between 'technical' and 'political' objections to the project, revealing the importance of what I label 'proxy criticisms'. Giner and Arce (2012) note that while lobbying of standard setters may be based on self-interest, the arguments made in comment letters tend to focus on conceptual arguments rather than on the economic consequences of a particular requirement. This may arise because,

“respondents might have realised that the IASB would be reluctant to consider vested arguments *per se* — especially arguments in

favour of a solution contrary to the interests of users — as they could seriously damage their credibility” (pg. 674).

The Liability Project also reveals the use of instrumental or ‘proxy’ objections in comment letters and other public documents as a means of blocking the progress of the project. The use of such proxies is consistent with the traditional economics-focused lobbying theory (Watts and Zimmerman, 1978, 1979) if these lobbyists made conceptual or procedural objections in order to achieve their political goals or to the notion of the ‘purity’ of arguments described by Young (2014).

### *5.2.3. The IASB board: human beings in a turbulent world.*

I have suggested that it may not be realistic to assume that all individual comment letter writers are equally powerful in their influence over the standard setting process. Similarly, it may be unrealistic to assume that the IASB is a monolithic institution that remains unchanging over time and rational in its response to lobbying behaviour. In fact, it may be that the decision by the IASB about how to respond to particular feedback may have more to do with factors such as the portfolio of projects underway and the composition of the board. Interviewees suggested that the declining board support for the project was associated with the increasing realisation among less ardent supporters of the Liabilities Project that the project that it was unlikely to succeed, partly because of its unpopularity but also because of imminent changes in Board composition that would remove key advocates. A long-serving and influential IASB Board member, interviewed in January 2011 described the waning interest in the Project as follows,

“There were some guys here who wanted to push it. Some of us thought, ‘this isn’t the right time, but you’re going to run out of time unless you do it now, so this is your last chance. Let’s see what happens.’” (Board member, Interviewee-6).

Given that the most vocal and committed advocates of the project were due to step down in June 2010, several other Board members appear to have decided that the project was not worth supporting. A previous project leader of the Liabilities Project argued that these board changes affected the Liabilities Project significantly because the board departures were “pioneering thinkers who were obviously not going to be replaced with pioneering thinkers” (Interview with Interviewee-9).

Interview evidence also highlights other factors that affected the outcome of the Liabilities Project, such as the financial crisis of 2007–2009. This

potentially strengthened the opposition of constituents to an extension of fair values and ultimately weakened the IASB's ability to complete the project. The crisis led commentators to question the appropriateness of fair value accounting at a time when markets were unstable, given its potential to contribute to the volatility of asset and liability values. These concerns exacerbated hostility to the introduction of fair value accounting for non-financial liabilities and shone a spotlight on the potential weaknesses of the Liabilities Project. In addition, the accountability of the IASB came to the fore during this period, with an increased focus on due-process issues. Since the IASB had been criticised for failing to issue a Discussion Paper and for failing to re-expose the proposed new standard fully, the Liabilities Project was extremely vulnerable at this time.

#### *5.2.4. Poking conceptual holes: the best way to sink a project?.*

Giner and Arce (2012) have argued that there is a tendency for certain groups to use conceptual arguments, and for conceptual arguments to be used increasingly later in the project's lifetime. They attribute this to the intention of lobbyists to avoid appearing obviously self-serving in their criticisms of the proposals contained in the exposure draft and their view that economic arguments may be treated less seriously by standard setters. Yet this attribution remains unsupported by qualitative evidence.

They found that users differ from preparers in that they more frequently used conceptual arguments. Moreover, they found that arguments opposing proposals tended to be conceptual, although they found that preparers were much more prone to offering economic arguments. Employing untabulated data, Giner and Arce (2012) confirm that preparers gradually turned towards conceptual arguments as the process moved forward.

They note that "respondents might have realised that the IASB would be reluctant to consider vested arguments". Furthermore, they highlight the potential influence of the political and institutional environment on the standard setting process, arguing that the convergence project between the IASB and FASB after 2002 might have caused preparers to refrain from using economic and self-serving arguments and instead employ conceptual criticisms. The kinds of arguments used may in fact be a very important piece of evidence in explaining regulatory outcomes; interview evidence suggests that for the Liabilities Project that was certainly the case.

Some comment letters criticised the project for prescribing ways of representing contingent obligations which were at odds with the conceptual framework. They argued that the removal of the *probability of outflows* test for the recognition of liabilities appeared to be inconsistent with the definition

of a liability in the conceptual framework (IASB, 1989) which is predicated on the existence of an outflow of economic benefits. The inconsistency with the framework offered an opportunity to opponents of the project to criticise the IASB, even though other projects, such as financial instruments, were also at odds with the probability of outflows element of the definition of a liability in the conceptual framework (Interviewee-9). Yet the staff members interviewed did not every say that they attributed greater influence to arguments based on conceptual issues.

However, they did admit that criticisms about due process potentially influenced the progress of the project, at least by delaying its progress. Perhaps then, what Giner and Arce (2012) have described as a conceptual argument, should be further disambiguated by being divided into two sub-categories: *technical* and *due-process*.

Due process concerns were raised increasingly and are in evidence in the responses to the second exposure draft of the Liabilities Project . For example, the One Hundred Group, representing the finance directors of the UK's largest companies (mostly represented on the FTSE100 Index) highlighted due process concerns in their comment letter, as did the Belgian Accounting Standards Board, who argued that, "Our initial concern relates to the overall due process and the fact that the Board has opted to only re-expose a limited part of the proposed amendments ..." (CL04) These due process concerns would prove to be extremely problematic for the project team.

The reason for this emphasis on due process may have been instrumental. The ICAEW comment letter included strong complaints about process, in particular "the limited scope of the issues on which comments are invited". An interview with a senior technical partner of an international accounting firm and, then member of several advisory groups to standard-setters, argued that the only power constituents had over the IASB was by invoking due process concerns. These would be effective, according to the interviewee because they would delay the project until its two main supporters were due to stand down from the IASB Board in June 2010. This instrumental use of due-process criticisms is potentially of great importance in explaining the choice of argument contained in a comment letter and the effectiveness of such arguments in achieving the outcomes preferred by the lobbyist.

## **6. Assumptions, realism and inference: how qualitative work can help the quantitative researcher.**

This paper investigates the influences on the IASB resulting from lobbying activity against the Liabilities Project. It finds that, while a statistical

analysis of the source and length of comment letters provides some useful insights into pressure on the project team and IASB board, it omits several important factors. Such analysis may result in the apparent corroboration of theories that are potentially misleading, such as the theory that certain categories of constituent display a greater intensity of feeling, either in favour of, or against a project.

The empirical contribution of this paper is to provide a quantitative analysis of a new data set of comment letters, repeating the tests carried out for IFRS 2 by Giner and Arce (2012). It also provides a supplementary qualitative analysis of the content of comment letters and of interviews with those individuals at the heart of the process. I argue that this qualitative supplementation enriches the quantitative analysis and reveals new factors influencing the motivation of lobbyists and the effectiveness of their lobbying activity. However, another aim of this paper is to contribute to theory, as demanded by Lukka and Suomala (2014). It makes such a contribution by highlighting the areas in which qualitative research can improve the explanatory usefulness of quantitative research. Moreover, it considers the implications for the generalisability of such theories resulting from their use of unrealistic assumptions, many of which are not made explicit.

In the philosophy of economics the importance of using realistic assumptions in a theory has been the subject of considerable interest (Friedman, 1953; Mäki, 1992; Musgrave, 1981). Over half a century ago, Friedman argued that:

“the relevant question to ask about the ‘assumptions’ of a theory is not whether they are descriptively ‘realistic’ ” (Friedman, 1953, p.15)

In saying this, Friedman asserts that a theory that successfully explains a particular phenomenon need not contain realistic assumptions. In fact, he argues that a theory may have greater explanatory value precisely *because* the assumptions on which it is built are unrealistic. According to this instrumental view of theories, the usefulness of a theory is not undermined just because the assumptions contained within it are untrue, *as long as it is predictively accurate*. It is not clear, however, that theories of lobbying can accurately predict future lobbying behaviour.

Where does this leave the theories developed and subsequently relied on by quantitative researchers, if they are not predictively accurate? It seems to leave them in a precarious position, because the best they can achieve is descriptive realism if they cannot predict what will happen. To assess the explanatory power of such a theory, we must scrutinise the realism of the assumptions they use. A lobbying theory that fails to predict regulatory

outcomes and whose components fail to reflect the reality of the lobbying environment and its actors is unlikely to be helpful in explaining the lobbying behaviour.

Musgrave (1981) highlights an important, yet subtle, distinction regarding the role played by assumptions in a theory. He develops a taxonomy of assumptions that have different functions within a theory and argues that the extent to which a theory admits a realist interpretation depends on the kind of assumptions involved. Musgrave (1981) argues that economic theories often include *negligibility* assumptions, such as the assumption of a balanced budget. For the case of participation of feedback to standard setters, several negligibility assumptions can be identified as follows:

- Institutional factors affecting members of particular constituent categories are negligible.
- Factors other than strength of feeling towards a proposal are negligible in determining the length of a letter is written by a constituent
- There is negligible use of ‘proxy’ arguments which are not reflective of views held by the organisation that produced the letter but are instrumental in achieving lobbying outcomes.
- The attitude of organisations to the proposals is the same as, or negligibly different from, the view of the individual who writes the letter, so that changes in attitude expressed in the letter reflect changes in the organisation’s view, rather than a change in the view or style of the individual who wrote the letter.

Such negligibility assumptions are very hard to test in practice when using quantitative analysis, because the data is not available. This is problematic because, if untested, the negligibility of these assumptions is hard to establish. For much of the quantitative research into lobbying, these assumptions about the intentions of members of constituent groups are simply assumed, and cannot be relied upon to describe factors that are truly negligible in their effect on outcomes and causal mechanisms. If negligibility assumptions are not known to be realistic, we cannot rely on the causal inferences of the theory.

What happens to negligibility assumptions if they cannot be shown to be realistic? Musgrave’s answer to this, is that they become transformed into a different kind of assumption: a *domain* assumption. Whereas a negligibility assumption refers to a factor that can be ignored because it has little effect on the predictions of the theory, a domain assumption acknowledges that

this particular factor cannot be ignored and will be expected to affect the outcomes predicted by the theory in significant ways. A domain assumption serves to restrict the application of a theory to exactly those environments domain assumption is true. Given suitable domain assumptions, a theory borders on being true as a matter of *definition*, as the cases where the theory fails to hold are excluded from the domain of applicability from the outset. This naturally has implications for the general applicability of a theory. If we consider the examples given above for comment letter analysis, we can see that, if assumptions are treated as domain, assumptions rather than negligibility assumptions, they weaken the contribution of the analysis as it becomes applicable *only* to those areas where it is true that:

- Institutional factors do not affect the participation of members of particular constituent categories.
- Only strength of feeling towards a proposal determines the length of a letter is written by a constituent
- Arguments made by constituents relate to the specific proposal identified by them and they are not using arguments against one standard as a proxy for arguments against the standard setter in particular or the regulatory regime more generally.
- Comment letters, although written by individuals, reflect the view of the organisation, so that a no bias exists as a result of changes in the individual writing the letter leading to a decoupling of the individual and organisational view.

As such, these newly minted domain assumptions significantly weaken the generalisability of the theory, rendering it incapable of predicting the lobbying behaviour of constituents for projects other than for the case in hand. If this is the case, what is the contribution of such quantitative analysis? Its contribution is that it provides a detailed analysis of the participation of constituents, yet cannot go further by *explaining* the underlying reasons — the real reasons — for a particular outcome. At best, it can identify those reasons which people take to be publicly defensible, the reasons they are willing to offer *on the record*. It cannot identify the reasons which actually move people to act, but which they are unwilling to state in an official document.

That is to say, studies such as that of Giner and Arce (2012) are inevitably limited by their reliance on the analysis of *outcomes* of lobbying activity as a means of inferring the reasons *why* constituents participated and what factors motivated the form and content of their participation. For the case of IFRS 2,

for example, hypotheses about possible reasons why constituents might switch to making conceptual (rather than economic) arguments at later stages in the project must be inferred. Yet it is hard to see what justification exists for making such inferences if they are not supported by further evidence. Such evidence may be indirect, for instance the researchers' interpretation of documentary evidence, or direct, such as interviews with constituents and standard setters.

Furthermore, the steps taken to generate a tractable data set will, in themselves, introduce bias into the study. In order to study the reasons why a constituent participated in a feedback process for standard setting, the researcher will make subjective judgments about how to categorise data into categorical variables that can be statistically analysed. For instance, a three-page letter will be categorised as 'agree' or 'disagree', even though the degree of agreement or disagreement may vary between letters and the reasons given for agreement or disagreement may vary quite considerably. Similarly, an analysis of the correlation between constituent attitude to a proposal and the extent to which that proposal is incorporated in the final standard or excluded, relies on an implicit assumption that standard setters are aware of what constituents are intending to convey in their comment letters, that they respond to the most influential organisations, and that, no other factors affect the standard setter's decision to include, exclude or modify a proposed element of the new standard. These assumptions are unrealistic, yet also cannot be shown to be negligible. As a result they consign such quantitative studies to be restricted in their application to the case for which that data is available.

In order to make legitimate arguments about likely motivations of participants and the responses of standard setters, it is necessary to engage directly with the messy and cumbersome raw data, since this can yield evidence on the true motivations of actors and can highlight causal factors that might otherwise be omitted from the explanation, either because of incorrect inferences about observed regularities Lukka (2014) or incorrect interpretations of the motivations of lobbyists Young (2014). If the objective of the analysis is to identify motivations for action and the effectiveness of that action, doing at least *some* interpretive work is unavoidable. In fact, Lukka and Kasanen (1995) have argued that case studies offer greater scope for generalisability than is often granted by an accounting research field that is dominated by statistical studies.

It is a very useful *starting point* for an explanation of participation to have descriptive statistics about the extent to which one particular form of argument is employed by particular constituents. Such analysis helps to organise the researcher's thoughts and focus attention on areas of interest,

but it cannot answer questions about the reasons why and how a particular social phenomenon occurred. Such quantitative analysis *alone* cannot provide inferences about intentions and beliefs of constituents, and hence about causal relationships affecting the level and style of participation of constituents. However, by combining initial statistical investigations with qualitative evidence, a stronger explanatory account can be developed. Thus, mixed methods can result in a more powerful explanatory account of lobbying.

## 7. Conclusion.

This paper has replicated many of the statistical tests carried out by Giner and Arce (2012) for a new data set constructed for the case of the IASB Liabilities Project. While I found many areas of agreement with the earlier study, for example the participation of certain categories of constituent, I also found some inconsistent results. In order to reconcile these inconsistencies, I supplemented the quantitative analysis of comment letters with a qualitative analysis of the content of comment letters and IASB documents and with interviews with IASB staff and board members involved with the Liabilities Project.

My study has made an empirical contribution by providing descriptive statistics for the case of the comment letters received by the IASB for the Liabilities Project, in particular identifying the use of instrumental due process criticisms as an effective means of delaying or blocking the project. In addition, I have made four arguments concerning potential methodological weaknesses inherent in such statistical analysis of comment letters. These concern the realism of implicit assumptions made. First, I have argued that it is unrealistic to assume that the length of a comment letter reflects the intensity of attitude of the organisation writing the letter. Second, I have argued that it is unrealistic to assume that all lobbyists are equally influential. Third, I have argued that it is unrealistic to view the IASB as a rationalistic decision-making monolith that amends the proposed content of standards primarily in response to the frequency of critical comment letters — because this ignores issues of human psychology and institution-specific influences. Fourth, given the increase in procedural criticisms of the Liabilities Project towards the end of the project, appears consistent with the finding by Giner and Arce (2012) found that ‘conceptual’ (as opposed to ‘economic’) arguments increased towards the end of IFRS 2. This led me to suggest that it may be useful to disambiguate the category of ‘conceptual’ arguments by dividing it into two sub-categories: *technical* and *procedural* arguments.

The main focus of this paper has been the use of unrealistic assumptions

on the legitimacy of a theory, in particular on theories employed by researchers conducting statistical work on comment letters and other outputs of lobbying activity. I have questioned the *realism* of a number of the assumptions used in such theories, whether explicit or implicit. I have argued that the use of unrealistic assumptions need not be a problem if the theory is capable of producing accurate predictions. In that case, the fact that it uses unrealistic assumptions does not necessarily detract from its usefulness, and may even enhance its explanatory value (Friedman, 1953). However, there is little evidence of the predictive accuracy of theories of lobbying and this serves to undermine an instrumentalist defence of the use of unrealistic assumptions in quantitative research.

Furthermore, I draw on Musgrave (1981) to identify different *classes* of assumption used by statistical researchers, such as Giner and Arce (2012). In particular, I have argued that such research uses implicit assumptions that may initially appear to be negligibility assumptions. Yet because these assumptions are untestable using quantitative data alone, and therefore cannot be known to be realistic, they must be treated as domain assumptions. Such domain assumptions restrict the application of theories to specific contexts in which the domain assumptions are known to be true, thereby weakening claims of generalisability. Although qualitative research generally asks different *kinds* of questions about phenomena than quantitative research, nevertheless this study has shown that the use of supplementary qualitative research can contribute to the usefulness and realism of quantitative studies and that mixed methods may yield stronger explanatory accounts than those provided by quantitative analysis alone.

This study has considered only one standard setting project, that of the IASB Liabilities Project. Future research could usefully extend this study by incorporating other projects to identify other factors that have exerted influence on the standard setting process.

**8. Figures from the main text.**

**8.1. Figure 1.**

|                            |   |
|----------------------------|---|
| August 1997                | Exposure Draft E59 Provisions, Contingent Liabilities and Contingent Assets |
| September 1998             | IAS 37 Provisions, Contingent Liabilities and Contingent Assets             |
| July 1999                  | Effective date of IAS 37 (1998)   |
| May 2003                   | Discussed at IASB meeting   |
| May 2004                   | Discussed at IASB meeting   |
| September 2004             | Discussed at IASB meeting   |
| October 2004               | Discussed at IASB meeting   |
| December 2004              | Discussed at IASB meeting   |
| May 2005                   | Discussed at IASB meeting   |
| June 2005                  | Exposure Draft of substantial revisions to IAS 37                           |
| February 2006              | Discussed at IASB meeting   |
| March 2006                 | Discussed at IASB meeting   |
| May 2006                   | Discussed at IASB meeting   |
| June 2006                  | Discussed at IASB meeting   |
| July 2006                  | Discussed at IASB meeting   |
| September 2006             | Discussed at IASB meeting   |
| October 2006               | Discussed at IASB meeting   |
| November and December 2006 | Round-table discussions   |
| January 2007               | Discussed at IASB meeting   |
| March 2007                 | Discussed at IASB meeting   |
| April 2007                 | Discussed at IASB meeting   |
| May 2007                   | Discussed at IASB meeting   |
| July 2007                  | Discussed at IASB meeting   |
| October 2007               | Discussed at IASB meeting   |
| December 2007              | Discussed at IASB meeting   |
| February 2008              | Discussed at IASB meeting   |
| April 2008                 | Discussed at IASB meeting   |
| May 2008                   | Discussed at IASB meeting   |
| December 2008              | Discussed at IASB meeting   |
| April 2009                 | Discussed at IASB meeting   |
| June 2009                  | Discussed at IASB meeting   |
| July 2009                  | Discussed at IASB meeting   |
| October 2009               | Discussed at IASB meeting   |
| November 2009              | Discussed at IASB meeting   |
| December 2009              | Discussed at IASB meeting   |
| January 2010               | Re-exposure of proposed revisions to Exposure Draft                         |
| March 2010                 | Discussed at IASB meeting   |
| April 2010                 | Staff paper on application of Re-exposure draft to law suits                |
| June 2010                  | Discussed at IASB meeting   |

Figure 1: Chronology of IAS 37 1997 to 2010

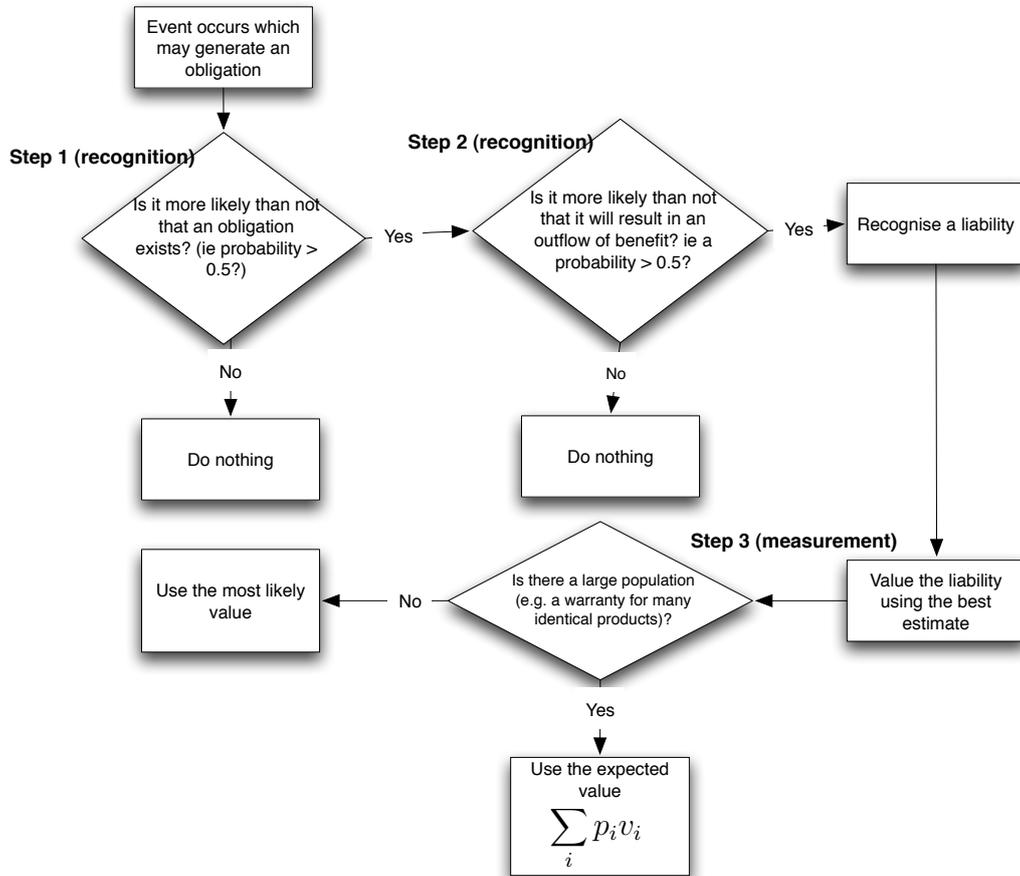


Figure 2: IAS 37 decision flowchart showing the two probability thresholds for recognition and the probability threshold for measurement of potential provisions (non-financial liabilities)

8.2. Figure 2.

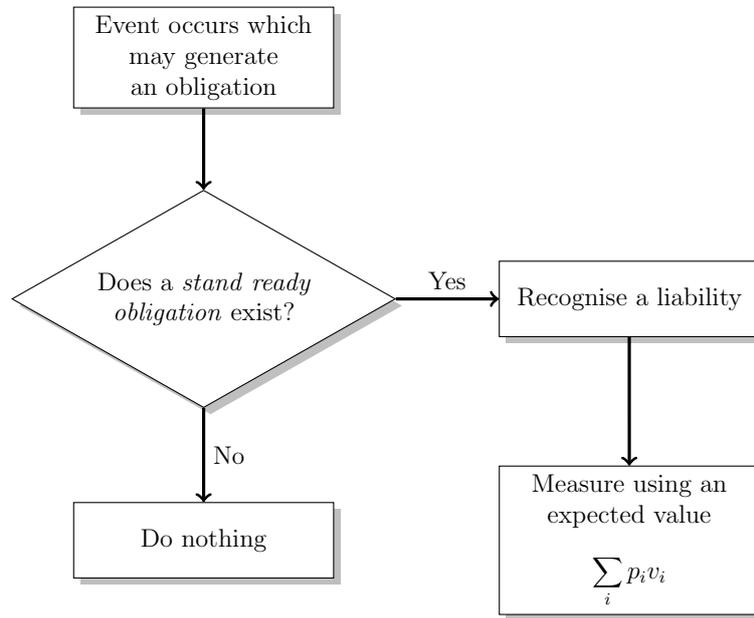


Figure 3: The Liabilities Project: revised rules for recognition and measurement of liabilities

**8.3. Figure 3.**

| Strongly Disagree  | Disagree  | Agree  | Strongly Agree  |
|--|---|--|---|
| Strongly worded disagreement (“significant concerns”, “undermine reliability” etc.), disagreement firmly stated, strongly worded opinion that proposal is redundant. | Agree on a conceptual level, but think that implementation through proposals in IAS 37 unsatisfactory/problematic. Find the Board’s intentions unclear. Think any change unnecessary. | General agreement, but with suggestions/comments, e.g. terminology issues. “we broadly/generally agree”. | Statement of support with no reservations, criticisms or suggestions. |

Figure 4: Definition of the four levels of agreement or disagreement by constituents

**8.4. Figure 4.**

8.5. Figure 5.

| Organisation            | Name           | Position   | Date of Interview       |
|-------------------------|----------------|--|-------------------------|
| Ex-IASB*(1)             | Interviewee-13 | Board member   | March 2015              |
| IASB*(1)                | Interviewee-11 | Technical staff  | November 2014           |
| Ex-IASB*(1)             | Interviewee-10 | Technical staff  | April 2014              |
| IASB *(1)               | Interviewee-9  | Technical Staff  | June 2013               |
| IASB                    | Interviewee-8  | Technical Staff  | August 2011             |
| Ex-IASC                 | Interviewee-7  | Board Member   | May 2011                |
| IASB                    | Interviewee-6  | Board Member   | January 2011            |
| ICAEW *(3)              | Interviewee-5  | Technical Staff  | August 2010             |
| CFA UK *(5)             | Interviewee-4  | Financial Reporting & Analysis Committee                 | August 2010             |
| ASB/Big four audit firm | Interviewee-3  | ASB, ICAEW Financial Reporting Faculty, Big 4 audit firm | August 2010             |
| IASB                    | Interviewee-2  | Board Member   | March 2010 and May 2010 |
| ASB *(2)                | Interviewee-1  | Research Staff   | February 2010           |

Key:

\*1 - IASB: International Accounting Standards Board \*2 - ASB: Accounting Standards Board (UK) \*3 - ICAEW: Institute of Chartered Accountants in England and Wales \*4 - CRUF: Corporate Reporting Users' Forum (Analysts' discussion forum which aims to contribute to the standard setting process of FASB and IASB) \*5 - CFA Society, UK: Chartered Financial Analysts Institution

Figure 5: Interviews conducted during 2010 and 2011

**8.6. Figure 6.**

**8.7. Figure 7.**

| <b>2005</b>         |   | Africa | Asia | Australia-NZ | Canada | Europe | International | US and Americas | Total | % by institution type |
|---------------------|---|--------|------|--------------|--------|--------|---------------|-----------------|-------|-----------------------|
| Academic-Individual |   |        |      | 1            |        | 3      |               |                 | 4     | 3.3%                  |
| Consultant          |   |        |      |              |        | 1      | 1             |                 | 2     | 1.6%                  |
| EC Adviser          |   |        |      |              |        | 1      |               |                 | 1     | 0.8%                  |
| Lawyers             |   |        |      |              |        |        |               |                 | 0     | 0.0%                  |
| Preparer            | 1 |        | 1    | 3            |        | 33     | 3             | 5               | 46    | 37.7%                 |
| Profession          | 3 |        | 4    | 5            |        | 21     | 4             | 3               | 40    | 32.8%                 |
| Regulator           |   |        |      | 1            |        | 2      | 1             |                 | 4     | 3.3%                  |
| Standard Setter     |   |        | 4    | 1            | 1      | 6      |               |                 | 12    | 9.8%                  |
| User                | 2 |        | 9    | 12           | 1      | 10     |               | 8               | 13    | 10.7%                 |
| Grand Total         |   | 4.9%   | 7.4% | 9.8%         | 0.8%   | 63.1%  | 7.4%          | 6.6%            | 122   | 100.0%                |
| % by geog           |   |        |      |              |        |        |               |                 |       |                       |

| <b>2010</b>         |   | Africa | Asia  | Australia-NZ | Canada | Europe | International | US and Americas | Total | % by institution type |
|---------------------|---|--------|-------|--------------|--------|--------|---------------|-----------------|-------|-----------------------|
| Academic-Individual |   |        | 3     |              | 1      | 3      |               | 6               | 13    | 6.2%                  |
| Consultant          |   |        | 1     |              | 1      | 2      |               |                 | 4     | 1.9%                  |
| EC Adviser          |   |        |       |              |        | 1      |               |                 | 1     | 0.5%                  |
| Lawyers             |   |        |       |              |        | 2      |               | 3               | 5     | 2.4%                  |
| Preparer            | 1 |        | 9     | 5            | 12     | 55     | 3             | 16              | 101   | 47.9%                 |
| Profession          | 2 |        | 7     | 4            | 2      | 24     | 1             | 4               | 44    | 20.9%                 |
| Regulator           |   |        |       | 2            | 1      | 2      | 1             |                 | 6     | 2.8%                  |
| Standard Setter     |   |        | 4     | 1            | 1      | 8      |               | 3               | 17    | 8.1%                  |
| User                |   |        | 1     | 1            | 1      | 15     | 1             | 2               | 20    | 9.5%                  |
| Grand Total         |   | 3      | 25    | 12           | 19     | 112    | 6             | 34              | 211   | 100.0%                |
| % by geog           |   | 1.4%   | 11.8% | 5.7%         | 9.0%   | 53.1%  | 2.8%          | 16.1%           |       |                       |

| <b>Total for 2005 and 2010</b> |   | Africa | Asia  | Australia-NZ | Canada | Europe | International | US and Americas | Total | % by institution type |
|--------------------------------|---|--------|-------|--------------|--------|--------|---------------|-----------------|-------|-----------------------|
| Academic-Individual            |   | 0      | 3     | 1            | 1      | 6      | 0             | 6               | 17    | 5.1%                  |
| Consultant                     |   | 0      | 1     | 0            | 1      | 3      | 1             | 0               | 6     | 1.8%                  |
| EC Adviser                     |   | 0      | 0     | 0            | 0      | 2      | 0             | 0               | 2     | 0.6%                  |
| Lawyers                        |   | 0      | 0     | 0            | 0      | 2      | 0             | 3               | 5     | 1.5%                  |
| Preparer                       | 2 |        | 10    | 8            | 12     | 88     | 6             | 21              | 147   | 44.1%                 |
| Profession                     | 5 |        | 11    | 9            | 2      | 45     | 5             | 7               | 84    | 25.2%                 |
| Regulator                      |   |        | 0     | 3            | 1      | 4      | 2             | 0               | 10    | 3.0%                  |
| Standard Setter                |   |        | 8     | 2            | 2      | 14     | 0             | 3               | 29    | 8.7%                  |
| User                           | 2 |        | 1     | 1            | 1      | 25     | 1             | 2               | 33    | 9.9%                  |
| Grand Total                    |   | 9      | 34    | 24           | 20     | 189    | 15            | 42              | 333   | 100.0%                |
| % by geog                      |   | 2.7%   | 10.2% | 7.2%         | 6.0%   | 56.8%  | 4.5%          | 12.6%           |       |                       |

Figure 6: Analysis of comments letters from each ED and in aggregate, showing the source of letters by institution type and geographical region.

| <b>Category</b>                   | <b>Average page length</b> |
|-----------------------------------|----------------------------|
| Academic-Individual               | 4.2                        |
| Preparer                          | 4.5                        |
| User                              | 4.5                        |
| Consultant                        | 4.6                        |
| Lawyers                           | 4.6                        |
| Profession                        | 5.4                        |
| Preparer                          | 6.3                        |
| Regulator                         | 6.7                        |
| Standard Setter                   | 7.7                        |
| EC Adviser                        | 11.5                       |
| <b>Average for all categories</b> | <b>5.3</b>                 |

Figure 7: Average comment letter page length by category of constituent, combined for ED 2005 and ED 2010

| <b>Institution Type</b> | <b>Strongly disagree</b> | <b>Disagree</b> | <b>Agree</b> | <b>Strongly agree</b> | <b>Total</b> |
|-------------------------|--------------------------|-----------------|--------------|-----------------------|--------------|
| Academic-Individual     | 2                        | 0               | 0            | 0                     | 2            |
| Consultant              | 1                        | 0               | 0            | 0                     | 1            |
| EC Adviser              | 1                        | 0               | 0            | 0                     | 1            |
| Lawyers                 | 0                        | 0               | 0            | 0                     | 0            |
| Preparer                | 26                       | 8               | 4            | 0                     | 38           |
| Profession              | 20                       | 5               | 4            | 3                     | 32           |
| Regulator               | 1                        | 2               | 0            | 0                     | 3            |
| Standard Setter         | 6                        | 4               | 1            | 0                     | 11           |
| User                    | 9                        | 1               | 0            | 0                     | 10           |
| <b>Total</b>            | <b>66</b>                | <b>20</b>       | <b>9</b>     | <b>3</b>              | <b>98</b>    |

Figure 8: Analysis of response types from constituents to Q5 in the 2005 ED

**8.8. Figure 8.**

| <b>Intitution Type</b> | <b>Strongly disagree</b> | <b>Disagree</b> | <b>Agree</b> | <b>Strongly agree</b> | <b>Total</b> |
|------------------------|--------------------------|-----------------|--------------|-----------------------|--------------|
| Academic-Individual    | 5                        | 4               | 3            | 1                     | 13           |
| Consultant             | 1                        | 0               | 3            | 0                     | 4            |
| EC Adviser             | 0                        | 1               | 0            | 0                     | 1            |
| Lawyers                | 0                        | 4               | 0            | 0                     | 4            |
| Preparer               | 34                       | 50              | 11           | 1                     | 96           |
| Profession             | 7                        | 19              | 12           | 2                     | 40           |
| Regulator              | 2                        | 2               | 2            | 0                     | 6            |
| Standard Setter        | 2                        | 13              | 2            | 0                     | 17           |
| User                   | 7                        | 10              | 3            | 0                     | 20           |
| <b>Total</b>           | <b>58</b>                | <b>103</b>      | <b>36</b>    | <b>4</b>              | <b>201</b>   |

Figure 9: Analysis of response types from constituents to Q1 in the 2010 ED

**8.9. Figure 9.**

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