



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **A**
ECONOMIC AND SCIENTIFIC POLICY



The European Union's Role in International Economic Fora - Paper 7: The IASB

Economic and Monetary Affairs

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The European Union's Role in International Economic Fora Paper 7: The IASB

Study for the ECON Committee



DIRECTORATE GENERAL FOR INTERNAL POLICIES
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STUDY

Abstract

This paper forms part of a series of nine studies on the role of the European Union in International economic fora, prepared by Policy Department A at the request of the Committee on Economic and Monetary Affairs. International Financial Reporting Standards define the rules for corporate accounting and are set by a private standard setter: the International Accounting Standards Board (IASB). The EU has no formal role in developing these standards, but de facto endorses them ex post. This raises questions with regard to the overrepresentation of commercial interests in accounting regulation and the need to debate a stronger role not only for civil society actors but also for public entities such as regulators.

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs. It is part of a series of nine papers which cover from the same scientific angle: G20, FSB, IMF, OECD, BCBS/Basel, IAIS, IOSCO, IASB, and IOPS.

AUTHOR

Sebastian BOTZEM

RESPONSIBLE ADMINISTRATOR

Doris KOLASSA

EDITORIAL ASSISTANT

Karine GAUFILLET

LINGUISTIC VERSIONS

Original: EN

ABOUT THE EDITOR

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact the Policy Department or to subscribe to its newsletter please write to:
E-mail: Poldep-Economy-Science@ep.europa.eu

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This document is available on the Internet at:
Policy Department Economic and Scientific Policy
European Parliament
B-1047 Brussels
E-mail: Poldep-Economy-Science@ep.europa.eu

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LIST OF ABBREVIATIONS

ARC	Accounting Regulatory Committee
ASAF	Accounting Standards Advisory Forum
ASBJ	Accounting Standards Board of Japan
BCBS	Basel Committee on Banking Supervision
CFA	Chartered Financial Analyst (Institute)
CMAC	Capital Markets Advisory Committee
DPOC	Due Process Oversight Committee
EACG	Effects Analyses Consultative Group
EBA	European Banking Authority
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Committee on Economic and Monetary Affairs
EEG	Emerging Economies Group
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
EP	European Parliament
ESMA	European Securities and Markets Authority
EU	European Union
FASB	Financial Accounting Standards Board
FCAG	Financial Crisis Advisory Group
GPF	Global Preparers Forum
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards

IFRSF	International Financial Reporting Standards Foundation
ILA	International Law Association
IO	International Organisation
IOSCO	International Organization of Securities Commissions
ITCG	IFRS Taxonomy Consultative Group
JFSA	Japanese Financial Services Agency
KPMG	Klynveld Peat Main Goerdeler
NGO	Non-Governmental Organisation
RRPs	Recommended Rules and Practices
SARG	Standards Advice Review Group
SEC	Securities and Exchange Commission
SME	Small and Medium-Sized Enterprise
SMEIG	SME Implementation Group
SWOT	Strengths, Weaknesses, Opportunities, Threats
TEG	Technical Expert Group
US GAAP	US Generally Accepted Accounting Principles

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EXECUTIVE SUMMARY¹

Financial reporting standards are prescriptive rules that direct the preparation of company accounts. As such, they include normative assumptions about who the primary addressees of corporate accounts should be and the kind of information that should be included. This makes the development of International Financial Reporting Standards (IFRS), and their adoption in Europe, an immanently political issue that calls for the scrutiny of the conditions for developing and endorsing IFRS. Due to European regulation, and in accordance with trends in accounting regulation elsewhere, private self-regulation has become a landmark of global accounting regulation. The International Accounting Standards Board (IASB), a non-profit foundation, has been tasked with developing globally applicable accounting standards that cater predominantly to the information needs of capital market actors.

Despite European bodies having very limited say over the setting of IFRS, in 2002 the European Union (EU) decided to adopt IFRS, and established a procedure to endorse them as European law. More recently, especially since the financial crisis of 2007, the Anglo-American inspired tradition of professional self-regulation has become an object of public debate around the accountability of the IASB's governance, the normative content of IFRS and their role in market stability more broadly. Market-based fair value accounting is not uncontroversial, and privileging the information needs of capital market actors has raised concerns amongst Small and Medium-Sized Enterprises (SMEs) and other stakeholders.

The engagement of European actors in standard setting is manifold, yet a coherent European perspective on IFRS is hard to find. Nevertheless, the vast majority of IFRS is being transposed into European law via an EU regulation. Yet within the IASB, representation of European authorities has been marginal. On the one hand, this has been the result of a strong tradition of professional self-regulation within the field of accounting, and on the other hand, it has been the consequence of past political decisions in Europe that opted for an ex post enforcement of standards set by the IASB. However, a number of ways to strengthen European influence in international accounting standardisation do exist, and they include:

- intensifying and increasing engagement of European bodies in international standardisation, in particular in the early stages of standard setting;
- fostering the development of expertise with an explicit focus on European needs that can be introduced into the IASB's standardisation earlier on in the process; and
- reconsidering financial support pledged to the IASB and the European Financial Reporting Advisory Group (EFRAG) – a private organisation tasked with providing the European Commission with technical expertise and advice on accounting matters.

Ideally, these reforms would be part of a comprehensive deliberation between European entities and a broad range of societal stakeholders from the Union. In the meantime, we would recommend initiating a debate on accounting requirements that expresses European values with regard to fundamental political, social and democratic rights. This could be linked to a more coherent interpretation of what is to be understood by a 'European public good', the normative benchmark for adopting international accounting standards as spelled out in Article 3 of the IAS-Regulation².

¹ The author is grateful to Marcus Wolf and Matthias Täger for invaluable support in conducting research and preparing this study. He also wishes to thank Didier Millerot who was very kind in sharing his views on European accounting regulation. Kim Bizarri was of great help with language editing as was Berit Drießelkämper with research assistance.

² Regulation (EC) No 1606/2002.

1. GENERAL INFORMATION/INTRODUCTION

KEY FINDINGS

- International accounting standardisation has important consequences for public and private actors, as it affects distribution of corporate profits.
- International Financial Reporting Standards (IFRS) are set by a private organisation falling under US American law, the International Accounting Standards Board (IASB).
- Most of the world's large economies have adopted IFRS, the USA being the most notable exception.
- Today's IFRS cater to the information needs of capital market actors, with investors, lenders and creditors being the primary addressees.
- Practical expertise in accounting and auditing is important to engage in international standard-setting activities and a core foundation of professional self-regulation.

Formally, one has to distinguish between the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Foundation (IFRSF). In this paper, 'IASB' is used when speaking about the entire standard-setting organisation and its individual bodies, although in formal terms IASB constitutes only one body of the IFRS Foundation (see Figure 1 below). This is common practice both in the academic literature as in public discourse, which is why we follow this generally accepted use of the term. In practice, the difference between formal and colloquial usage of the acronym is less stark as the IASB constitutes by far the most important body of the organisation, where all relevant decisions regarding the content of International Financial Reporting Standards (IFRS) are taken.

Accounting is often considered to be a-political, entailing orderly book-keeping and reporting, which draw on purely 'technical' calculations and yield 'objective' numbers. However, debates on the governance of the IASB denote an increasing interest of political and societal actors in the rules framing the formulation of these standards, and the standards themselves. In addition, conflicts over who the primary addressees of financial reporting are, suggests that the scope of accounting regulation is wider than simply identifying a 'technically' adequate solution for a particular reporting issue. The introduction of a hierarchy among different stakeholder groups, and arguments about relevant normative approaches, points to the fact that international financial reporting standards have major consequences both for corporate performance and for corporate profit-making. As such, accounting regulation can be understood as being imminently political, precisely because it concerns the distribution of corporate surplus.

The European Union has been the first major jurisdiction worldwide to adopt IFRS. In 2002, after a long struggle over the content of international accounting standards and the governance structure of IASB, Regulation (EC) No 1606/2002 was adopted to require IFRS for consolidated accounts of publicly listed corporations³. In the meantime, more than 100 jurisdictions have allowed the application of IFRS for their listed companies. In some countries, including some EU Member States, the right – and in some cases obligation – to use IFRS in the preparation of annual accounts was extended to private corporations not

³ See Tamm-Hallström, 2004; Kirsch, 2007; Camfferman and Zeff, 2007; Botzem, 2012; Gillis et al., 2014; for a historical development of accounting standardisation since the 1970s.

listed on any exchange⁴. To date, the only large jurisdiction that does not allow its listed corporations to rely exclusively on IFRS is the United States of America. US companies are required to use the US Generally Accepted Accounting Principles (US GAAP)⁵.

Developing IFRS is the core responsibility of the IASB. The organisation has established a detailed procedure, called the 'due process', which it applies to develop its authoritative pronouncements, mainly IFRS and standard interpretations⁶. Initially, international accounting standards included a multiplicity of - sometimes contradictory - accounting principles. Over the years, however, the standards' normative scope has been substantially narrowed down to adhere to the information needs of capital market actors. As noted above, today IFRS address primarily the information needs of capital market actors; yet, in the organisation's original conceptual framework of 1989, its stakeholders were defined very broadly, stating that 'users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public'⁷.

In contrast, the organisation's current Conceptual Framework (2010) states that: 'The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit'⁸. More explicitly, the current framework notes that: 'other parties, including prudential and market regulators, may find general purpose financial reports useful. However, the Board considered that the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. Hence, regulators are not considered a primary user and general purpose financial reports are not primarily directed to regulators or other parties'⁹.

Unlike other fields of financial market regulation, accounting standardisation has always been characterised by a high degree of professional self-regulation. Practical expertise in accounting and auditing has been the domain of national professional associations and auditing firms. While the former have been instrumental in setting up cross-border activities since the 1970s, globally active auditing firms today are among the main actors engaging in international standardisation activities. They are widely perceived as relevant loci of expertise, conferring auditing firms leverage in international debates and providing their members with prestige when engaging with the IASB¹⁰.

⁴ A detailed list of how IFRS are applied in different EU Member States can be found in Accounting Regulatory Committee (ARC), Overview of the use of options.

⁵ The US allows foreign firms on US stock markets to use IFRS standards for the preparation of financial reports. US companies must use US GAAP; see Baudot, 2014; and IFRS webpage: <http://www.ifrs.org/Use-around-the-world/Pages/Analysis-of-the-IFRS-jurisdictional-profiles.aspx>.

⁶ The following section of this report contains a detailed description of the standards, standard-setting procedures and the organisational governance of IASB.

⁷ See European Commission, 2003, Comments concerning certain Articles of the Regulation (EC) No 1606/2002, p. 19.

⁸ See F OB 2, <http://www.iasplus.com/en/standards/other/framework>. The original document as published by the IASB is unavailable for free. It can only be accessed against a charge via eIFRS http://eifrs.ifrs.org/eifrs/stdcontent/2012_Red_Book/Conceptual_Framework.html.

⁹ See F OB10 and F BC1.20-BC 1.23, <http://www.iasplus.com/en/standards/other/framework>.

¹⁰ See Willmott et al., 2000; Cooper and Robson, 2006.

2. ORGANISATION OF THE IASB AND OF THE IFRSF

KEY FINDINGS

- The International Accounting Standards Board (IASB) is a private foundation with a varied internal structure. Membership to the IASB is not tied to jurisdiction; individuals are recruited to reflect a wider geographical/regional balance. The organisation is characterised by a tightly woven network of individuals, mostly from private interest groups and commercial entities.
- The IASB's governance structure exhibits a high degree of formal transparency, although criticism regarding its lack of accountability continues.
- The IASB has undertaken activities to broaden its financial base, but continues to rely heavily on private actors, most notably globally active auditing firms.
- Standard setting follows a very detailed consultation procedure that seeks to feed all relevant information into the IASB's decision-making process. The consultation is tightly administered by the organisation's staff and can not be described as a mode of democratic participation.
- The EU's influence of the IASB is limited, partly because of the IASB's reservations about the engagement of public institutions in the organisation's dealings, and partly because the IASB has been accepted as the sole international standard-setter in accounting by European regulators.

2.1. Legal status, country of establishment

The IASB is the standard-setting body of the IFRS Foundation. The IFRS Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware (USA) and operates in England and Wales as an overseas company (Company number: FC023235)¹¹. The IASB's operations are located at 30 Cannon Street, London EC4M 6XH, United Kingdom.

The IASB's predecessor, the International Accounting Standards Committee (IASC), was established in 1973 in London, but a complete overhaul of the organisational structure took place in 2001, when the IASB was set-up with the aim to operate as an independent standard-setter overseen by the IFRS Foundation. Until 2010, the IFRS Foundation was known as the International Accounting Standards Committee Foundation (IASCF).

2.2. Description of objectives/mission statement

According to the IFRSF constitution, the organisation's objectives are currently defined as follows:

- (a) 'to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles. These standards should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions. [emphasis added by author]
- (b) to promote the use and rigorous application of those standards.

¹¹ IFRSF Constitution, 2013, p. 2.

- (c) in fulfilling the objectives associated with (a) and (b), to take account of, as appropriate, the needs of a range of sizes and types of entities in diverse economic settings.
- (d) to promote and facilitate adoption of International Financial Reporting Standards (IFRSs), being the standards and interpretations issued by the IASB, through the convergence of national accounting standards and IFRSs.¹²

Throughout the organisation's 40 year-long history, the IASB's objectives have been narrowed down to adhere to the information needs of capital market actors. Over the years, accounting principles that were not following a market orientation, such as conservative approaches to income smoothing – often in jurisdictions where taxation and corporate accounts had been tightly coupled – have been eliminated. Over the last decades, IFRS have been developed to provide information useful mostly to investors and other capital providers.

2.3. Description of the organisation's governance structure

The IASB's governance structure reflects the organisation's orientation towards private actors. Deeply rooted in the accounting professions' tradition of self-regulation, the IASB has close ties with the global auditing community, such as the International Federation of Accountants (IFAC) and the global oligopoly of large auditing firms.¹³ In addition, a range of other private and public actors is also active in the organisation's formal bodies, as well as in its temporary working groups¹⁴.

When it comes to setting accounting standards, public entities, such as the central banks or national governments, are treated similarly to private interest groups, in regard to how their written statements (comment letters) to the IASB are dealt with as part of the organisation's formal consultations. However, some public organisations do benefit from a monitoring role over some of the IASB's activities, among them international organisations such as national securities organisations, the International Organization of Securities Commissions (IOSCO), but also the European Commission, who sits on the organisation's Monitoring Board.

2.3.1. IASB's current governance structure

Figure 1 presents an organogram that includes the five bodies officially referred to in the organisation's constitution. Four of these, the IASB, the Foundation's Trustees, the Interpretations Committee and the Advisory Body have been in place since 2001, when the current structure was established. The Monitoring Board however was introduced only in 2009, in response to criticism directed towards the organisation's insufficient democratic accountability - which was articulated amongst others by the Economic and Monetary Affairs Committee of the European Parliament¹⁵.

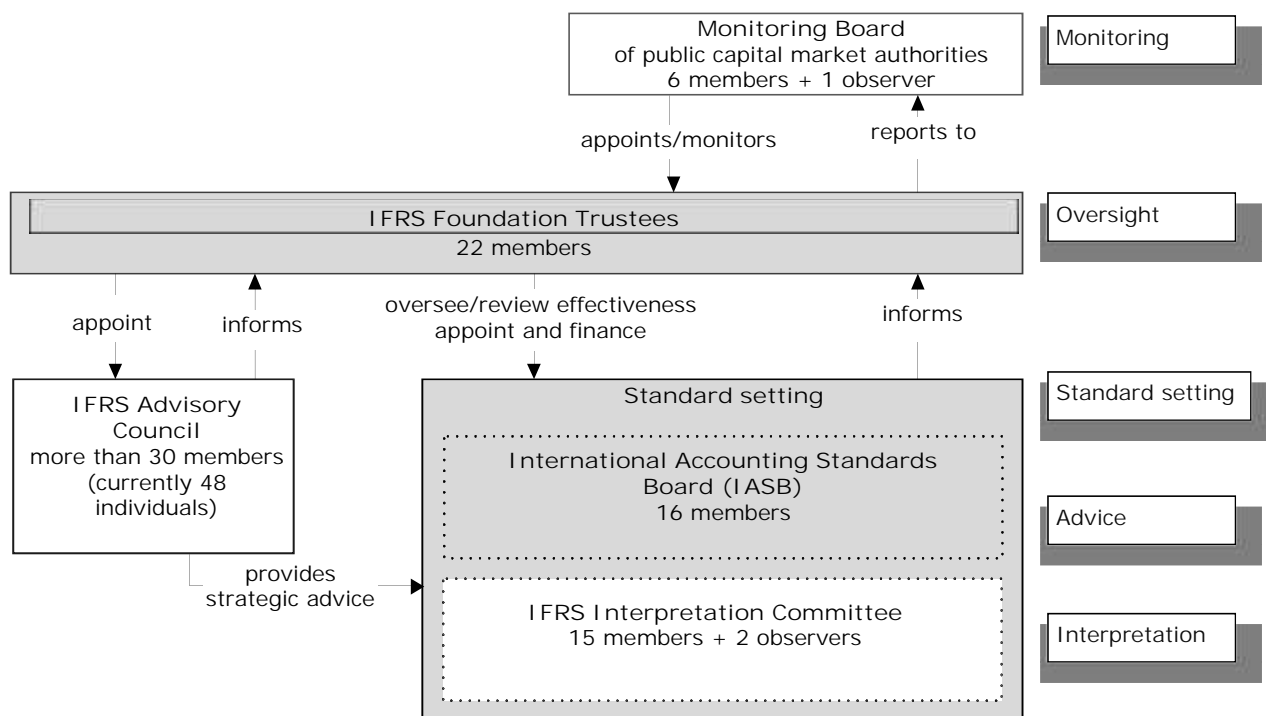
¹² IFRSF Constitution, 2013, para. 2.

¹³ The global auditing market is dominated by four international auditing networks each with at least 150.000 employees worldwide. The Big Four are Deloitte Touche Tohmatsu, PricewaterhouseCoopers, Ernst & Young and KPMG. For the qualification as oligopoly see e.g. House of Lords, 2011, para. 168-172.

¹⁴ Section 2.4 of this paper includes a network analysis of all memberships in IASB bodies in 2013.

¹⁵ See European Parliament Resolution of 24 April 2008 on International Financial Reporting Standards (IFRS); and Botzem, 2014.

Figure 1: The IASB's Governance structure since 2014



Source: Author's own composition based on Botzem (2014) and the IFRS web page, <http://www.ifrs.org/About-us/Pages/How-we-are-structured.aspx>.

The five main bodies are endowed with the competence to engage in:

- standard setting (IASB);
- oversight (IFRS Trustees);
- monitoring (Monitoring Board);
- standard interpretation (IFRS Interpretations Committee); and
- advice (IFRS Advisory Council).

By nature of the formal rights attributed to them, the bodies exercise different tasks. In their conjuncture, they allow the organisation to effectively fulfil its mandate of developing authoritative pronouncements (standards and standard interpretations) in a self-regulatory fashion. The organisation's five core bodies and their task are summarised below:

Standard Setting

The IASB is the organisation's core and most influential body. It is tasked with the running of operations and setting standards (International Financial Reporting Standards (IFRS) – initially International Accounting Standards (IAS) were issued by the IASC, the organisation's predecessor until 2000). Currently, the IASB has filled fourteen of its sixteen positions, of which a maximum of three can be carried out on a part-time basis. All holders of positions are 'required to commit themselves formally to acting in the public interest in all matters'¹⁶.

¹⁶ IFRSF Constitution, 2013, para. 25.

The constitutional review of 2008 introduced a regional quota indicating the organisation's aspiration as a global standard-setter¹⁷. Thus, Board members do not represent individual jurisdictions, but world regions, with Asia/Oceania, Europe, and North America, represented by four IASB members each, whilst the regions of Africa and South America are represented by one member only. Two additional members are then selected randomly to maintain an overall regional balance.

In terms of recruitment criteria, the IASB selects its members on the basis of their experience as auditors, preparers or users of financial statements, which might include academics, as well as on their skills and knowledge relative to financial accounting and reporting¹⁸.

IASB membership runs on a five-year term with the possibility to renew the appointment for an additional three-year period. All members must sever their professional ties with their employers by the beginning of their membership, but part-time members may seek part-time employment within the IASB itself.

Typically, but not exclusively, the IASB's meetings are open to the public, and members must attend in person (and never by proxy), as the appointment is in their personal capacity¹⁹.

The IASB's core position within the organisation is underlined by its far-reaching mandate. Besides the IASB's core purpose of autonomously crafting IFRS, its Board's tasks involve informing and consulting other standard-setters with a view to achieve convergence of standards²⁰.

As described in the organisation's Constitution, the IASB shall:

- have complete responsibility for all IASB technical matters including the preparation and issuing of IFRSs (other than Interpretations) and exposure drafts;
- publish an exposure draft on all projects for public comment;
- have full discretion in developing and pursuing its technical agenda;
- have full discretion over project assignments on technical matters;
- establish procedures for reviewing comments;
- form working groups or other types of specialist advisory groups to give advice on major projects; consult the Advisory Council;
- consider public hearings to discuss proposed standards and consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable²¹.

Oversight

The (currently 21) Trustees of the IFRS Foundation are responsible for the overall direction of the organisation, including the organisation's set-up, its finances and its strategic relations with public and private actors. Most importantly, however, is their authority to appoint IASB members and members of the Interpretation Committee, whilst also recruiting members of the Advisory Body. Moreover, Trustees can terminate

¹⁷ Botzem, 2012, p. 104.

¹⁸ IFRSF Constitution, 2013, para. 24-26.

¹⁹ IFRSF Constitution, 2013, para. 31,32, 34 and 35.

²⁰ IFRSF Constitution, 2013, para. 28 and 37.

²¹ IFRSF Constitution, 2013, para. 37.

each other's appointment, as well as those of other bodies of the IFRS, in case of wrongdoings. The Trustees may also define the procedures for terminating such engagements²².

Trustees are able to nominate future Trustees, but their appointment is subject to the Monitoring Board, which must decide by consensus. Two of the Trustees must also be senior partners of well-known international accounting firms²³ and all Trustees – just like IASB Board members – are 'required to commit themselves formally to acting in the public interest in all matters'²⁴.

Similarly to the IASB, the appointment of trustees must respect regional quotas, with Asia/Oceania, Europe, and North America represented by six trustees each, whilst African and South American representation is limited to one trustee each. An additional two trustees are also appointed irrespectively of their nationality as a way of maintaining an overall geographical balance²⁵. Trustees are appointed for a three-year term which may be renewed once, whilst the Chair and Vice-Chair may serve up to a total of nine years²⁶.

Trustees are remunerated with a fee agreed on by the Trustees themselves, and trustees also set the fees paid to members of the IASB. Their meetings are held at least twice a year and they are typically open to the public.

While the Trustees' closeness to capital markets could be expected given that they are required to hold knowledge of capital markets' requirements, their selection criteria remain vague. In practice, Trustees engage in cooperation and consultation with other institutions, namely 'national and international organisations of auditors (including the International Federation of Accountants), as well as with individual preparers, users and academics'²⁷.

Monitoring

The Monitoring Board was newly established in 2009 after intense criticism of the organisation's governance structure. Amongst the more vocal critics were the European institutions, notably the European Parliament, which called for more public accountability of the private self-regulatory regime of the IASB²⁸. After a deliberation on constitutional amendments at the height of the recent financial crisis, the IASB established the Monitoring Board to allegedly 'enhance the public accountability of the IFRS and engage capital market regulators without reducing the autonomy of the IASB'²⁹. According to the IFRSF Constitution, the Monitoring Board would 'provide a formal link between the Trustees and public authorities',³⁰ and its core tasks would be to approve Trustee members.

Currently, the Monitoring Board's eight members (plus one observer) comprise:

- the Vice-Chair of the IOSCO Emerging Markets Committee (Bert Chanets);
- the Chair (or vice-chair, if the chair also holds another Monitoring Board member position) of the IOSCO Technical Committee (Greg Medcraft);

²² See IFRSF Constitution, 2013, para. 13, 15 and 16.

²³ See IFRSF Constitution, 2013, para. 7.

²⁴ See IFRSF Constitution, 2013, para. 6.

²⁵ See IFRSF Constitution, 2013, para. 6.

²⁶ See IFRSF Constitution, 2013, para 10.

²⁷ See IFRSF Constitution, 2013, para. 7.

²⁸ European Parliament Resolution of 24 April 2008 on International Financial Reporting Standards (IFRS).

²⁹ See Botzem, 2012, 104.

³⁰ IFRSF Constitution, 2013, para. 3.

- the Commissioner as well as the Vice Minister of the Japan Financial Services Agency (Masamichi Kono and Kiyoshi Hosomizo);
- the Chairwoman of the US Securities and Exchange Commission (Mary Jo White);
- the responsible member of the European Commission (Commissioner Lord Hill);
- the Chairman of the Brazilian Securities Commission (Leonardo Porciúncula Gomes Pereira); and
- the Chairman of the Financial Services Commission of the Republic of Korea (Je-Yoon Shin)³¹.

The members are appointed as representatives of their respective institution due to the positions they hold.

On 1 of April 2009, the Monitoring Board and the Trustees signed a Memorandum of Understanding that included some specifications about the Monitoring Board's role: its primary purpose being 'to serve as a mechanism for formal interaction between capital markets authorities' and the IFRSF. Specifically, the Monitoring Board would 'help ensure the public accountability' by monitoring and reinforcing public interest³². Its most direct impact is likely to rest with its authority to approve Trustees by consensus which, if exercised, confers any member of the Board, including the European Commission representative, a de facto veto right over the appointment of Trustees.

Standard Interpretation

The purpose of the IFRS Interpretation Committee is to decide on clear guidelines for practitioners on how to apply IFRS in cases not clearly described within the original standard. The task of the Interpretations Committee is to interpret detailed application of IFRS and to provide guidance on financial reporting issues that are not specifically addressed in IFRS. Furthermore, the Committee works with national standard-setters to bring about convergence of national accounting standards. It does so through publishing draft interpretations for public comment and to report to the IASB where final approval to interpretations of standards is given³³.

The fourteen members of the Interpretation Committee are appointed by the Trustees on a three-year term and are required to have technical skills and international business experience with IFRS. The Chair is appointed by the Trustees and may also be a member of the IASB Board at the same time. The Chair does not have any voting rights, as is the case also with the observers to the meetings from other regulatory organisations. Their participation is conditional to their appointment by the Trustees. The European Commission enjoys observer status with the Committee, but not no voting member of the Interpretations Committee is affiliated with a European Union entity.

The Committee's meetings are usually open to the public and have to be attended by at least ten voting members to meet a quorum. Ideally each meeting would include one or two designated IASB members, although all IASB members are welcomed to attend the meetings. Members of the Interpretation Committee may send a non-voting alternate with the consent of the Chair. Unless more than four members reject an interpretation, it is forwarded to the IASB for a vote³⁴.

³¹ The Chairperson of the Basel Committee on Banking Supervision participates as an observer.

³² See European Commission et al., 2009, Memorandum of Understanding to Strengthen the Institutional Framework of the IASCF.

³³ IFRSF Constitution, 2013, para. 43.

³⁴ IFRSF Constitution, 2013, para. 39-42.

Advice

The IFRS Advisory Council consists of thirty or more members – currently closer to 40 – representing organisations or individuals with an interest in international accounting regulation. They are appointed by the Trustees in order to give a wider variety of stakeholders the opportunity to express their views on accounting matters. The Chair of the Advisory Council, who should not be an IASB member, is also appointed by the Trustees and can be invited to their meetings.

The Advisory Council meetings are supposed to take place at least three times per year and must be open to the public. The Advisory Council is consulted by the IASB in 'decisions on major projects'³⁵, and by the Trustees in advance of proposals for changes to the constitution. The Advisory Council's objectives are defined as:

- (a) 'giving advice to the IASB on agenda decisions and priorities in the IASB's work;
- (b) informing the IASB of the views of the organisations and individuals on the Advisory Council on major standard-setting projects; and
- (c) giving other advice to the IASB or the Trustees'³⁶.

Among the five statutory bodies of the organisation, the Advisory Council is assigned the weakest role. It serves primarily to coordinate with other organisations, moderating their ideas and educating them about the IASB. At the same time, the Advisory Council is the entity where most of the public European organisations are represented, such as ESMA, the ECB and the European Commission. EFRAG, the private European body advising the European Commission, is also currently a member of the Advisory Council.

2.3.2. Stakeholder involvement

The IASB's engagement with stakeholders is at the core of the organisation's attempt to legitimise its self-regulatory activities³⁷. For its standards to diffuse effectively around the world, the organisation makes sure that private interests are well represented. For the same reason, preparers, auditors and users of financial reports (now predominantly thought of as capital providers) are explicitly mentioned as preferential candidates for the position of IASB Board members. Additionally, academics and regulators are also referred to as relevant stakeholder groups, and are given consideration for their inclusion in the organisation's statutory bodies.

The inclusion of other interest groups that might have a stake in international accounting standardisation, can take place during consultation procedures. Their opinions are heard as part of the so called 'due process' of standardisation, described in more detail in section 2.6 below. In addition, the IASB also reaches out to groups that might have difficulties in voicing their interest and/or in understanding core aspects of the IASB's agenda. For instance, roundtable discussions are hosted with accounting practitioners from developing countries. In addition, the IASB arranges a number of fora where certain stakeholder interests can be articulated, such as the Accounting Standards Advisory Forum (ASAF), the Capital Markets Advisory Committee (CMAC), the Effects Analyses Consultative Group (EACG), the Emerging Economies Group (EEG), the Financial Crisis Advisory Group (FCAG), the Global Preparers Forum (GPF), the IFRS Taxonomy Consultative Group (ITCG), the Joint Transition Resource Group for Revenue Recognition, and the SME Implementation

³⁵ IFRSF Constitution, 2013, para. 45 and 46.

³⁶ IFRSF Constitution, 2013, para. 44.

³⁷ See Richardson and Eberlein, 2010; Quack, 2010; Botzem, 2014 for an in-depth discussion of legitimisation of international standard setting.

Group (SMEIG)³⁸. There is little doubt that the IASB is going a long way to communicate and engage with financial sector interests and preparers' representatives.

As a private standard-setter with a strong tradition in Anglo-American self-regulation, the IASB ensures that practical concerns enjoy ample recognition. The organisation is keen to protect itself from any 'undue influence' and, eager to uphold its independence in the aftermath of the financial crisis, the IASB and its US counterpart, the Financial Accounting Standards Board (FASB), pointed out in a joint publication that both commercial and political influences pose a potential threat to professional self-regulation:

'To develop standards that are high quality and unbiased, accounting standard setters must enjoy a high degree of independence from undue commercial and political pressures, but they must also have a high degree of accountability through appropriate due process, including wide engagement with stakeholders and oversight conducted in the public interest.'³⁹

Although one cannot doubt that stakeholder involvement is a core organising principle of the IASB, reference to formalised consultation and abstract normative orientation such as 'public interest' tends to obscure a hierarchy among different stakeholder groups. On paper, the IASB fares well as the organisation engages in dialogue with the public and provides much detailed information online. In fact, the IASB's transparency has been recognised by non-governmental organisations (NGOs) as a suitable benchmark, particularly because of its formalised consultation procedure, which has been deemed exemplary⁴⁰.

However, the IASB's high scores for transparency and public consultation should not be mistaken for suggesting complete stakeholder involvement. Empirical studies indicate that societal stakeholders that are not equipped with in-depth accounting expertise (such as employees and their representatives, non-governmental organisation or non-business associations) are largely absent from the consultations⁴¹. In contrast, financial market actors, in particular auditors and investors, dominate standard setting within the IASB, with the former being well represented at all levels within the organisation. The latter, that is investors and other capital providers, are singled out as the core constituency addressed by IFRS. The current 2010 version of the Conceptual Framework states in fact that:

'The primary users of general purpose financial reporting are present and potential investors, lenders and other creditors, who use that information to make decisions about buying, selling or holding equity or debt instruments and providing or settling loans or other forms of credit'⁴².

Privileging the information needs of capital providers has not been uncontroversial within the IASB. At the time when the IASB and FASB jointly attempted to draft a Conceptual Framework, as part of the global convergence project between IFRS and US GAAP accounting standards, a dispute arose between the two bodies over the nature of the relevant addressees of financial reports. Attempts led by North American IASB members and the FASB to erase management stewardship as a guiding principle found opposition and led the two British members of the IASB to formally write a dissenting opinion⁴³. After a brief episode, the IASB and the FASB decided to develop separate conceptual frameworks and a reference to management stewardship has re-entered the IASB's framework⁴⁴.

³⁸ See http://www.ifrs.org/About-us/IASB/Advisory-bodies/Pages/About_advisory_bodies.aspx.

³⁹ See Financial Crisis Advisory Group (FCAG), 2009, p. 2.

⁴⁰ See One World Trust, 2008, p. 18.

⁴¹ See Botzem, 2012, p. 155.

⁴² See <http://www.iasplus.com/en/standards/other/framework>.

⁴³ See Botzem, 2012, p. 85ff.

⁴⁴ See Framework [F OB 4], <http://www.iasplus.com/en/standards/other/framework>. IASB now clarifies that IFRS should not be exclusively forward looking (future cash flows) but also allow for an assessment of past management decisions: 'The primary users need information about the resources of the entity not only to

Today's clear capital market orientation clearly privileges investors over other stakeholders, and provides a narrower version of the IASB's 1989 Conceptual Framework which was subsequently published by the European Commission in 2003⁴⁵ as part of its IAS policy:

'The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. They use financial statements in order to satisfy some of their different needs for information. These needs include the following:

- (a) Investors. The providers of risk capital and their advisers are concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information which enables them to assess the ability of the enterprise to pay dividends.
- (b) Employees. Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.
- (c) Lenders. Lenders are interested in information that enables them to determine whether their loans, and the interest attaching to them, will be paid when due.
- (d) Suppliers and other trade creditors. Suppliers and other creditors are interested in information that enables them to determine whether amounts owing to them will be paid when due. Trade creditors are likely to be interested in an enterprise over a shorter period than lenders unless they are dependent upon the continuation of the enterprise as a major customer.
- (e) Customers. Customers have an interest in information about the continuance of an enterprise, especially when they have a long-term involvement with, or are dependent on, the enterprise.
- (f) Governments and their agencies. Governments and their agencies are interested in the allocation of resources and, therefore, the activities of enterprises. They also require information in order to regulate the activities of enterprises, determine taxation policies and as the basis for national income and similar statistics.
- (g) Public. Enterprises affect members of the public in a variety of ways. For example, enterprises may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage of local suppliers. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

10. While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.⁴⁶

The initial Conceptual Framework already indicated that most, although not all, of the users' needs can be addressed in financial statements. In both documents, there is a common understanding that capital providers are core stakeholders with regard to standardising financial statements. However, the difference between the current and the former Conceptual Framework lies in acknowledging stakeholder involvement more broadly. Today, stakeholders are pressured to frame their needs on terms of the logic applied by capital providers to be perceived as having equally legitimate interest compared to those of the financial industry. This is a pressing issue both for societal stakeholders and for public

assess an entity's prospects for future net cash inflows but also how effectively and efficiently management has discharged their responsibilities to use the entity's existing resources (i.e., stewardship).'

⁴⁵ See European Commission, 2003, Comments concerning certain Articles of the Regulation (EC) No 1606/2002, p. 19.

⁴⁶ See European Commission, 2003, Comments concerning certain Articles of the Regulation (EC) No 1606/2002, p. 19.

entities. The IASB's current version of the Conceptual Framework is particularly clear with regards to regulators, including the EU:

'[T]he Board considered that the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. Hence, regulators are not considered a primary user and general purpose financial reports are not primarily directed to regulators or other parties'⁴⁷.

2.3.3. Voting modalities

Each IASB body's voting modalities are specified in the IFRSF Constitution. In each case, voting is exercised by individuals. That leads to a one-person, one-vote principle (with the exception of observers who also participate in discussions but do not vote). The IASB places much emphasis on argumentation and deliberation in its bodies. Whenever votes are taken, large majorities are aimed for. The Constitution defines a simple majority for decisions taken by the IASB, and in case of a tie, the Chair is granted an additional vote.

The publication of an exposure draft or of an IFRS has to be approved by at least ten out of the sixteen IASB members, or by at least nine if less than sixteen members are present. Other publications can be approved by a simple majority, as long as at least 60 % of the members are present⁴⁸.

The Trustees' voting modalities differ however, as the termination of an appointment or amendments to the constitution must be agreed by 75 % of all Trustees, whilst other decisions require a simple majority vote. A quorum can be reached for a meeting when at least 60 % of the Trustees are present, either in person or via telecommunication means⁴⁹.

For the approval of a draft or a final interpretation of an IFRS by the Interpretations Committee, at least ten voting members have to be present and not more than four of them should vote against the draft, or the final interpretation⁵⁰. No decision-making procedures are formally established for the Advisory Council. The Monitoring Board, in which only five voting members are present, requires de facto a consensus-based agreement⁵¹.

2.3.4. Accountability

The IASB's governance and accountability have been an object of intense academic and public debate for some time. At the core of these discussions is the organisation's 'private' nature that distinguishes it from other internationally active organisations in the field of financial market regulation, such as international organisations based on multilateral treaties between public authorities from different jurisdictions or organisations that have central banks (such as the Basel Committee on Banking Supervision) or securities regulators (for instance the International Organization of Securities Commissions, IOSCO) as members.

The IASB's accountability is also a recurrent issue due to its close connections to the financial industry, in particular global auditing firms. In part, this is reflected in a strong self-regulatory conviction wide-spread with professionals in the field of financial regulation in general, and in the auditing field in particular⁵². The strong belief in the superiority of professional self-regulation is in part expressed in the detailed consultation process ('due process', in more detail described in section 2.5.).

⁴⁷ See <http://www.iasplus.com/en/standards/other/framework>.

⁴⁸ IFRSF Constitution, 2013, para. 35 and 36.

⁴⁹ IFRSF Constitution, 2013, para. 14.

⁵⁰ IFRSF Constitution, 2013, para. 41 and 42.

⁵¹ IFRSF Monitoring Board Charta, 2013, Article 9.

⁵² See Willmott et al., 2000; Cooper and Robson, 2006.

The IASB aims for a high level of information disclosure and organisational transparency. The IASB Board meetings are usually held in public, minutes and podcasts are made publicly available, as is a wide range of other documents including time frames and prospective agendas. During consultation procedures for the development of standards and other authoritative pronouncements, discussion papers and/or exposure drafts are published online to which written statements are sought. Such Comment Letters, written in response to the questions posed, are also posted online. Unfortunately, IASB's transparency is restricted to current consultations. Data availability is more difficult when it comes to past activities. Standards and interpretations are sold, as is the current version of the Conceptual Framework making it inaccessible for the interested public without financial resources.

In fact, much material is available, but its language reads very abstract and technical, requiring in-depth knowledge of the subject matter, material resources and much time to engage in all of the organisation's activities. These challenges are intensified by the fact that some regional or national standard-setters mirror the IASB's mode of governance and, similarly, invite actors to comment on the exact same issues, which poses the danger of duplicating arenas for discussion. That is a particular problem in Europe, where EFRAG conducts consultation procedures in parallel to the IASB to reach a common position amongst European actors which it then channels to the IASB through its 'due process'⁵³.

The IASB's dedication to transparency and steady improvement of its 'due process' cannot hide the fact that the organisation still encounters criticism regarding governance issues and accountability. The main criticism is directed at the organisation's preference for professional self-regulation and its close relations to the financial industry and the large auditing firms.

Also, the IASB's gathering of evidence as a basis for expertise-based standard setting (i.e. 'due process') should not be mistaken for an example of democratic participation. Once IFRS are agreed upon within the IASB, after extensive deliberation dominated by private actors, there is a general understanding within the organisation that authoritative pronouncements should be adopted, unaltered, within as many jurisdictions as possible, and ideally world-wide.

2.3.5. Financing

Historically, the IASB's predecessor acquired most of its funding from its members, initially national associations of auditors. However, following organisational reforms in 2001, the newly established non-profit Foundation sought donations from industry. In addition to large preparers of financial statements (listed corporations), other entities such as central banks and national regulators also started to contribute financially to the organisation's budget. As a bloc, the big accounting firms (now the 'Big Four', Deloitte Touche Tohmatsu; PricewaterhouseCoopers; Ernst & Young; and KPMG) have always contributed the largest share of the organisation's funding (roughly one third). Over the years, the organisation's reliance on private funding has been a constant issue of debate, particularly with relevance to the IASB's governance structure. This has encouraged the IASB to broaden its financial base.

The funding mechanisms, as well as the funds available, have changed significantly since the late 1990s. While in 1999, IASB's annual budget was just above GBP 2m, and the organisation depended heavily on seconded staff from donor institutions, a few years later the budget began to increase rapidly. After 2001, the IASB's financial basis was broadened

⁵³ See Maystadt, 2013. The Maystadt-Report addresses fundamental questions of organising EFRAG as a European platform in accounting standardisation.

to cover steeply increasing expenses as a result of growing staff numbers and as a consequence to the organisation's increased scope of activities. By 2013 the total annual income of the IFRS Foundation amounted to more than GBP 27m⁵⁴.

Initially, the main sources of income were voluntary contributions from the private sector, most notably from the Big Four auditing firms⁵⁵. Since 2009 however, contributions of more than GBP 20m annually have been sought from private firms, and have been partially delivered depending on the economic potential of the respective country⁵⁶. While the sums from the UK, Germany, France, and China range between GBP 830 000 and GBP 900 000, the USA contributed to the organisation's funds with more than GBP 1.1m and Japan donated GBP 1.7m (2013)⁵⁷.

Contributors include banks, central banks, private companies, accounting umbrella organisations, and bodies of government. A reconfiguration of the financing scheme was sought to reduce dependence on private sectors, namely the auditing industry. Today's largest single contributor to the IASB is the EU, providing the organisation with more than GBP 3m annually.

EU institutions have increased significantly their annual contributions. Back in 2009 the EU supported the IASB with just over GBP 34,000⁵⁸, but by 2013 the European Union emitted GBP 3.4m in support of the organisation⁵⁹. For the funding period running from 2014 until 2020, the EU plans to increase its payments to the IASB by allocating a total of EUR 31.6m⁶⁰. By doing so, the EU has now become the largest single provider of financing to the IASB, contributing 16 % of the organisation's total donations (2013). Currently, the legal basis for this EU funding is Regulation (EU) No 258/2014 of the European Parliament and of the Council of 3 April 2014 establishing a Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-20 and repealing Decision No 716/2009/EC.

Figure 2 below gives an overview of contributions by the largest donors, i.e. where most of the organisation's funding originates. In its declaration, the annual reports bundle funds according to a geographical logic. However, the way funding is provided within jurisdictions varies. In some countries, industry provides the funding on an individual basis, elsewhere stock market levies have been introduced, and national business associations also play a role. By and large, the proportion of money supplied corresponds with relative national economic performance. There are, however, two notable exceptions: The Big Four auditing firms, which have provided the IASB with about a third of its funds, and the EU, which – as just stated – has become its largest single donor.

In aggregate terms, European public and private contributions account now for just over one third of the IASB's total funds (33 %), placing it just ahead of the Big Four auditing firms (31 %).

⁵⁴ IFRSF Annual Report, 2013, p. 42.

⁵⁵ IFRSF Annual Report, 2013, p. 48.

⁵⁶ Botzem, 2012, p. 111-112.

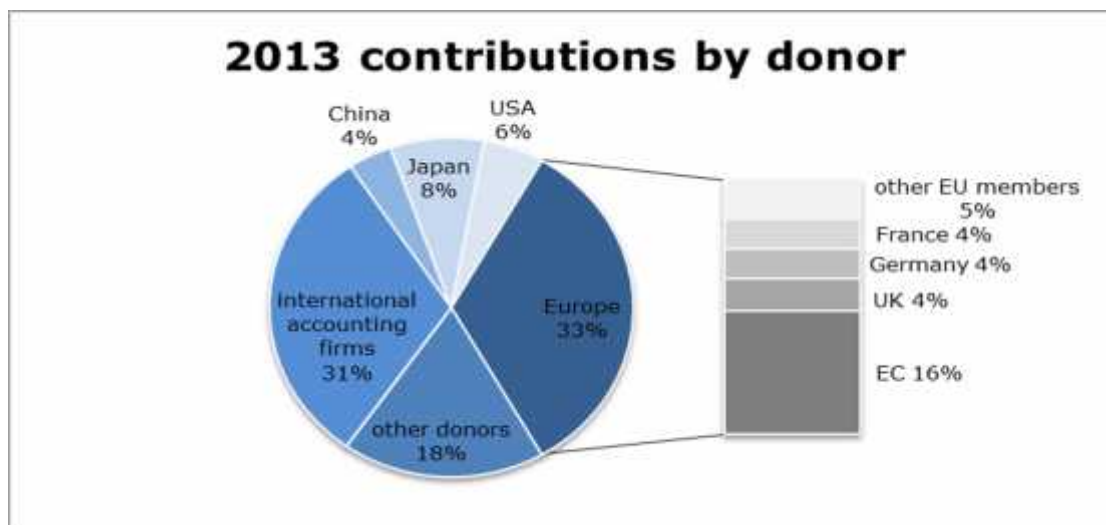
⁵⁷ IFRSF Annual Report, 2013, p. 45-48.

⁵⁸ IASCF Annual Report, 2009, p. 47.

⁵⁹ IFRSF Annual Report, 2013, p. 45.

⁶⁰ Article 6 Regulation (EU) No 258/2014.

Figure 2: Origin of the IASB's largest donors



Source: Author's own composition based on IFRS Annual Report, 2013, p. 44-48.

In addition to the funds given to the organisation, the IASB is trying to generate financial contributions from selling its own publications. In total, this accounted for 20 % of all of the organisation's income in 2013⁶¹. However, trying to secure funds by selling the right of access to its authoritative pronouncements limits access to financially resourceful actors.

2.4. Current Membership

As mentioned above, the IASB is a not-for-profit foundation developing international reporting standards. Therefore, it is not possible for a jurisdiction/country to become a member of the IASB. In practice, staff and representatives of the IASB's bodies are its members. Formally, individuals in the IASB's five core bodies are recruited on the basis of personal qualification and organisational affiliation. One way to display the IASB's current organisational embeddedness as a standard-setter is in the form of a network graph.

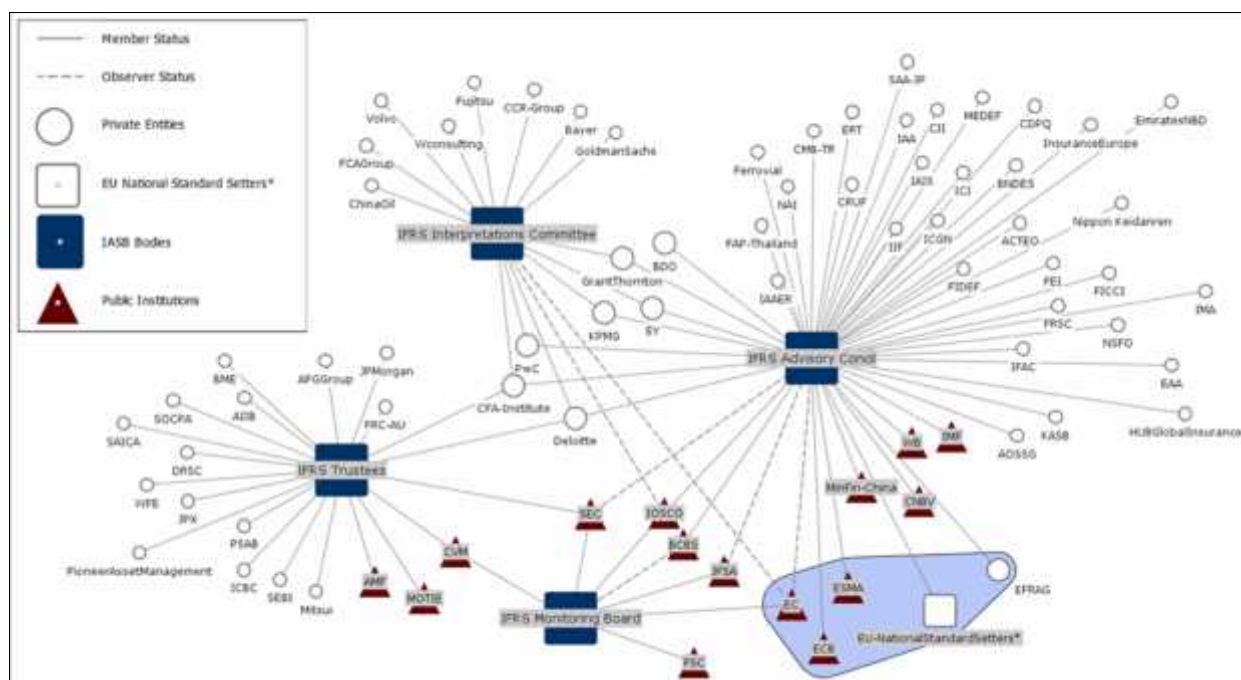
Figure 3 below shows the four main IASB bodies, which invite individuals as their members. Charting the organisational background of the individuals gives us some indication about which (public and private/commercial and non-commercial) interests are represented within the IASB's core bodies. Naturally, and in addition to the organisations included in the figure, the IASB engages with a multitude of other actors in different fora. Nevertheless, a network analysis provides some evidence of the background of individuals active in the IASB's central bodies, despite the fact that formally recruitment is *ad personam*. Furthermore, the data show some continuity regarding the inter-organisational network the IASB established over the last decade⁶². An organisational perspective is also justified because the IASB's rules in some cases explicitly assign membership to organisations (for the entire Monitoring Board as well as for some members in the Interpretations Committee and the Advisory Council) and not for individuals.

The network highlights some established relations the IASB upholds with its environment. While the graph does not indicate which motivations lie behind each membership, we can conclude that, overall, the organisation relies on its network to channel information, secure material and public support, and connect with core players in global finance. In 2013, the network graph plotting the organisations more closely tied to the IASB, looks as follows:

⁶¹ IFRSF Annual Report, 2013, p. 44.

⁶² See Botzem, 2012, p. 142-149.

Figure 3: Organisational relations between the IASB and representatives in its formal bodies



Source: Author's own composition based on information from IFRS⁶³ and IOSCO⁶⁴ websites.

Note: See Annex for further remarks on the methodology and abbreviations used. * EU national standard-setters represent a hybrid group of both public and private institutions.

Most remarkable, of the total 78 organisations affiliated with the IASB, only 12 organisations are present in more than one of the IASB's bodies. The only public organisation with more than one regular membership that includes voting rights is IOSCO (in the IFRS Advisory Council and Monitoring Board). The other public entities (SEC, BCBS, JFSA, including the European Commission), are represented in other bodies, but exercise voting rights only in one of them. Interestingly, the IASB's Advisory Body (its least influential body with regard to concrete impact on IFRS) is where most public entities meet to deliberate issues of accounting regulation. The European organisations represented here are the ECB and ESMA.

The overall impression which the network graph conveys is the clear dominance of the private sector. The financial sector is well represented in most of the IASB's bodies which suggests that this sector is important to the IASB and highly relevant to shaping its agenda. In addition to the CFA Institute (Chartered Financial Analyst), an international association of investment professionals, auditing firms clearly stand out in the network graph. The largest five firms are all represented in two bodies or more. The SEC is also member of three organs, but not equipped with voting rights in the Advisory Council. The European Commission is a member of the Monitoring Board and observes meetings of the Interpretations Committee and the Advisory Council.

A network perspective of the IASB membership underlines the organisation's tight involvement with the financial industry in general, and with auditors in particular. This might be unsurprising, yet raises concerns both with how knowledge flows are controlled within the network and with the IASB's independence from vested interests.

⁶³ See <http://www.ifrs.org>.

⁶⁴ Information from the IOSCO website was used for the monitoring board members only.

As noted above, European actors are only marginally involved in the current IASB network. However, as the graph shows, there is ample representation of organisations that are headquartered in Europe, or exercise at least a substantial part of their business activities within the EU. However, the degree to which positions taken by representatives in the IASB bodies can be understood as being motivated by 'European' interests remains unclear.

2.5. IASB Membership to international bodies

The IASB has become a recognised actor on the international stage, in particular in the context of accounting regulation. Its standards are adopted in many jurisdictions and the organisation is assigned the task to develop IFRS. This underlines that its claim to act 'in the public interest' as stated in the IFRSF Constitution resonates with public authorities. The IASB engages with many international organisations in the field of finance (the World Bank, International Monetary Fund (IMF), IOSCO, Basel Committee on Banking Supervision), and it has been recognised by the G20 and the Financial Stability Board (FSB) as the core standard-setter in accounting, as also mentioned in the European De Larosière Report⁶⁵.

While there are well-established working relationships, the IASB is not a formal member of these organisations. In line with its private nature, its self-regulatory approach and its embedment in public and private organisations in global finance, the IASB is able to activate strong political support when necessary. Immediately after the collapse of Lehman Brothers in 2008, when criticism of the IASB became intense due to the detrimental effects of marked-based accounting rules for financial instruments, the IASB Trustees addressed the leaders of G20 countries with a letter addressed to President Obama signalling its willingness to cooperate⁶⁶.

2.6. Description of 'product' and 'process' (Due Process)

The IASB's core products are IFRS and IFRS standard interpretations. These authoritative pronouncements are principle-based and contain the rules for compiling financial reports. They cover all aspects of financial reporting and provide rules for recognition and measurement. First and foremost, IFRS are geared towards publicly listed corporations, but the organisation's standard-setting activities are also directed towards SMEs and non-listed firms. 'The IFRS for SMEs is a self-contained Standard of 230 pages, designed to meet the needs and capabilities of small and medium-sized entities (SMEs), which are estimated to account for over 95 per cent of all companies around the world.'⁶⁷

As mentioned above, the IASB uses a sophisticated consultation procedure (known as the 'due process') to develop its standards and other core documents, including the organisation's Constitution. The Due Process Handbook⁶⁸ (which also contains some of the organisations' funding principles) codifies the rules of the 'due process':

- transparency of all standard-setting activities;
- full and fair consultation with all stakeholders, globally;
- accountability for all the standards set by the organisation and for the consequences of these standards⁶⁹.

⁶⁵ High Level Group, 2009, para. 221.

⁶⁶ See <http://www.ifrs.org/News/Announcements-and-Speeches/Pages/Trustee-letter-to-G20-participants.aspx>. Follow-up letters were also written to indicate the seriousness of IASB activities, later also in cooperation with FASB, see <http://www.ifrs.org/News/Press-Releases/Documents/AprilG20responseupdatedAug09.pdf>.

⁶⁷ See <http://www.ifrs.org/ifrs-for-smes/Pages/ifrs-for-smes.aspx>.

⁶⁸ IFRSF Due Process Handbook, 2013.

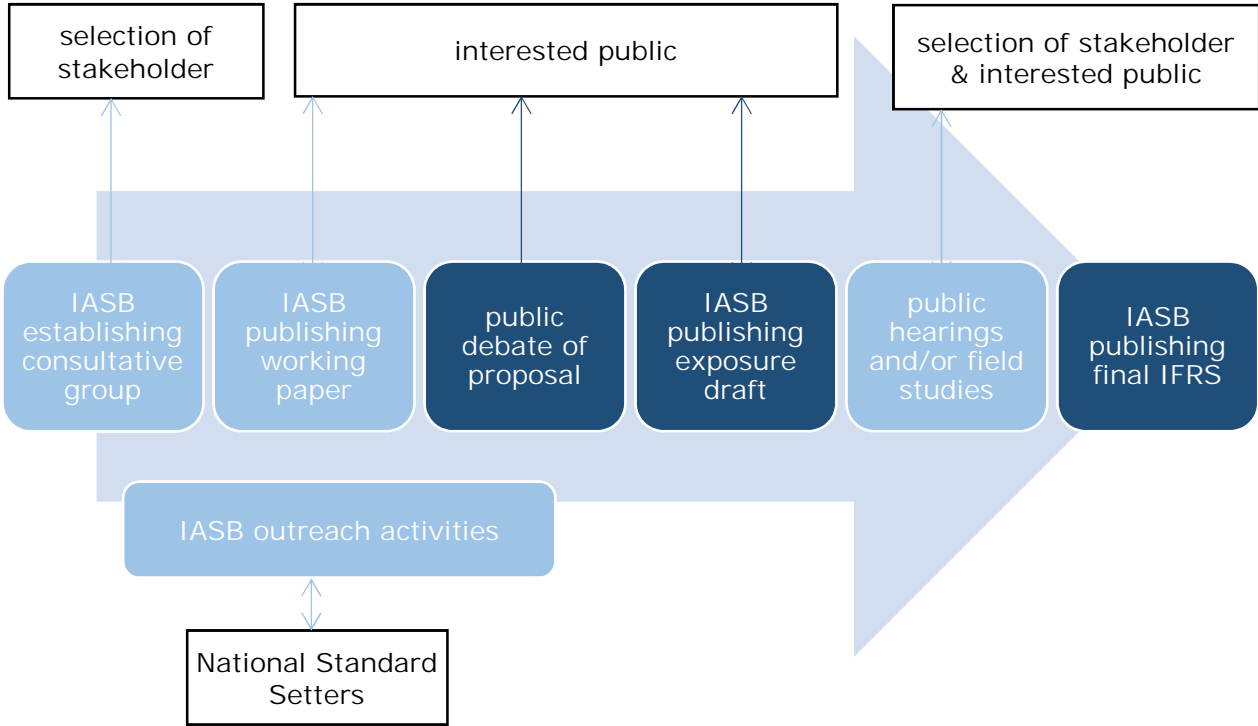
⁶⁹ IFRSF Due Process Handbook, 2013, para. 3.1.

More precisely, the Due Process Handbook includes mandatory and recommended steps to live-up to these principles:

- A public consultation concerning its working-plan to take place every three years (mandatory step);
- Debate proposals for each rule at least once publically (mandatory step);
- Publication of an exposure draft of an IFRS/amendment/interpretation, including possible diverging views within the IASB (mandatory step);
- Consideration of all timely comment letters and statements received in response to working papers or exposure drafts (mandatory step);
- Decision on and publication of IFRS or IFRS interpretation, including divergent views and explanations of how received statements and comment letters were considered (mandatory step);⁷⁰
- Consideration of public hearings and/or field studies (recommended step);
- Establishment of a consultative group to give advice to IASB members in matters of specific projects (recommended step);
- Publication of working papers in order to gather views of stakeholders on projects (recommended step);

Figure 4 below provides a summary of the steps the IASB applies to develop its rules.

Figure 4: The IASB’s Due Process



Source: Author’s own composition based on IFRSF Due Process Handbook, 2013.

Note:



⁷⁰ IFRSF Due Process Handbook 2013, para. 3.43 and 3.44; Mackenzie et al., 2014; http://www.iasplus.com/en-gb/resources/ifrsf-en-gb/due-process/iasb-due-process?set_language=en-gb.

During all the steps outlined above the IASB technical staff (roughly half of the 120 people employed) assist the IASB members in their work. They play a key role in preparing debates through academic and field research, often in collaboration with other national standard-setters. Staff members also summarise the comment letters received from the stakeholders, prepare discussion papers and exposure drafts, and serve as experts on the Board. Furthermore, staff also provide information and opinion to individual Board members.

Most meetings (except those over strategic decisions) are open to the public, and discussion papers, exposure drafts, IASB reports, decisions reached during meetings, papers prepared by the technical staff, as well as comment letters from stakeholders, are published online. Additionally, several web-based measures are also implemented, such as the live-streaming of meetings⁷¹.

If the IASB, or the Interpretation Committee, decides not to follow one of the recommended steps, they must provide reasons to the Due Process Oversight Committee (DPOC)⁷². Additional steps are sometimes taken to include the views of investors and national standard-setters⁷³. Steps regarding national standard-setter consultations, such as roundtable discussions, are complementary ways (to writing comment letters on working papers or on exposure drafts) in which organisations from Europe are able to engage in the process of drafting IFRS. The IASB regards regional associations of national standard-setters – in Europe's case EFRAG – as important players.⁷⁴

In principle, the 'due process' is designed for the IASB to consult with the interested public in a transparent manner. Its function is twofold, for it aims at gathering expertise on the one hand, and to legitimate its standardisation activities on the other hand. As a result, the 'due process' plays a central role in the setting of accounting regulation⁷⁵.

However, contrary to what the legal term 'due process' suggests, there are very limited ways of holding the organisation accountable with respect to procedural reliability. Instead, the focus lies with a continuous development of IFRS, which includes post-implementation review processes by the standard-setter. If allegations of breaches of the 'due process' are brought forward by stakeholders, or bodies of the IASB, these are dealt with as part of the ongoing review of the IFRSF Due Process Handbook. Complaints are referred instead to the DPOC⁷⁶.

The 'due process' is to be understood therefore as the IASB's core institutional tool to reconcile industry's self-regulation with its claim to work in the public interest. Its high degree of formalisation indicates the organisation's willingness to comply with generalised expectations of accountability. At the same time, the principle of private, expertise-based standardisation remains largely unquestioned. In fact, the consultation process effectively shields the IASB from broader societal demands due to the degree of expertise needed to participate.

2.7. Other relevant features: European endorsement of standards

An additional feature that is crucial to understanding the EU's position towards the IASB concerns the endorsement process of IFRS once they have been adopted by the IASB.

⁷¹ IFRSF Due Process Handbook, 2013, para. 2.11, 3.2, 3.3, 3.6-3.13, 3.64-3.66 and 6.19; Mackenzie et al.

⁷² IFRSF Due Process Handbook, 2013, para. 3.41.

⁷³ IFRSF Due Process Handbook, 2013, para. 3.46-3.51.

⁷⁴ Wagenhofer, 2013, p. 254.

⁷⁵ See Richardson and Eberlein, 2010; Botzem, 2014.

⁷⁶ See section 8 of the IFRSF Due Process Handbook, 2013.

In its legal framework, the EU has chosen to adopt IFRS only after the endorsement of each of the IASB's standards. In line with international harmonisation activities in accounting, the overall aim remains to establish a common set of accounting rules worldwide. Therefore, options for ex post modifications are very limited. However, in principle, it is possible for the EU either to reject IFRS in their entirety, or to reject those specifications deemed inapplicable to Europe (known as 'carve-outs'). Both policy choices can lead to slightly different financial reporting rules developing between the EU and the rest of the world, but traditionally the EU has endorsed the IASB's standards. Empirical examples of carve-outs are very rare, its most famous case being the IAS 39 Financial Instruments which prominently introduces fair value accounting for cash and derivative instruments.

Similarly to the IASB, the endorsement procedure within the EU is characterised by a high degree of private actor involvement. In its assessment of IFRS' appropriateness for accounting in Europe, EU institutions are granting a private organisation, the European Financial Reporting Advisory Group (EFRAG), a key role. EFRAG is not an EU institution and is not mandated by Member States. It is an interest group representing the financial industry and related interests that seeks collaboration of national standard setters. As such, EFRAG consists of private European stakeholders from the accounting profession, banks, insurance, industrial and trading companies, as well as European national standard-setters⁷⁷, which can be public or private organisations.

At the European level, EFRAG's members include:

- the Federation of European Accountants (FEE);
- the European Business Federations (BusinessEurope);
- the European Insurance Federation (Insurance Europe);
- the European Banking Federation (EBF);
- the European Savings and Retail Banking Group (ESBG);
- the European Association of Co-operative Banks (EACB);
- the European Federation of Accountants and Auditors for SMEs (EFAA); and
- the European Federation of Financial Analysts Societies (EFFAS).

Despite attempts to work with national standard-setters (which can be public or private entities), the composition of EFRAG's Technical Expert Group and its decision making body, EFRAG Board, heavily tilts towards the financial industry. There have been discussions on how EFRAG can best exercise its role in advising the European Commission, which prompted Commissioner Barnier in 2013 to call for a review of EFRAG with the objective to improve the influence of European interests into IFRS standardisation. The resulting Maystadt Report⁷⁸ provides an assessment of current shortcomings of the EFRAG, including issues of governance and accountability, and offers three suggestions on how to reform the group. In addition, the European Commission has now established an Expert Group on the evaluation of the [IAS] Regulation (EC) No 1606/2002 with representatives from the European financial industry, ESMA and some national standard-setters⁷⁹.

The EU endorsement of IFRS, i.e. the decision on the adoption of the IASB's rules, currently follows the subsequent steps:

- EFRAG holds consultations with interest groups;

⁷⁷ EFRAG Internal Rules, 2014, art. 8.

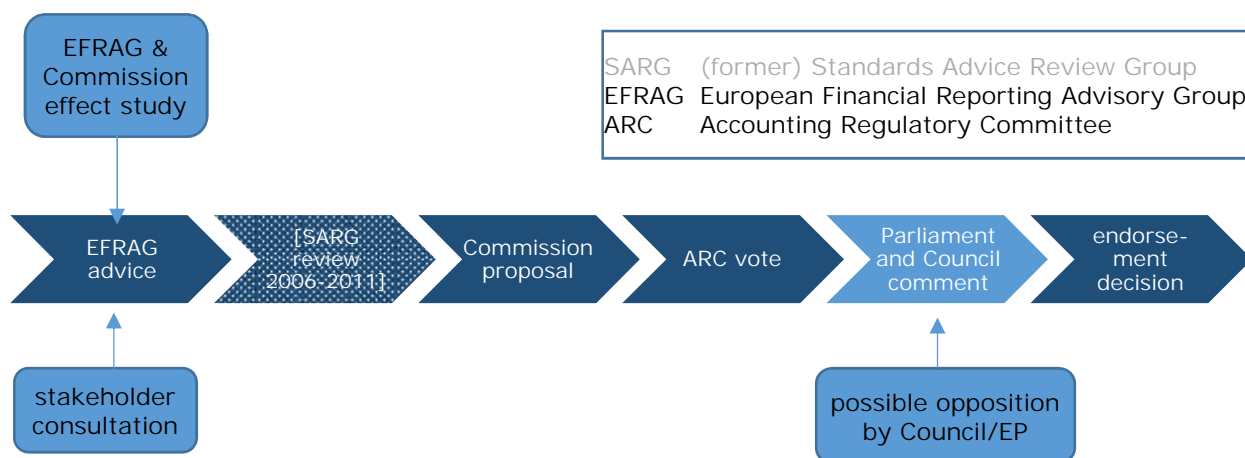
⁷⁸ See Maystadt, 2013.

⁷⁹ See http://ec.europa.eu/finance/accounting/governance/committees/evaluation/index_en.htm for the group's composition. A final report is being prepared.

- EFRAG delivers advice to the European Commission on whether the standard meets the criteria of endorsement set forth in Article 3(2) in the [IAS] Regulation (EC) No 1606/2002 and does not contradict the 'true and fair view principle' set out in the 4th Company Law Directive 78/660/EEC and 7th Company Law Directive 83/349/EEC (which stipulate that standards must be conducive to the European public good, be comprehensible, relevant, reliable and comparable);
- the (former, i.e. from 2006-2011) Standards Advice Review Group (SARG)⁸⁰ issues an opinion whether EFRAG's endorsement advice is well-balanced and objective. The legal basis for this body and for its opinion is described in the Commission Decision No. 2006/505/EC⁸¹;
- based on the advice of EFRAG (and - in the past - the opinion of SARG), the European Commission prepares a draft endorsement Regulation. The adoption of the Regulation follows a regulatory comitology procedure with scrutiny, in accordance with Article 5a and Article 8 Council Decision 1999/468⁸²;
- the ARC, set up in accordance with Article 6 [IAS] Regulation (EC) No 1606/2002, votes on the Commission's proposal - adoption with qualified majority;
- if the vote is favourable⁸³, the European Parliament and the Council have three months to oppose the adoption of the Commission's draft Regulation.

If the European Parliament and the Council give a favourable opinion, or the three months period elapsed without opposition, the draft Regulation is adopted. After adoption, it is published in the Official Journal and enters into force on the day laid down in the Regulation itself. Figure 5 sums up the European endorsement process for IFRS.

Figure 5: European endorsement of the IASB's rules



Source: Author's own composition based on <http://www.iasplus.com/en/resources/ifrs-topics/europe>.

Note:



⁸⁰ SARG members were experts and representatives sent by national standard-setters (from 2006-2011).

⁸¹ Commission Decision 2006/505/EC of 14 July 2006 setting up a Standards Advice Review Group to advise the Commission on the objectivity and neutrality of the European Financial Reporting Advisory Group's (EFRAG's) opinions OJ L 199, 21.7.2006, p. 33–35, N.B. Initial mandate expired mid-2009; <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006D0505&rid=1>.

⁸² Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission, OJ L 184, 17.7.1999, p. 23–26; <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31999D0468&rid=3>.

⁸³ If not the Commission might still ask the Council to override the ARC's veto (Mackenzie et al., 2014).

The current deliberations in Europe point to the need for further development of the institutional framework ensuring that European interests are being articulated. While there is a need to review certain procedures (such as comitology – which has already been modified in the Lisbon Treaty to delegated and implementing acts), procedural reforms alone might not suffice. The steps the EU is proposing address primarily ex post endorsements of IFRS. While some political leverage might result from the threat of non-adoption or carve-outs, a more effective strategy may lay in ensuring that European interests have a say in the early stages of the IASB's standard-setting process, both as part of its 'due process' and by other means of conveying political positions.

3. LEGAL REFLECTIONS ON THE IASB'S ACCOUNTABILITY AND ON THE EU'S PARTICIPATION, INCLUDING COORDINATION, IMPACT AND ACCOUNTABILITY

KEY FINDINGS

- A formal assessment of the EU's involvement only partially captures the important role specialised accounting expertise plays in regulating the field.
- Formal involvement of public European entities in standard setting is low, in part due to the dominance of private commercial interests within the IASB and, in part, because the EU has taken the decision to rely on private/industry actors for advice.
- Coordinating the wide spectrum of European interests is difficult due to institutional and political reasons.
- Potential conflict of interests may affect the IASB's accountability, finances and stakeholder involvement.
- A number of viable alternatives exist to reform and amend current structures and/or build standardisation capacity in Europe.

An assessment of the IASB and the EU's participation in the organisation has to consider the strong tradition of self-regulation in accounting and the private nature of the IASB. Therefore, formalised legal discussions on the matter should be enriched by considerations on the role of knowledge and expertise in standardisation which rests to a large extent with the private sector. Accounting is a field where these dynamics are pronounced. More recently, private actors such as large auditing firms and the IASB itself have emerged as core loci of expertise in accounting and auditing⁸⁴. Therefore, an assessment of legal considerations mostly addresses the formal conditions of engagement. The high relevance of expertise in shaping accounting regulation should bring into focus the influential role played by private actors.

3.1. Legal basis governing the role of EU participation in the IASB

As shown in section 2.4., participation of EU bodies in the IASB is marginal, in part, due to the fact that the EU's main interest rest with the endorsement of IFRS rather than the development of standards. This primary interest in IFRS is reflected in little formalised regulation with respect to EU participation in the IASB. Regulation 1606/2002 contains only a general reference with respect to European participation: 'The Commission will be represented in constituent bodies of the IASB'⁸⁵. No explicit information is included which IASB bodies are concerned. The mandate is rather vague, as it only specifies that the 'Commission should take into account the importance of avoiding competitive disadvantages for European companies operating in the global marketplace, and, to the maximum possible extent, the views expressed by the delegations in the Accounting Regulatory Committee'⁸⁶.

More recently, the European Commission's role in the Monitoring Board has been spelled out in a Memorandum of Understanding signed by all Monitoring Board members and the IASB Trustees in April of 2009. Commissioner McCreevy is the European signatory who accepted the European Commission's role within the Monitoring Board as decided upon by

⁸⁴ See Botzem, 2012; Cooper and Robson, 2006; Samsonova-Taddei and Humphrey, 2014.

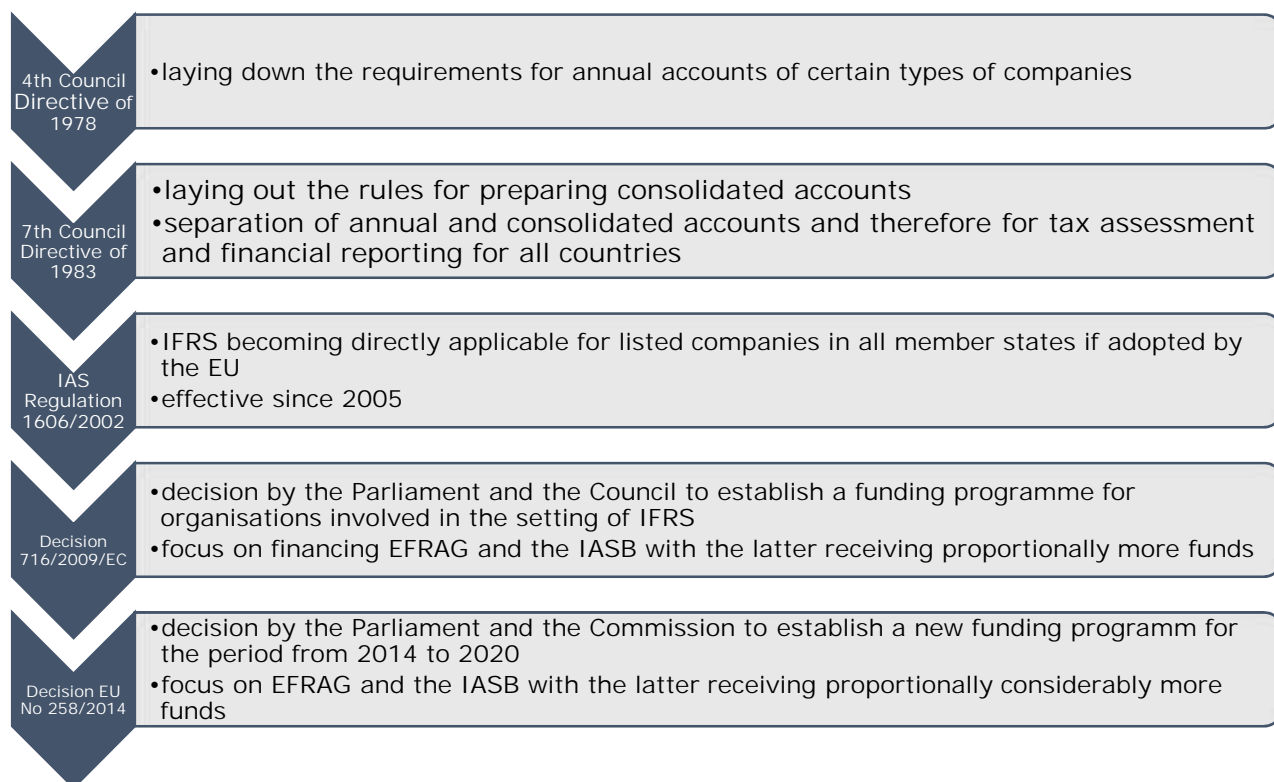
⁸⁵ Regulation (EC) No 1606/2002.

⁸⁶ Regulation (EC) No 1606/2002.

the IASB. ESMA has also formalised its cooperation with the IASB in a statement of protocol in 2014⁸⁷.

A notable difference exists between little specified rules regulating the European engagement in the IASB on the one hand and precise and ample regulation of accounting rules that have dominated accounting harmonisation for more than five decades. Figure 6 provides an overview of the main legal acts of the European accounting framework.

Figure 6: Cornerstones of the European Accounting Framework



Source: Author's own composition based on Botzem (2014) and http://ec.europa.eu/finance/accounting/legal_framework/index_en.htm.

Initially, European regulation addressed Member States' national accounting systems with a view to make business performance within the EU more comparable (4th and 7th Council Directive). Since the introduction of [IAS] Regulation (EC) No 1606/2002 in 2002, Member States have been required to adopt IFRS for all listed companies publishing consolidated accounts. They have the option of introducing IFRS for annual accounts of non-listed firms as well. Some Member States have used this option and introduced IFRS as a principle for financial reporting that extends beyond listed firms⁸⁸.

The powers granted to the EU over Member States' and other European entities' relations with the IASB – most notably national standard-setters – are limited. That said, the EU is able to exert some leverage on the IASB itself, both, through its direct involvement in the organisation's activities, and through its substantial financial contributions to its budget (as well as EFRAG's financing).

⁸⁷ See International Financial Reporting Standards Foundation (IFRSF), 2014.

⁸⁸ See adoption of IFRS in Europe in ARC, 2013.

Currently, there are three European entities involved in the IASB's bodies (ESMA, the ECB and the European Commission). ESMA and the ECB are represented in the advisory body of the IASB, which the European Commission also attends as an observer. There is no formal relation between these actors as they are invited to join by the IASB and are not delegated by the EU. It remains unclear however how ESMA, the ECB and the European Commission collaborate on the formulation of a common European position.

However, a closer look at the EU's decision to fund the IASB merits attention. If, on the one hand, the decision of the European Parliament and the Council to substantially increase the Union's financial support of the IASB (which now accounts for roughly 16 % of the organisation's total funding)⁸⁹ illustrates Europe's interest in international accounting standardisation, on the other hand it could also be seen as a way to exert influence on the IASB. Irrespective of what their motivations might be, European Institutions may want to question whether the disbursement of funds to the IASB represents the most effective way of bringing about a coherent approach within Europe to international accounting. Other possibilities that might deliver more effective ways could include establishing a European standard-setter, supporting a European-wide stakeholder dialogue on financial reporting, and developing specific expertise addressing issues unique to European circumstances.

3.2. Determining the position and the degree of coordination between EU participants in the IASB

The position of EU participants in the IASB is developed according to their respective mandates⁹⁰. Whereas ESMA has signed a statement of cooperation with the IASB 'to promote the effective and consistent application of European Securities and Markets legislation with respect to financial reporting, notably IFRS'⁹¹, the ECB engages through regular exchanges with the IASB and via Comment Letters submitted to the organisation's 'due process'. The ECB also has an interest in direct engagement with the IASB concerning issues such as financial stability and macro-prudential regulation⁹².

The European Commission's involvement is laid down in the [IAS] Regulation (EC) No 1606/2002 and is carried out in practice by staff of the Accounting and Financial Reporting Unit within the Investment and Company Reporting Directorate (B) of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), headed by EU Commissioner Lord Hill.

However, coordination between European entities faces a number of obstacles. As pointed out previously, the self-regulatory nature of the IASB in general privileges private actors. Moreover, the EU's decision to assign a central role to EFRAG in the European endorsement process adds another level of complexity, not just because it brings a new player into the game, but because EFRAG's strong connections to the private sector raises issues with the organisation's legitimacy similar to those of the IASB.

As pointed out in section 2.7, EFRAG plays a major role in advising European public entities on whether the standards pending endorsement fulfil the criteria laid out in the regulation. The European Commission and EFRAG have agreed that 'EFRAG will provide advice to the European Commission on all issues relating to the application of IFRS in the EU. In close consultation

⁸⁹ See Regulation (EU) No 258/2014.

⁹⁰ An in-depth analysis of the detailed positions of individual European actors is not possible in this paper due to time constraints. However, the multiple activities to reconfigure the institutional setting point to the fact that accounting regulation is recognised as being important also by public entities.

⁹¹ See IFRSF and ESMA, 2014.

⁹² See <http://www.ecb.europa.eu/press/key/date/2010/html/sp101012.en.html>.

with the European Commission, EFRAG will participate in the early phases of debate on all issues related to the standard setting process⁹³.

EFRAG sits on the IASB's Advisory Council and engages in IFRS development seeking to influence the formulation of standards from a very early stage. The IASB itself recognises EFRAG's influential role, and it does so particularly in relation to the group's high degree of expertise provided by its members representing the private sector.

However, the prominence of private financial interests within EFRAG has prompted on-going discussions about reforming the body's governance structure⁹⁴. EFRAG's Technical Expert Group (TEG), for instance, which oversees EFRAG's work, is dominated by industry representatives, which has raised many concerns. In both, the TEG and the EFRAG's Board, where formal decisions are taken, European public entities (ESMA, EBA, EIOPA, the ECB and the Commission) are invited as observers, but are not granted any voting rights⁹⁵.

During EFRAG's last General Assembly in June 2014, attempts were made to improve the group's governing structure by revising its statute and internal rules. However, many of the recommendations that had been put forward, including those expressed in the Maystadt Report, were only partially adopted, leaving EFRAG exposed once again to much criticism⁹⁶. However EFRAG is assigned with the task of taking varying views among Member States and other stakeholders into account and to make all of its interactions with the IASB transparent⁹⁷.

The multitude of European entities engaged in the IASB's activities, including both, European and national players, as well as public and private/industry actors, complicates coordination between them on international accounting standard setting. Partly, coordination constraints can be explained as originating from different (political) viewpoints on accounting standardisation which makes it difficult to find a common position. However, while the plurality of engagements might reflect the EU's diversity, it is not clear if a coherent European view consists at all or how it can be formulated and communicated to the IASB.

3.3. Feedback of EU participants and availability of information

Generally, comment letters sent to the IASB and to EFRAG by European entities concerning specific issues of international accounting standardisation are available online while the respective projects are on-going. However, there is no single forum where fundamental issues of European accounting policy are publicly discussed. In part, this is due to the high complexity of different standardisation projects going on at the same time. In addition, societal stakeholders perceived entry barriers to be high as these stakeholders rarely participate in public discussions⁹⁸. Consequently, accounting experts alone get to define the meaning of public interest (IASB Constitution) and thereby co-determine the understanding of the term European public good⁹⁹.

While the availability of information with regard to concrete positions during the development of IFRS is good – fostered by the high degree of transparency that is a

⁹³ See European Commission and EFRAG, 2006.

⁹⁴ See Maystadt, 2013.

⁹⁵ See EFRAG Statutes, 2014, art. 8 and 22.

⁹⁶ See European Commission, Press Release, 2014 (IP/14/110).

⁹⁷ See EP, 2013, p. 12-13, amendment 10.

⁹⁸ The European Commission laments that no European civil society organisation replied to its call for a position on the ongoing expert group to reform the governance of international accounting standardisation; see European Commission, 2014a.

⁹⁹ As used in [IAS] Regulation (EC) No 1606/2002.

characteristic of consultation procedures – much less is known about how European bodies arrive at specific policy decisions.

3.4. Potential conflicts of interest

In order to arrive at one, ideally global, set of financial reporting standards, European authorities decided to delegate the development of standards to the IASB and to apply a subsequent endorsement procedure for each standard. Inevitably, this division of labour grants the IASB a privileged position, one that is rather unique in global financial market regulation because of its private nature as a standard-setter.

We identify here three issues we believe deserve some scrutiny as they relate to potential conflicts of interests with respect to the IASB's institutional configuration:

1. Accountability: public mandate – private organisation

In its constitution, the IASB speaks about acting in the 'public interest' as a guideline to develop one set of global standards. The adoption of IFRS in many jurisdictions around the world legitimises this approach. By explicitly endowing the IASB with the authority to develop rules for corporate reporting, Member States and European bodies are supporting the IASB in its quest to become the single most important organisation in international accounting regulation. At the same time, the IASB insists that standard setting is 'technical' and has to be protected from what it considers undue influence, be it commercial or political. The IASB has undertaken substantial efforts to improve its governance structure and has set-up a tight organisational network to ease information flows and to secure financial and political support. However, when defining the content of IFRS, it is up to the members of the IASB to decide how it serves the 'public interest'. In addition, there is no independent third party - such as a public court - to turn to in case of dissatisfaction with the IASB's decisions.

2. Financing: independence – influence of private firms

The IASB is in need of more funds due to the growth of the organisation and the global diffusion of its standards. The vast majority of financial support comes from the private sector (preparers, users and auditors of financial reports). Even though the IASB aims for contributions to reflect economic performance relative to national GDP, and therefore breaks them down according to national origin of the funding entity, by far the largest part of contributions originates from private firms - either directly or via contributions levied at the national stock exchange. While the provision of funds might increase private actors' identification with the IASB, and therefore works to the organisation's benefit, financing remains problematic. Firstly, the strong reliance on private donors poses insecurity with respect to reliability of support over time. Secondly, it has the potential to call into question the organisation's independence. While it appears that the primary aim is to remain independent from public funding, the IASB's dependence on the financial sector, most notably the Big Four auditing firms, continues. Those four organisations provide roughly a third of the donations to IASB, putting them in a privileged but problematic position in relation to accounting regulation.

3. Stakeholder involvement: capital providers – civil society

A variety of interest groups are acknowledged by the IASB as having a stake in accounting standardisation. In accordance with the organisation's firm rooting in an Anglo-American understanding of private self-regulation, and a primary orientation towards addressing the information needs of capital providers, commercial entities are core stakeholders for the IASB. Due to the important role that financial reporting plays in the generation of corporate surplus and subsequent profit distribution, a range of other stakeholders with legitimate concerns about regulating financial reporting might

either feel discouraged from engaging with the IASB, or may not dispose of the required expertise and material resources to do so. Such actors could be found among civil society groups with an interest in specific issues (compensation and retirement schemes, accounting for the environment, and non-financial reporting). In addition, public entities interested in macro-economic developments, with a concern in issues of taxation, or with interest in financial market stability, might also be considered of less importance if they do not frame their interest with clear reference to capital provision. Similarly to the preoccupations of civil society actors, such public concerns might also be difficult to communicate to the IASB in the narrow format of its 'due process' of consultation. In addition, investors and other stakeholders might differ fundamentally in their assessment of corporate activities with respect to time horizons. While much of the financial sector is concerned with short time frames for economic decision, most clearly expressed in market-based fair-value accounting, other stakeholders (such as employees, civil society actors and regulators) have a longer-term orientation, often extending product or business cycles.

The organisation's potential conflict of interests should raise concern amongst the European institutions and the many European entities engaging both financially and politically with the IASB.

Unlike the IASB, the EU is a public 'entity' rooted in democratic principles, and should recognise that alternative institutional set-ups exist, both, at the level of the IASB and at EU level; it is also in a position to take the necessary steps to enact them. In any case, the EU would benefit from engaging in broad deliberations with stakeholders, including those that do not frequently engage in consultations with the IASB's or with EFRAG's consultations.

3.5. Strengths, Weaknesses, Opportunities and Threats for the European Union and possible alternative approaches

Formalised SWOT analyses are analytical tools for the ex ante assessment of an organisation's activities and can be applied only partially to the case of the EU's engagement with the IASB. We will therefore limit our reflections to some selected observations concerning policy goals and possible constraints of the EU's setting of standards. Subsequently, we will identify measures that can be adopted to strengthen the EU's role in setting standards in the field of accounting.

Before doing that, we would like to recall that the EU's key objectives in international accounting standard setting (i.e. harmonising financial reporting to benefit companies and investors, enhancing stability of financial markets, contributing to European growth and development) are also embedded in other European policy fields. Similarly, fundamental principles of collective decision-making, which include accountability, transparency and democratic participation, represent the guiding principles of European good governance practice. As such, it should be possible for these policy objectives and governance principles to guide the coordination between EU bodies active in IFRS regulation and to broaden their stakeholders' base.

On the basis of this preamble we describe briefly both the strengths and opportunities, as well as the weaknesses and threats, relative to the EU's involvement with the IASB:

- **Strengths/Opportunities**
Europe's involvement with the IASB is a way to ensure that European listed companies can apply IFRS as widely recognised standards for the preparation of financial reports. The IASB's reliance on a transparent consultation process allows interested parties to closely follow the organisation's agenda and to engage in standard development in a detailed manner. Furthermore, the IASB's private nature

and its wide-ranging organisational network provides plenty of opportunities for the private sector to voice its needs with respect to accounting regulation. Similarly, European entities, if supplied with sufficient resources and accounting expertise, are in a good position to communicate their views to the IASB.

- Weaknesses/Threats

The IASB's clear orientation towards private interests, epitomised by making providers of capital the primary addressees of IFRS, privileges commercial interest when defining the rules of financial reporting. This is supported by the IASB's firm rooting in a culture of Anglo-American self-regulation that is intricately connected to the large auditing firms, namely the Big Four. At the same time, these characteristics make it a challenge for stakeholders from outside the financial industry to engage with the IASB. A related assessment can be made about discussions of the endorsement of IFRS in the European context, namely EFRAG. The emphasis on the information needs of capital providers, both with respect to the normative content of IFRS and the institutional configuration of IASB and EFRAG, poses the risk of neglecting regulatory issues and other goals that are of common concern. Issues such as macro-economic and financial stability might require different information than what is of interest to investors with a short-term orientation. The explicit reference in the IASB's framework that regulators are not prime addressees of financial reports raises concerns as macro-prudential regulation and mitigation of systemic risk are core policy goals of the EU.

There are no obvious alternatives to the current structure in sight, if global harmonisation continues to be the primary policy goal. If only one set of globally accepted standards is sought, all participating entities need to compromise in order to agree on such a single set. If European actors should decide that European interests are sufficiently well represented within the IASB, some improvement could still be made with a view to foster a more coherent representation of European ideas. Among those are:

- a more active role of the European Commission in the IASB Monitoring Board, and
- the increased coordination between European entities before the IASB agenda is set, as well as throughout the entire cycle of developing specific standards.

To this end, European authorities could invite civil society stakeholders to support their activities. In addition, the EU could assist stakeholders through the creation of a space for them to discuss fundamental principles of accounting in Europe. The institutionalisation of such a permanent forum could make an important contribution to the clarification of the core principle for IFRS endorsement, as it would be 'conducive to the European public good'¹⁰⁰.

Furthermore, as already identified in the Maystadt Report, two potential alternatives exist for the EU to enhance its coordination vis-à-vis the IASB.

- The first one would be for the EU to establish an independent European standard-setter with a mandate to amend or replace IFRS. This option would likely entail severe consequences for the global architecture of financial reporting regulation and would represent a rupture with the current harmonisation approach.
- The second possibility could be to parallel the existing 'carve-out' system (the temporary or permanent suspension of parts of standards) with a 'carve-in' mechanism that mandated EFRAG, or another entity, to develop rules specific to the needs of European stakeholders and include them into European IFRS.

¹⁰⁰ See Regulation (EC) No 1606/2002.

Both options are viable but are likely to lead to more heterogeneity in global reporting practices. However, it could be a way to 'deal on an equal footing with states whose structures are founded on the centralised powers of regulators and supervisors (e.g. the Financial Accounting Standards Board (FASB) and SEC in the USA, the Accounting Standards Board (ASBJ) and the Financial Services Authority in Japan)'¹⁰¹.

3.6. Linkages with the European and global levels of economic governance

IFRS are used by companies in more than 100 countries. In terms of market capitalisation, the EU is the largest jurisdiction in which IFRS are adopted. The diffusion of IASB's standards is reinforced by private organisations such as stock exchanges or banks that might require the use of IFRS in private contracts. Furthermore, international development organisations such as the Worldbank or the International Monetary Fund help implement IFRS in emerging economies. The IASB is also recognised by relevant international organisations in global finance such as IOSCO, Basel Committee on Banking Supervision and the Financial Stability Board and, as documented above, is well connected with the financial industry's global players.

The diffusion of IFRS indicates the IASB's success in establishing itself as the core actor in financial reporting regulation, with IFRS now representing the accepted rules for preparing financial statements around the globe. Nevertheless, their increasing adoption should not suggest that IFRS are without alternatives. Instead, the IASB's increasingly dense international network and its sophisticated consultation procedure are the result of decades of private institution building. This has placed the IASB in a position to establish professional self-regulation in accounting as a core principle in global finance.

3.7. Qualitative evaluation of the EU's influence on shaping international accounting standards

As has been indicated before, international accounting regulation is an unusual policy field as it is dominated by one private standard-setter: the IASB. Many jurisdictions, first and foremost the EU, have decided to grant the IASB the authority to develop one set of globally harmonised standards and, only subsequently, to decide upon their lawfulness. The EU has reserved the right to formally endorse each IFRS, but in practice an institutional arrangement has been chosen at the European level that leads to ex post alterations to IFRS being kept to a minimum. As a result, despite full formal authority of the EU to endorse standards, the IASB enjoys substantial autonomy in developing authoritative pronouncements worldwide – with the exception of the USA.

Assessing the effectiveness of the EU's engagement's with the IASB leads to some fundamental considerations regarding the role of accounting regulation in Europe. IFRS' current focus on investors and other providers of capital reflects a selective interpretation of the addressees of financial reporting. In part, such a clear conceptual focus towards users of financial statements facilitated IFRS's global diffusion. However, privileging the information needs of capital providers over those of other interest groups raises questions about the unintended effects of excluding civil society stakeholders, as indicated by the European Commission. One way of clarifying whether the views of all relevant European stakeholders are sufficiently represented at the IASB, could be to initiate an inclusive debate on the effects current IFRS have on the European social model.

An assessment of how effectively the EU engages in international accounting regulation depends, partly, on achieving a better understanding of how the notion of a 'European public good' is interpreted. Currently, the term leaves substantial room for interpretation and is not well suited as a benchmark to assess the effectiveness of EU policies. European

¹⁰¹ See EP, 2008, p. 7.

institutions, and in particular the European Parliament, could represent an appropriate forum to engage in a broad deliberation over the normative interpretation implied by the EU public good notion. To this end, a dialogue with a broad range of stakeholders could be fruitful. This would give European Institutions the opportunity to revisit the relevance of IFRS relative to macro-economic stability, growth and employment. A comprehensive discussion about these matters that engages representatives of management and employees could also be part of tripartite stakeholder dialogue.

It is important to remark that the time is ripe for many of these ideas to be explored. The institutional setting of accounting regulation is constantly undergoing reform: at the European level a number of topics are currently under discussion, among them a reconfiguration of EFRAG and changes to the ARC. Similarly, the IASB is in the process of adapting its organisational structure and processes to counter the criticism directed at its weak accountability. So far, most of the proposals aim at optimising expertise-based self-regulation at the international and European level. However, should European policy goals be reconsidered with respect to a wider approach to financial reporting, a number of alternatives are available, such as establishing a European standard-setting body and/or redefining the IASB's mandate in international accounting standardisation. Such far-reaching changes would inevitably require a discussion on European policy goals.

4. BRIEF EVALUATION OF CONFORMITY WITH ILA RECOMMENDATIONS AND PRACTICES

The International Law Association (ILA) had established a Committee on Accountability of International Organisations¹⁰², which worked from 1996-2004 and presented its Final Report at the Berlin Conference 2004¹⁰³. The Report contains a set of Recommended Rules and Practices (RRPs) in the relevant area.

As is made clear throughout this paper, accounting standardisation differs from most other policy areas with respect to the private nature of the standard-setter. Therefore, an evaluation of the IASB according to ILA recommendations is only partially helpful. However, all substantive issues raised by the ILA are addressed in the Report. As we want to avoid a lengthy reiteration of our findings here, we will only briefly comment on conformity with ILA recommendations as formulated in the ILA Report (part one, first level of RRP (p. 8-17)).

- In accordance to principles of good governance¹⁰⁴, the IASB emphasises access to information and transparency as core elements of standard setting. Participation, understood as actively contributing to defining rules and effectively reviewing decisions, is very problematic. The IASB makes an extensive effort to engage in discussion and to invite the interested public for comment on standard drafts, but this should not be mistaken for democratic participation.

As for the EU, neither the Commission nor any other entity can actively change IFRS. Currently it is left with the option of either partially endorsing a standard (carve-out) or simply not endorsing it. In addition, the EU has chosen to legitimise a private entity at the European level (EFRAG) as its main advisor that shows many similarities with the IASB.

- Concerning the principle of constitutionality¹⁰⁵, the IASB spells out very clearly the organisation's procedures. However, possible violations of rules are dealt with internally.
- The principles of supervision and control¹⁰⁶ have constituted a weak point for some time. The IASB has intended to increase accountability by inviting international market supervisors, including the European Commission. Together with national regulators from the US and Japan and other international organisations, the European Commission has joined the Monitoring Board which provides some oversight. However, supervision is undefined as its main concern is the approval of the trustees, which in turn exercise supervision of the IASB Board where all relevant decisions are taken by accountancy experts.
- Concerning the principle of objectivity and impartiality¹⁰⁷, doubts remain whether all stakeholders' views are taken into account. While the IASB is interested in striking a balance between different private interests from industry and financial sectors, civil society representatives and regulators are not considered primary addressees.
- The principle of procedural regularity is where the IASB fares best. Its due process is widely recognised and constantly monitored and improved. Lately, the IASB has commenced first steps to introduce a complaint procedure. But while procedural regularity is very high, at the same time its consultation procedure is highly demanding as it requires resources and expertise to engage in standard setting in a meaningful way.

¹⁰² See <http://www.ila-hq.org/en/committees/index.cfm/cid/9>.

¹⁰³ See <http://www.ila-hq.org/download.cfm/docid/6B708C25-4D6D-42E2-8385DADA752815E8>.

¹⁰⁴ ILA, 2004, p. 8.

¹⁰⁵ ILA, 2004, p. 12.

¹⁰⁶ ILA, 2004, p. 13.

¹⁰⁷ ILA, 2004, p. 14.

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ANNEX

For Figure 3, we used the most recent publicly accessible information on the four main IASB bodies¹⁰⁸. As for the trustees of the IFRS foundation, some of their prior occupations were used for the network, assuming that they were delegated by organisations into the trustee body. If two or more prior occupations were mentioned, we included only the one that deemed significant.

When one organisation was represented by two individuals (as for the case of the JFSA in the IFRS monitoring board), we only depicted the respective entity once.

Abbreviations used in Figure 3

Abbreviation	Organisation
ACTEO	Association for the participation of French companies in international accounting harmonisation
AIIB	Asian Infrastructure Investment Bank
AMF	Autorité des Marchés Financiers
AOSSG	Asia-Oceania Standard-Setting Group
APGGroup	APG Group
Bayer	Bayer AG
BCBS	Basel Committee on Banking Supervision
BDO	BDO Stoy Hayward
BME	Bolsas y Mercados Españoles
BNDES	Brazilian Development Bank
CCR-Group	CCR Group
CDPQ	Caisse de dépôt et placement du Québec
CFA-Institute	CFA Institute
ChinaOil	China Oil Services Limited
CII	Council of Institutional Investors
CMB-TR	Capital Markets Board of Turkey
CNBV	Comision Nacional Bancaria y de Valores, Mexico
CRUF	Corporate Reporting Users Forum
CVM	Brazilian Securities Commission - Comissao de Valores Mobiliarios
Deloitte	Deloitte
DRSC	German Accounting Standards Committee
EAA	European Accounting Association
EC	European Commission

¹⁰⁸ See <http://www.ifrs.org>.

Abbreviation	Organisation
ECB	European Central Bank
EFRAG	European Financial Reporting Advisory Group
EmiratesNBD	Emirates NBD
ERT	European Round Table of Industrialists
ESMA	European Securities Markets Authority
EU-NationalStandardSetters	Group of European national standard-setters
EY	Ernst & Young
FAP-Thailand	Federation of Accounting Professions, Thailand
FCAGroup	Fiat and Crysler Group
FEI	Financial Executives International
Ferrovial	Ferrovial S.A.
FICCI	Federation of Indian Chambers of Commerce
FIDEF	Fédération Internationale des Experts-Comptables Francophones
FRC-AU	Financial Reporting Council Australia
FRSC	Financial Reporting Standards Council of South Africa
FSC	Financial Services Commission of Korea
Fujitsu	Fujitsu Limited
GoldmanSachs	Goldman Sachs
GrantThornton	Grant Thornton
HUBGlobalInsurance	HUB Global Insurance Group
IAA	International Actuarial Association
IAAER	International Association for Accounting Education & Research
IAIS	International Association of Insurance Supervisors
ICBC	Industrial and Commercial Bank of China and IntercontinentalExchange
ICGN	International Corporate Governance Network
ICI	Investment Company Institute
IFAC	International Federation of Accountants
IIF	Institute of International Finance
IMA	Investment Management Association
IMF	International Monetary Fund
InsuranceEurope	Insurance Europe
IOSCO	International Organization of Securities Commissions

Abbreviation	Organisation
JFSA	Japan Financial Services Agency
JPMorgan	JP Morgan
JPX	Japan Exchange Regulation
KASB	Korea Accounting Standards Board
KPMG	KPMG
MEDEF	Mouvement des Entreprise Francaises
MinFin-China	Ministry of Finance, People's Republic of China
Mitsui	Mitsui & Company Limited
MOTIE	Ministry of Commerce, Industry and Energy Korea
NAI	National Accounting Institute China
NipponKeidanren	Nippon Keidanren (Japan)
NSFO	National Organisation for Financial Accounting and Reporting Standards (Russian Federation)
PioneerAssetManagement	Pioneer Global Asset Management
PSAB	Canadian Public Sector Accounting Board
PwC	Pricewaterhouse Coopers
SAA-JP	Securities Analysts Association of Japan
SAICA	South African Institute of Chartered Accountants
SEBI	Securities and Exchange Board of India
SEC	US Securities and Exchange Commission
SOCPA	Saudi Organization of Certified Public Accountants
Volvo	Volvo
WB	World Bank
Wconsulting	W Consulting
WFE	World Federation of Exchanges

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