The Institutional, Political and Legitimacy issues in the International Financial Reporting Regulation: Initial impressions from the new EU initiatives

Abstract

This paper discusses the political and institutional pressures exerted on financial reporting regulation as well as the issue of legitimacy, by focusing on the new EU's initiatives, principally the EC’s evaluation of IAS Regulation, we look at the reactions and positions of different European stakeholders notably those of the European Commission (EC) and the European Parliament (EP) which historically tended to diverge about several topics linked to the IASB standards. To achieve our objective we make an extensive review of different EU documents, academic studies and other legislative texts. In discussing such issues, this paper suggests that the upcoming situation seems to be even more difficult because the divergence between the EP and the EC still exist and the recent structural reforms of EFRAG are more political than technical. Internationally, the EU has made a big step forward in its incentives to have more influence on the IASB standards largely thanks to its funding programme. Nevertheless some improvements are needed by giving more attention to the stakeholders concerns as well as by reducing the divergence between its institutions and Members States. For the future, organisation as EFRAG, ESMA, ECB and the forum of ASAF can play key roles in order to make easy the achieving of the European single voice objective and to reduce the worldwide divergence in the financial reporting regulation.

Keywords: EU, Financial reporting regulation, IASB, Institutional, Legitimacy, Political.
1. Introduction

During the two last decades, governments have delegated a vast regulatory authority to international private organisations, mainly because this delegation offers economic advantages for global markets through common rules, but also because of the inability of government regulators to provide enough expertise and resources to deal with urgent regulatory tasks, becoming more and more complex (Büthe & Mattli, 2011). One of the most accountable transnational organisations that emerged from the global financial governance architecture, the International Accounting Standards Board (IASB) i.e. a private body not only known by its technical competence in developing and producing accounting and financial reporting standards (Richardson & Eberlein, 2011) but also by its vulnerability especially during and after the global financial crisis of 2008 (Botzem, 2014).

At the time of crisis, public authorities (e.g. IOSCO and US SEC) expressed that expertise in accountancy was no longer a sufficient condition to legitimise the IASB (Black & Rouch, 2008). Moreover, with the importance of the IASB’s standards, political pressure has increased from different regions, each one wanting to gain more influence in the IFRS Foundation and the IASB because accounting redistributes wealth and a new standard may benefit some stakeholders at the cost of others (Wagenhofer, 2014). Consequently, the drafting phase of the IASB "due process" has constantly experienced power struggles between the international standard-setter and various global actors, among these confrontations there is one between the IASB and the EU (Bengtsson, 2011).

The relationship and confrontation between the EU and the IASB has attracted considerable attention by the academic research literature (e.g. Dewing & Russell, 2008; André et al., 2009; Chiapello & Medjad, 2009; Bengtsson, 2011; Baudot & Walton, 2014; Crawford et al., 2014 and Palea, 2015). This literature has particularly described how over the time the EU has strengthened its presence in the area of international accounting; how the EU contested the IASB authority during and after financial crisis; how the EU managed the divergence between its own institutions in this period and how the IASB reacted to the global pressures in order to maintain its legitimacy.

From the European angle, this paper concentrates more on confrontations within the EU by providing an analysis about the political and institutional pressures generated from the new EU’s financial reporting initiatives that have been introduced in the last few years in order to
examine the incentives of the different EU institutions mainly the European Commission and the European Parliament because historically they tended to diverge about multiple topics linked to the IASB standards.

To identify the EC standpoint, we look at its last public consultation about the impact of IFRS; the conclusions of the International Conference organised in Riga (Latvia) that exposed the key findings of the last EC evaluation of the IAS Regulation as well as the final report of the assessment. To know the EP standpoint, we consider the reactions and the positions of its members in the last years by analysing an exchange of letters between two MEPs and Commissioner Hill; we also take into account the studies of academics for the EP i.e. Bischof & Daske (2015) and Botzem (2015); and other legislative texts. Our objective here is to compare between EC and EP viewpoints in order to understand recently the behaviour of each one towards IFRS and about some issues such as the European Public Good, the EU's ability to speak with a single voice on the international accounting stage...etc.

With the intention of providing a more global vision to our work, we examine the Maystadt reforms which aim to reinforce the position of EFRAG internationally; we expose the funding relationship between the EU and the IASB; we look at some letters sent by a number of UK long-term investors who have been highly critical towards IFRS in the last years and finally, we consider the official documents of other international institutions i.e. IFRS Foundation, IASB, EFRAG, IOSCO, ESMA, ASAP, further informations about the organisations cited above are available on their website.

The remainder of this paper is organised as follows: Section 2 introduces the theoretical foundations of our work. Section 3 explains the expansion of IFRS from the EU to the rest of the world. Section 4 deals with institutional and legitimacy issues in the international financial reporting regulation by concentrating on the strong confrontation between the EU and the IASB during and after the financial crisis as well as the reactivity of the IASB. Section 5 addresses the issues raised below and discusses the future of Europe. Finally, Section 6 summarises and concludes the paper.

2. Literature review

Before giving our attention to the legitimacy theory, it is useful to set out the theoretical constructs which help us to understand the nature of the standard-setting influence.
2.1. Influences on accounting standard production and regulatory processes

The literature addresses the accounting standard setting influence from two angles; influence as participation in standard setting due process and influence as outside pressures on standard setting structures and relations (Baudot & Walton, 2014).

The first set of studies examine the motivations and characteristics observed among stakeholders that participate in the standard production process, as well as the content of their submissions (e.g. Larson & Brown, 2001; Georgiou, 2004 & 2010; Hansen, 2011; Larson & Herz, 2011; Allen & Ramanna, 2013; Kosi & Reither, 2014 and Erb & Pelger, 2015). The majority of the researches aiming the analysis of lobbying from various stakeholders stem from the economics of regulation theory (Stigler, 1971). From this perspective, the participation choice research assumes that the subjacent incentives to participate depend on the benefits expected to accumulate from the involvement less the costs related of such participation (Watts & Zimmerman, 1978; Sutton, 1984).

The other group of literature addresses the influence on standards production as political and institutional pressure exerted on standard-setting structures and relations. As pointed out by Baudot & Walton (2014, p.320), the political perspective highlights: “how accounting standard-setting both shapes and is shaped by power relations existing in the society and environment in which standards-setting occurs...These power relations occur between and within different levels; at transnational or national-state and government regulatory level; at organizational level (national accounting standard setters, advisory bodies, professional and industry associations); and at constituent level (i.e. individual business and investor interests)” (e.g. Perry & Nölke, 2006 and Königsgruber, 2010). Beside the political perspective, the institutional perspective is also useful to study the influence on accounting standard-setting and power relations; Arnold (2009, p.4) believes that “institutional analysis is not only able of interrogating the social and cultural underpinnings of accounting practice but also the political and economic forces that underlie the internationalization of the of financial accounting practice” (e.g. Botzem, 2012; Jupille et al. 2013). Recently, some articles have combined the institutional theory and rational-choice perspective (e.g. Giner & Arce, 2012 & 2014; Jorissen et al. 2013).
Regarding the EU, since financial crisis, the IASB received much political criticism (Burlaud & Colasse, 2011 and Botzem, 2014). Institutional arrangements created by EU at the time of crisis prompted some researchers to investigate the power struggles during this period (e.g. Dewing & Russell, 2008; André et al., 2009; Chiapello & Medjad, 2009; Bengtsson, 2011; De Bellis, 2011; Baudot & Walton, 2014; Crawford et al., 2014 and Palea, 2015).

2.2. The legitimacy theory

After having covered a wide literature on the organisational legitimacy, Suchman (1995, p.574) provides the following definition: “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

The literature has paid much attention to know how the IASB built its legitimacy and acceptance as a global standard-setter (Black & Rouch, 2008; Burlaud & Colasse, 2011; Danjou & Walton, 2012; Richardson & Eberlein, 2011; Sanada, 2012; Botzem, 2014; Sanada & Kusano, 2014). Richardson & Eberlein (2011, p.239) indicate that in the beginning, the IASB built its credibility on technical skills (output legitimacy) but then it relied more and more on due process (throughput legitimacy) for sustaining its claim to act as legitimate global accounting standard-setter. In their analysis of the IASC/IASB donor’s diversity between 1990 and 2008, Larson & Kenny (2011) argue about the fact that these donors have legitimised the IASB by making financial contributions.

Sanada (2012) built a legitimacy model, by distinguishing the legitimacy of the accounting standard-setter (input legitimacy) from the one of IFRS (output legitimacy). Both are constructed by separate elements: “As the elements of the legitimacy of the IASB, it suggests (1) justification through organizational structure and due process and (2) superior organizations’ delegation and/or acceptance of standard setting activity. While as the elements of the legitimacy of IFRS, it suggests (1) justification through benefits brought from application of IFRS, (2) taking advantage of the power of other organizations, (3) providing decision-useful information, (4) theoretical consistency, and (5) consistency among other institutions” (Sanada & Kusano, 2014, p.7-8). However, all elements are interrelated in order to construct the legitimacy of global accounting standards as an institution. It provides a process through which the legitimacy of the overall global accounting regulatory system is established, maintained, and restored.
However, some doubts on: procedural legitimacy (Burlaud & Colasse, 2011) and ethics (Palea, 2015) of the IASB’s work have been identified by a number of researchers: e.g. Van Mourik (2014) observes some potential effects of standards on society referring to the social responsibility of IASB; Verón (2007) noted the weak accountability in the composition of the Board of Trustees and Botzem (2014) pointed out some questions concerning the organization’s independence, the credibility and the short-termism vision of IASB.

3. The expansion of IASB standards: From Europe to the rest of the world

Before referring to the expansion of IFRS worldwide, we will briefly refer to the IASB and IFRS themselves. The IASB is: "a private independent standard-setting body based in London and composed of 14 experts appointed by the Trustees of IFRS Foundation in function of their recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Broad geographical diversity is also required" (IFRS, 2015a). Concerning the development of standards, the IASB confirms that: “IFRS are developed through an international consultation process, the "due process", which involves interested individuals and organisations from around the world. The due process comprises six stages\(^1\), with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points” (IFRS, 2015b).

In his analysis of the IASB proceedings in 2002 and 2003, Walton (2009) shows that the debate was dominated by the Anglo-Saxons. Walton (2015) makes another analysis of the board composition by comparing the 2015 board with that of 2005. He comments that within the 2015 board there is much more diversity in terms of cultural backgrounds while the pre-existing group was characterised by more complicity between colleagues who had a great deal of shared experience and views (10 of the 14 board members were Anglophones).

Regarding the financial donors of the IASB, Larson & Kenny (2011) provide an interesting analysis about the donor diversity since the IASC days by covering the period 1990-2008. The results illustrate that the institutional legitimacy of the IASB increased significantly throughout time both in donors’ number and in amounts contributed. Botzem (2015) emphases that initially the main sources of income were from the private sector, chiefly from

\(^1\) “1- Setting the agenda; 2- Planning the project; 3- Developing and publishing the Discussion Paper, including public consultation; 4- Developing and publishing the Exposure Draft, including public consultation; 5- Developing and publishing the Standard; 6- Procedures after an IFRS is issued” (IFRS, 2015b).
the Big Four auditing firms i.e. as a bloc, the big accounting firms have constantly contributed with a high proportion in the organisation’s funding (approximately one third). Although the contributions by public bodies have strongly increased of the last years, mainly from the EU (See title 5.3).

3.1. EU delegates the standard-setting process to the IASB through an “Endorsement process”

Whereas a serious risk of accounting divergence threatened the future of accounting standards harmonisation in Europe under the "Fourth" and "Seventh" European Accounting Directives related inter alia with the complexity to transpose the Accounting Directives into national law as well as with the difficulty to find agreement between EU countries on accounting issues such as the different interpretation of the true and fair view principle from one country to another (Haller, 2002). The EU decided to conduct key reforms during the 1990s in order to find possible ways that facilitate further harmonization. This period was characterised by the end of the regional harmonization and the beginning of a new accounting strategy in Europe i.e. a new EU approach that not only allowed it to align its harmonization efforts with the global international harmonization but also to deal with the growing pressure from capital markets.

Therefore, the EU decided to delegate the production of accounting standards to a private authority i.e. the IASB. Chiapello & Medjad (2009) express that it was the only choice for the EU because of its inability to reach agreement between the Members States for a European accounting system. On the contrary, the IASC standards offered the possibility of being rapidly recognized in international financial markets. The final output of the delegation of European public interest to the IASC was the adoption of the EC Regulation No. 1606/2002 (European Parliament and Council, 2002). The objectives of the IAS Regulation are: “to harmonise the financial reporting of listed companies by ensuring a high degree of transparency and comparability of their financial statements in order to enhance the efficient functioning of EU capital markets and of the internal market. The Regulation attached importance to IFRS becoming globally accepted so that EU companies would be able to

---

3 Several studies investigated this period (Flower, 1997; Haller, 2002; Schaub, 2005; Van Hulle 2004 and 2008) and more recently Alexander & Eberhartinger (2010) and Baudot & Walton (2014).
compete on an equal footing for financial resources in the world capital markets” (European Commission, 2015a, p.3). Jermakowicz & Gornik-Tomaszewski (2006) considered the pronouncement of the EC to adopt IAS standards through the IAS Regulation as the most important event in global accounting convergence.

However, to guarantee at least some control over the standards to be used in the EU, the IAS Regulation established an endorsement mechanism (see Figure 1) for new standards, interpretations or amendments to them, which involves many EU’s institutions. Thus, after a request of advice from the Commission, EFRAG a private body examines the potential impact and gives an endorsement advice. Following the EFRAG’s advice, the Commission prepares a draft implementing measure\(^4\) which is submitted for voting to the ARC, a Committee composed of representatives from relevant Member State authorities. If the vote is positive, the Commission submits a draft implementing measure to the Council and the European Parliament for a three-month scrutiny period. Finally, the Commission adopts an endorsing regulation (European Commission, 2015b).

So, companies governed by the law of a Member State and falling within the scope of application of IAS Regulation had to prepare their consolidate financial statements by using endorsed IAS/IFRS standards for each financial year starting on or after 1 January 2005\(^5\). Before being endorsed the standards must meet certain conditions: (a) they respect true and fair’ view principle set out in the Accounting Directive; (b) they are conducive to the public good in Europe; and (c) they satisfy basic criteria as to the quality of information required for financial statements to serve users i.e. statements must be understandable, relevant, reliable and comparable, and provide the financial information needed to make economic decisions and assess stewardship by management.

---

\(^4\) If the Commission aims to endorse.

\(^5\) See Article 4 of the IAS Regulation. Also, Article 5 of the IAS Regulation gives the possibility for the Member States to extend this scope by permitting or requiring: (a) Listed companies, to prepare their annual accounts in accordance with international standards. (b) Non-listed companies, to prepare their consolidated accounts and/or annual accounts in accordance with IAS.
3.2. International map of IFRS users in the world: The jurisdiction profiles project developed by IFRS Foundation

After the lack of progress in the direction of a European harmonisation of accounting standards, the delegation to a private professional body became the only way to overcome the stalemate (Nölke, 2015). From 2005, around 8,000 European companies whose securities trade in a regulated market are required to use IFRS, this include all 31 member states of the European Economic Area, except Switzerland (IFRS Foundation, 2015a, p.4). In 2005, Australia and New Zealand also introduced IFRS.

The second major block which adopted IFRSs came in 2012 where 12 countries implemented the global standards for all or most publicly accountable entities (e.g. Russia, Argentina, Nigeria, and Sri Lanka). Dvořák & Vašek (2015) presume that the recent economic crisis caused this wide implementation and the fact that these countries were trying to strengthen a confidence in capital markets by this step and thus encourage activity in them.

Concerning the US case, in 2007, the SEC began allowing foreign companies to compile their accounts based on IFRS without reconciliation to US GAAP (SEC, 2007 and Barth et al., 2012). There was also a willingness to shift to IFRS for all US companies by 2014 but this decision was pushed back at an unknown date. Nevertheless, the general willingness towards

---

6 IFRS in Switzerland are just permitted but even so, of the 130 companies whose primary securities listing is the main Board of the Swiss Stock Exchange in January 2015, 91 per cent use IFRS (IFRS Foundation, 2015a, p.11).
long-term convergence is encouraged by the close collaboration between IASB and FASB for the preparation of new accounting standards as well as for the convergence of existing ones Nölke (2015).

In late 2012, the IFRS Foundation began a project to develop and post on its website (IFRS, 2015c) profiles about the use of IFRS in individual countries and other jurisdictions to assess progress towards the goal of a single set of global accounting standards (IFRS Foundation, 2015b). This new strategy resulted from a need of the Trustees to understand more precisely how IFRS is being applied by for-profit business entities around the world (IFRS Foundation, 2012). The development and the management of the project were entrusted to the former IASB member Paul Pacter (Pacter, 2014 and IFRS Foundation, 2015b). The IFRS Foundation used information from various sources\(^7\) to develop the profiles, by addressing some important issues in each profile such as the support for global accounting standards in general and for IFRS in particular, the extent of IFRS application, the endorsement of IFRS, the modification, the translation of IFRS, the adoption of IFRS for SMEs (IFRS Foundation, 2015b). First the IFRS Foundation posted 122 jurisdiction profiles (Pacter, 2014, p.9). Currently, profiles are completed for 140 jurisdictions, including all of the G20 countries plus 120 others (IFRS Foundation, 2015a).

This study gives the following observations:

- 130 of the 140 jurisdictions support global accounting standards, it represents about 93% of the total profiles studied and 132 of the 140 countries recognize IFRS as the global accounting standards.
- 116 jurisdictions (83%) require IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions).
  - Several of these jurisdictions have converged their national standards with IFRS. These comprise Australia, Hong Kong, South Korea, New Zealand and Singapore.

\(^7\) To develop the profiles, the IFRS Foundation conducted a survey in collaboration with other relevant bodies. For ensuring the accuracy of the profiles, the IFRS Foundation drafted them and invited the respondents to the survey and others (including regulators and international audit firms) to review these drafts (IFRS Foundation, 2015b, p.25).
Around 60% of the 116 jurisdictions require IFRS for more than just listed companies (IFRS is also required for unlisted financial institutions and/or large unlisted companies);

Around 90% of the 116 jurisdictions permit IFRS for many unlisted companies;

Most of the remaining 24 jurisdictions that do not yet require IFRS for all or most domestic listed companies:

Some of them permit, instead of require IFRS;

Two require IFRS for financial institutions only

And others are using national standards or in the process to move substantially (convergence) or entirely towards IFRS (full adoption).

4. Institutional and legitimacy issues in the international financial reporting regulation

4.1. How did the IASB build and strengthen its legitimacy?

The last survey of the IFRS Foundation which follows the worldwide jurisdiction progress towards IFRS shows that the greater part of profiles studied support the global accounting standards in general and IASB standards in particular. Additionally, this global vision has
been publicly supported by several important international organisations such as the G20, the World Bank, the International Monetary Fund, the Basel Committee, the IOSCO and the IFAC (IFRS Foundation, 2015a, p.2).

Before obtaining the position that led the IASB to be considered by some as one of the most accountable of transnational organizations (Richardson & Eberlein, 2011, p.239), the IASB initially built its success on the failure of a public intergovernmental cooperation. Indeed, this success was mainly driven by a private transnational cooperation, after a long process of activities within the global accounting community during the 1970s\(^8\) (Nölke 2015, p.98). This private initiative was materialised in 1973 when professional accounting bodies of nine countries\(^9\) set up the IASC, a part-time body launched as the first international standard setter. Flower (1997) confirms that many people believe that the IASC was set up mainly through the initiative of the British accountancy profession as a counterweight to the European harmonisation project.

Another boost in favour of the IASC came in 1982 from the International Federation of Accountants. Then, newly created (1977), the IFAC recognized the IASC as the exclusive legitimate source of global accounting standards (Nölke 2015, p.98). In 1995, the IASC’s position was further strengthened by the ‘core standards’ agreement with the IOSCO, which stipulated the development of a comprehensive set of core accounting standards for using in cross-border listings in the world’s major capital markets (Katsikas, 2011, p.829). However, this deal was made once the IASC accepted to restructure itself by proposing a more efficient body. Indeed, the IOSCO began to press the IASC to restructure itself in the 1990s, mainly through the SEC that has always been the dominant force in the IOSCO. The SEC insisted on the predominance of technical expertise instead of geographical origin for the Board membership criterion. Moreover, the restructured body had to be relatively small, independent, fulltime, assisted by a large research staff, and with a robust and open due process (Zeff, 2012, p.819).

\(^8\) Valuable contributions to the historical developments of international standardization literature have focused on the historical developments of the IASC/IASB (see, e.g. Camfferman & Zeff, 2007; Nobes & Parker, 2008; Zeff, 2012; Camfferman, 2014). Recently, Street (2014) realised an interview with the first Chair of the IASB Sir David Tweedie who back on his ten years (2001-2010) of chairmanship. In this discussion Sir David’s expressed the greatest achievements of the Board as well as his biggest regrets.

\(^9\) Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland (combined), (See Zeff, 2012, p.810).
In May 2000, the IASC’s entire member bodies i.e. 143 professional accounting bodies in 104 countries approved the restructuring (Zeff, 2012). The author points out through this decision, the worldwide accounting profession surrendered their “ownership” of the IASC. Zeff explains that a similar surrender of accounting-profession ownership of the national standard setting body took place in U.S, when the FASB succeeded the Accounting Principles Board in 1973 and in U.K. when the Accounting Standards Board succeeded the Accounting Standards Committee in 1990. In the beginning of 2001, the restructured IASC was renamed IASB which has had the mission to produce new standards called IFRS.

In addition to the great contribution of IOSCO, the IASB made a big step forward in its ascension to the ranks of global private standard setters when in 2002, the EU decided to require all of its publicly listed companies to prepare their group accounts in accordance with the IAS/IFRS after 2004. Burlaud & Colasse (2011) maintain that during this step, the IASB gained its political legitimacy. So, the successful globalisation of IAS/IFRS occurred thanks to the combined boost from IOSCO and EU (Danjou, 2014), both of them help to give the IASB the necessary input legitimacy.

4.2. Political and institutional confrontation between EU and IASB

Despite the initial significant boost from the EU in the recognition of IFRS as global accounting standards, the relationship between the EU and IASB has not always been set fair and the 2007 financial crisis made it worse by generating a serious confrontation (Baudot & Walton, 2014, 330-331).

And yet, the partnership between the IASB and the EU started well because with its first opinion in June 2002, EFRAG advised the Commission to endorse all existing standards en bloc, however, the problem began in 2003, when the ARC suggested\(^\text{10}\) the adoption of all IASs excepting IAS 32 and IAS 39 (De Bellis, 2011). Botzem & Quack (2006, p.281) indicate that the IAS 39 had caused tensions within EU due to different accounting approaches practiced between its Member States. Dewing & Russell (2008, p.249) argue that this was mainly due to the controversial fair value\(^\text{11}\) principle and some of its applications which were

\(^\text{10}\) This vote was followed by a Regulation (European Commission, 2003) in which the EC endorsed all standards except the IAS 32 and IAS 39.

\(^\text{11}\) A vigorous debate about the pros and cons of fair value accounting has attracted a broad research attention (see, e.g. Ryan, 2008; Laux & Leuz, 2009; Nobes, 2015 and Palea, 2015).
inconsistent with European law because the Fourth Directive did not permit full fair valuation of all liabilities. After the IASB’s revision, EFRAG (EFRAG, 2004) did not issue any advice whether to endorse IAS 39 or not because of diverging opinions within the body i.e. voting on IAS 39, five members supported endorsement of IAS 39 but six members opposed endorsement. Subsequently (in December 2004), IAS 32 was endorsed entirely but IAS 39 was only partially endorsed with two carve-outs.\footnote{The first “carve-out” was related to the ‘full fair value’ option. The second one concerned the hedge accounting provisions. In fact, after much lobbying from banks in Europe (especially French banks), the Commission accepted their arguments: "The carve out of certain hedge accounting provisions reflects criticism by the majority of European banks, which argued that IAS 39 in its current form would force them into disproportionate and costly changes both to their asset/liability management and to their accounting systems and would produce unwarranted volatility" (European Commission, 2004). After a second IASB’s revision, the EC resolved the first “carve-out” in 2005 (European Commission, 2005). For more information about IAS 39 ‘carve-outs’ see: Dewing & Russell, 2008; Bengtsson, 2011; De Bellis, 2011.}

The controversial endorsement of IAS 39 communicated us two important lessons about the future role of the EU in the global accounting standard-setting. Firstly, the carve-outs shown that the EU endorsement mechanism can be a reel filter before the adoption of any IASB standard (De Bellis, 2011, p.280). Secondly, even if this mechanism was created as a safeguard system to protect the EU interests, what happened with IAS 39 indicates that the endorsement of future standards could be more difficult than initially perceived. Baudot & Walton (2014) acknowledge that this difficulty is principally due to the institutional arrangements created by the EU which present many opportunities to exercise influence, both by EU institutions involved in the endorsement process as well as by other institutions and network of individual actors who wish to influence standard-setting outcomes.

The second point mentioned below demonstrates that since the financial crisis, political criticism has increased significantly. At institutional level, it has prompted researchers to examine how EU has contested the authority of the IASB as well as how EU has managed the divergent opinions between and (or) within its own institutions i.e. EP, EC, ARC and EFRAG. In the case of IAS 39, Andrè et al. (2009) note that French banks were always opposed to carrying financial instruments at fair value and have attempted to influence two French Presidents. The first time with Jacques Chirac in 2003 when they persuaded him to send a letter to EC in order to ask the IASB to modify IAS 32 and 39 about financial instruments standards, highlighting their potential harmful consequences. After financial
crisis, in a context of increasing political pressure in Europe to alter the IASB, French banks did another tentative of lobbying by persuading Nicolas Sarkozy to ask René Ricol, a former IFAC President to give an opinion about how IFRS places European banks in an unfavourable position in relation with their US counterparts.

Another extreme example where the EU has faced the divergent views between its institutions in their temptations to contest the authority of the IASB is analysed by Crawford et al. (2014). The authors examine the highly politicised debate occurred between EP, EC and IASB concerning the adoption of IFRS 8 *Operating Segments*. Once it was approved by the ARC and the standard was ready to enter European law, the EP interposed to try stopping it (Baudot & Walton, 2014). The EP reproached IASB for “Americanisation” of IAS/IFRS by following the same approach adopted by the FASB in the case of SFAS 131 i.e. IFRS 8 was substantially identical to SFAS 131 which requires disclosure of information that has been generated for internal management decisions, instead of information that has been prepared according to the accounting policies for external users (Véron, 2007).

After asking the EC to carry out an impact assessment, the EP endorsed IFRS 8 in November 2007 but with some regrets to the Commission which did not sufficiently consider the interests of Users (European Parliament, 2007). Crawford et al. (2014) maintain that through the endorsement process of IFRS 8, the EP aimed to transmit two strong messages. Firstly, by requiring the EC to conduct an impact assessment prior to IFRS 8’s endorsement, the EP has sought to assert itself and establish some control over decision making about accounting standards to be applied in Europe. The second message was for the IASB that the EP was not simply going to rubber stamp any standard that was issued. Further, it seemed to suggest that the stance taken over IFRS 8 would encourage the IASB to consult with the EU on future standards so as to avoid any more public disagreements.

After the bad IASB experience with EU concerning IAS 39, the global standard-setter opted for a phased replacement of IAS 39 by IFRS 9. The first versions\(^\text{13}\) of IFRS 9 were published in 2009 and 2010 by introducing "new classification and measurement requirements". Baudot & Walton (2014) confirm that the confrontation between the EU and IASB did not stop with the publication IFRS 9, indeed when the standard was put forward to the ARC by the

\(^{13}\) Another version was published in 2013 concerning "a new hedge accounting model". The final version of IFRS 9 *Financial Instruments* was published in July 2014; it replaced the earlier versions of IFRS 9 and completed the IASB’s project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. 

15
Commission, the German delegation voted against it and so IFRS 9 was not endorsed into European law. The authors explain that this was due to a change in the composition of the German government and that the new team in the Ministry of Justice, which was responsible for financial reporting, was disinclined to endorse IFRS 9 without knowing all parts of the standard.

Additionally Baudot & Walton (2014) report that financial instruments have not been the unique source of constituent problems for the IASB and EU, in fact, other technical issues related with the work of the IFRS Interpretations Committee (previously called "IFRIC") was also a subject of competing interests (e.g. IFRIC 3 *Emission Rights* that was not endorsed by EFRAG and was withdrawn by the IASB afterwards. In the case of IFRIC 12 *Service Concession Arrangements* which has encountered a considerable resistance, especially from Spain).

**4.3. IASB reactivity: Dealing with financial crisis for maintaining the legitimacy**

During the financial crisis, political criticism emerged rapidly and addressed fundamental issues as the procyclicality of IFRS and as a result, the financial crisis was also a crisis of global accounting standard-setting (Botzem, 2014, p.947). The study of Sanada & Kusano (2014, p.20) finds that during this period, the system of global accounting standards faced two crises of legitimacy:

1. The possibility of another carve-out from another jurisdictions in the world and;
2. The potential loss of market confidence in the IASB, which could, in turn, bring a loss of legitimacy in IFRS.

Besides criticisms on the content of IASB standards, its general mode of operation came also under massive public fire (Nölke 2015, p.100). Indeed, parts of the public and number of governments faulted the IASB a lack of accountability to public authority which could be seen as a signal of the IASB’s vulnerability (Botzem, 2014, p.947).

The increasing of political pressure, principally from Europe has pushed the IFRS Foundation to make a number of adjustments in its governance structure. For instance, a report of Committee on Economic and Monetary Affairs to the EP (European Parliament, 2008) considered that the EU decision to oblige publicly traded EU companies to use international
accounting standards, has turned the IFRS Foundation/IASB into a quasi law-maker. In addition, the report addressed some questions: "should standards not be freely available to all those required to apply them? Is there sufficient democratic control over the IFRS Foundation and IASB and do these bodies have a representative membership? Is there an appropriate balance between the bodies? Is it appropriate that the IASCF/IASB only focuses on providing information to capital markets? What about other users of financial statements, e.g. creditors, public authorities, owners, customers and employees?". Therefore, the IFRS Foundation reacted with a review of the constitution that eventually established a monitoring group with representatives of public authorities and international organizations as a second oversight body besides the trustees (Wagenhofer, 2014, p.254). Thus the setting up of the Monitoring Board is the result of public authorities' desire (European Commission, IOSCO, the US SEC and the Japanese Financial Services Authority), (Black & Rouch, 2008, p.226).

A further important measure was taken by the IFRS Foundation to cope with the criticisms14 and maintain its legitimacy with stakeholders through the strengthening of the IASB network. Effectively, after the establishment of the Financial Crisis Advisory Group (FCAG) by the IASB jointly with FASB, other groups (see Table 2) were added to the IASB channel in order to receive input on its work and to consult interested parties from a broad range of backgrounds and geographical regions (IFRS, 2015d). Recently, a new technical advisory body - Accounting Standards Advisory Forum (ASAF), was implemented in 2013 for more coordination with national and regional standard-setters. Commenting the establishment of ASAF and the appointment of its initial membership, Michel Prada, Chairman of the IFRS Foundation Trustees said: “The creation of the ASAF reflects two important changes in the global accounting standard-setting landscape. First, the significant growth in the use of IFRSs around the world has complicated the task of maintaining bilateral MoUs15 with multiple jurisdictions. Second, many parts of the world have established regional16 accounting standard-setting organisations and forums to offer advice and to discuss matters related to IFRSs” (IFRS, 2015e).

14 The IASB has also been subjected to the supervision by the Financial Stability Board (FSB), which was created in April 2009 by the G-20 (Nowrot, 2014, p.242).
15 The Memorandum of Understanding (MoU) was made at the inaugural meeting in London (8 & 9 April 2013). This document sets the objectives of ASAF and its operational activities.
16 Such as the AOSSG and the GLASS. These regional organisations aim also to be strong interlocutors of the IASB (Camfferman, 2014, p.310).
Table 2: IASB advisory bodies

<table>
<thead>
<tr>
<th>IASB advisory bodies</th>
<th>Category of Stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Standards Advisory Forum</td>
<td>International standard-setters</td>
</tr>
<tr>
<td>Capital Markets Advisory Committee</td>
<td>Users</td>
</tr>
<tr>
<td>Consultative groups</td>
<td>Technical sector experts</td>
</tr>
<tr>
<td>Emerging Economies Group</td>
<td>Emerging Economies</td>
</tr>
<tr>
<td>Global Preparers Forum</td>
<td>Preparers</td>
</tr>
<tr>
<td>SME Implementation Group</td>
<td>Area experts</td>
</tr>
<tr>
<td>IFRS Transition Resource Group for Impairment of Financial Instruments (ITG)</td>
<td>Preparers and auditors</td>
</tr>
<tr>
<td>Transition Resource Group for Revenue Recognition (TRG)</td>
<td>Preparers, auditors and users of financial statements</td>
</tr>
</tbody>
</table>

Source: based on the IFRS Foundation and IASB website (www.ifrs.org)

5- The latest political incentives within the EU and future outlook

5.1. The recent EU reforms regarding financial reporting

Over the recent years, the EC launched two important initiatives in the area of financial reporting. In 2013, the Commission initiated an evaluation of IAS Regulation nearly a decade of it operating. Before dealing with this initiative, we first consider another important action engaged by the EC a bit earlier in order to reinforce the EU’s contribution to the development of IFRS; this initiative is called the "Maystadt reforms".

In March 2013, EU Commissioner for Internal Market and Services Michel Barnier appointed Philippe Maystadt, former President of the European Investment Bank with the mission to examine ways of reinforcing the EU’s contribution to the development of IFRS (European Commission, 2013). After conducting a series of interviews and consultations, Mr. Maystadt wrote his final report, his key recommendation was the restructuring of EFRAG: "EFRAG would remain a private organisation and the Commission, as a guardian of the European

---

17 Two other options were discussed in the Maystadt report: Transferring EFRAG’s responsibilities to ESMA or replacing EFRAG by an EU Agency.
public interest, would still be responsible for taking decisions on the strategic and political issues involved in the accounting debate, under the control of the Council and of the Parliament" (Maystadt, 2013, p.13), and thereby achieving another important objective, that of Europe speaking with a single voice. In his report, Mr Maystadt put some recommendations related with the structural reform of EFRAG including replacing the Supervisory Board with a high-level Board with a new structure in three pillars i.e. in the first pillar: European public institutions (members from ESMA, EBA, EIOPA and the ECB, respectively); in the second: European stakeholder organisations and in the third pillar: National standard-setters. In this composition, the new Board would determine the positions of EFRAG. This mission was previously attributed to the Technical Expert Group (EFRAG TEG) which consequently the task would be limited to the role of adviser to the new Board.

In addition to the recommendations for reforming EFRAG, Maystadt (p.10) suggested to the EU to clarify the current criteria of the IAS Regulation to endorse any IFRS and to add other criteria as components of the public good i.e. "the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the Union". Another recommendation was to maintain the meetings between EFRAG members and representatives of all NSS in Europe because these meetings are important especially for smaller Member States in order to achieve a better cooperation between European NSS as well as to prepare the European representation for the ASAF's reunions. Mr Maystadt also encouraged EFRAG to continue its efforts of producing impact assessments and performing "field tests" based on the users' and European legislators' needs and in collaboration with NSS and other European bodies.

The second key initiative that we will discuss relates to the EC evaluation of IAS Regulation about 10 years since it first application. The evaluation process took place by means of a public consultation, conducted between August and November 2014 (see European Commission, 2014a). Besides, the commission relied on the assistance from an informal Expert Group composed of European stakeholder organisations, various NSS and ESMA (see European Commission, 2014b) as well as by discussing with the EU's Member States (within the ARC) and taking in consideration the Maystadt recommendations.

In June 2015, the EC reported the European Parliament and the Council on the conclusions of the evaluation (European Commission, 2015a). The report has been accompanied by a Working Document with more detailed information produced by the Commission Staff
The Staff Working Document dealt with the topics covered on the evaluation, for instance:

- The objectives of IAS Regulation;
- The endorsement process, its criteria and its flexibility;
- The enforcement;
- The quality of financial statements in IFRS;
- The IFRS as a single set of global standards;
- The convergence between IFRS and US accounting standards;
- The interaction between IAS Regulation and other EU's legislations (e.g. prudential requirements);
- Governance of bodies involved in standard-setting with European impact (IFRS Foundation and EFRAG)...etc.

5.2. Outcomes from the reforms

In the context of the public consultation, the EC received 200 contributions from preparers and users of financial statements; accountants and auditors (including audit firms); public authorities (including NSS and European Supervisory Authorities); private individuals; and others (e.g. academics). Concerning the geographical origin, the largest number of responses came from the Global and/or EU-wide organisations (22%) and the single-country analysis showed that most respondents came from three European countries (42%): Germany (17%), United Kingdom (15%) and France (11%), by against 34% were from 22 other European countries.

The largest proportion of replies was from preparers (46%) who came predominantly from the financial services (21%) and the industry (20%). Nearly half of the responses of financial services sector were via business associations while the industrial sector mainly responded individually. Among the total responses, 46 of them were anonymous (including 20 from companies and 12 from individuals).

---

18 Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Spain, Sweden, Switzerland and The Netherlands.

19 Of the replies, 21 % came from business associations and users’ associations (33 and 10 responses, respectively).
From the clear comments about the consultation, 93% were positive and only nine responses were negative that mainly came from UK (Nobes, 2015). In fact, most stakeholders considered that:

- The objectives of IAS are still valid today (95%);
- The quality of financial statements prepared under IFRS as good to very good (70-75%);
- IFRSs are better than or equivalent to their local GAAPs in terms of being able to provide a true and fair view (87%);
- IAS Regulation has significantly increased the credibility and acceptance of IFRS worldwide and hence promoted the move to a set of globally accepted high-quality standards (85 %);
- IFRS financial statements are more transparent (86%);

In addition the majority of stakeholders thought that the introduction of IFRS: contributed to greater comparability at national, EU and global level (70%, 92 % and 79 % respectively); contributed to greater understandability of financial statements (68 %); created a level playing-field for companies using them (87%); contributed to easier access to capital at EU

### Table 3: Type of respondent per profile

<table>
<thead>
<tr>
<th>Profile</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparers</td>
<td>93</td>
<td>46%</td>
</tr>
<tr>
<td>Accounts/Auditors</td>
<td>30</td>
<td>15%</td>
</tr>
<tr>
<td>Public authorities</td>
<td>27</td>
<td>14%</td>
</tr>
<tr>
<td>Private individual</td>
<td>24</td>
<td>12%</td>
</tr>
<tr>
<td>Users</td>
<td>16</td>
<td>8%</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>200</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Source:** Based on the Commission report (European Commission, 2015b)

*a:* This percentage includes 6% of companies which are both preparers and users of financial
and global level (63%); improved investor protection (71%); and helped maintain confidence in financial markets (67%).

The reactions were less positive regarding the benefits and costs of IFRS (60%), one of the reasons expressed by the stakeholders is the difficulty to reach the trade-off between costs and benefits, which has been adversely affected in recent years by the complexity of some accounting treatments, disclosure overload, frequent changes to existing standards and the issuing of new standards.

The findings were presented in an international Conference\textsuperscript{20} co-organised on 18 June 2015 between the Ministry of Finance of Latvia and the EC “The Riga meeting” where Valérie Ledure from the Commission exposed the conclusions of the evaluation by putting forward some recommendations given by the stakeholders. In the following we will outline some of them: For EU the convergence IFRS/US GAAP remains important but a high quality of IFRS is preeminent. Most stakeholders consider that the endorsement process is working well but there are some practical improvements to do through the enhancement of the collaboration between EU’s institutions (ARC, EP, EC). However, they highlight the paramount role of effect analysis both at the level of IASB and EFRAG which help understanding the effect of each standard. In addition, they suggest identifying issues of public interest on a case by case basis and specifying the meaning of “public good”. Other recommendations came from the stakeholders by highlighting the key role of ESMA in coordinating the work of national enforcers through the EECS and developing a common European approach on the enforcement of financial information. Finally, they encourage the pursuit of EFRAG reforms which still are in the process of implementing.

Concerning the progress of EFRAG’s governance reform following the Maystadt’s recommendations, the EFRAG General Assembly of 31 October 2014 has appointed the EFRAG Board acting President and its Members (EFRAG, 2014). But contrary to Mr. Maystadt's recommendation (which proposed a new structure of EFRAG Board in 3 pillars), the new organisation will be built in 2 pillars: 1st: European Stakeholder Organisations and 2nd: National Standard-Setters because the European Supervisory Authorities (ESMA, EBA,

\textsuperscript{20}The conference is available from:  
EIOPA) and the ECB refused their representativeness in the EFRAG Board, choosing only to appoint each one an observer with speaking right. In addition, up to now, the new EFRAG Board has taken all its decisions on a consensus basis under the EFRAG’s due process (European Commission, 2014c).

Under its new governance structure, the EFRAG has provided until now two endorsement advices, the first on IFRS 15 Revenue from Contracts with Customers, in March 2015 and the second on IFRS 9 Financial Instruments, in September 2015 (EFRAG, 2015). The EFRAG Board has also tried to strengthen its work by introducing the reforms of Maystadt e.g. including public good issues and assessing the prudence in the endorsement process (European Commission, 2015c).

5.3. Funding issues

The IASB reliance on private funding has always been a constant matter of debate (see e.g. Larson & Kenny, 2011; Botzem, 2015 and Nölke, 2015). However, at the end of 2008, a reconfiguration of the financing scheme occurred when Europe heavily hit by the financial crisis, decided to change its attitude towards paying for standards after having realising it had little control over IFRS Walton (2015). As a result, in 2009, Europe has taken the decision to increase considerably its participation in the financing of the IFRS Foundation through a programme which covered the period 2010-2013 (see European Parliament and the Council, 2009) and after the success of the first initiative, the EU decided to renew its funding programme in the field of financial reporting and auditing for the period 2014-2020 via the Regulation (EU) No 258/2014 (European Parliament and the Council, 2014), as defined in its Preamble Para. 21: "The Programme is expected to contribute to the objectives of ensuring comparability and transparency of company accounts throughout the Union, and of making the needs of the Union heard in the context of the global harmonisation of financial reporting standards...".

Nowadays, the EU became the largest single contributor to the IFRS Foundation, consequently relegating the Big Four auditing firms to the second rank, for instance in 2014, European public and private contributors provided one third of the Foundation total funds (between 30 and 31%) which included 13% from the EC while the auditing firms provided about 28% (IFRS Foundation annual report of 2014).
5.4. Reactions about what is happening now in Europe

Before discussing some reactions related to the new European reforms, we will first continue our political and institutional analyses by dwelling a little longer on IFRS 9 (see title 4.2) to know what happened after the EFRAG gave its endorsement advice. It all started in UK when a group of 10 long-term shareholders declared that the focusing of IFRS on neutrality over prudence has dangerously weakened the implementation of true and fair accounting in practice (LAPFF, 2014). More attention was given to the concerns of the UK investors group when the LAPFF (2015a) called on MEPs to block IFRS 9 for safeguarding the shareholders. The LAPFF stated that: “the proposed endorsement of IFRS 9 (applicable to banks) would be defective because the form of fair value accounting in this standard does not enable a determination of distributable profits because unrealised mark-to-market and mark-to-model gains are mixed up with realised profits”. Furthermore, the LAPFF rose up to complain the FRC on its positions regarding IFRS: "...any defective legal position taken by the FRC will not only have compromised the FRC’s position in the UK and Republic of Ireland, but it will also have misinformed the position of EFRAG, as well as the Commission, for the whole EU.", declared Kieran Quinn the Chair of LAPFF. Then, on 23 September, the LAPFF accused EFRAG of having misread EU legislation in its broadly positive endorsement advice to the commission on IFRS 9 (LAPFF, 2015b). Véron (2015) thinks that the critics received from the UK long-term stakeholders towards IFRS 9 are not representative of the UK investor community as a whole.

In the context of reviewing the EU criteria for endorsement of IFRS 9, Bischof & Daske (2015) perform a study for the EP. First of all, they say that the three criteria of the EU endorsement of IFRS (true and fair view, conducive to the EPG and qualitative criteria) are vague by nature and provide EU institutions with substantial discretion in this process i.e. the political discretion necessary for the EU to have influence over the IASB ex ante. On another side, the two academics declare that the vagueness complicates a clear-cut ex post endorsement recommendation and make the endorsement process susceptible to firms lobbying for special interests. In addition, Bischof & Daske review the new components that Philippe Maystadt recommended adding to the public good criterion. They mention that the

---

implementation of the economic development is at least as vague as for the EPG and it is almost an invitation to industries to foster boilerplate arguments of vested interests trying to protect their own profits. About the other component, the authors highlight that it is very difficult to see how standards impact financial stability because there is still no final evidence confirming that specific accounting standards have played a significant role in, or have fostered the crisis. Bischof & Daske believe that the only feasible way to assess the EPG is by means of a comprehensive cost-benefit analysis that considers the reactions of different stakeholders to the proposed standard.

From the Riga meeting, Theodor Dumitru Stolojan, a MEP from Romania commented the final report of the Commission evaluation of IAS Regulation; he stated that it contained nothing spectacular. He also asked the Commission for an engagement to be returned to the EP with a statement of intent to clarify the understanding of the EPG concept. On 16 July 2015, two MEPs: Syed Kamall, from UK and Sven Giegold, from Germany sent a letter to Commissioner Hill to raise some concerns, among them, they requested the EC for a fully explanation about the reasons of not producing clear guidelines on the meaning of ‘the public good and ‘the true and fair view principle’, as recommended by Philippe Maystadt.

Commenting the Commission’s evaluation of the IAS Regulation, Walton (2015) says that the European attitudes continue to evolve. Nevertheless, the reactions were less optimistic from Nobes (2015), who declares even though the responses to the EU consultation were extremely positive, he judges that they were probably largely based on impressions rather than on scientific measurements, the author wonders whether the ‘EU has learnt to love IFRS’.

On the issue of a single European voice in the international forums, Mr Phillipe Maystadt raised at the Riga meeting that the problem of divergence between European stakeholders still exists because Europe do not work in a coordinated way and this diminishes the weight of EU internationally. For instance, Botzem (2015) highlights the unclear collaboration between EC, ECB and ESMA in the formulation of a common European position. Botzem adds that there is no single forum where fundamental issues of European accounting policy are publicly discussed. Cairns (2015) says that the differences within Europe caused that its countries have never expressed a single view on the majority of accounting issues but perhaps with its 10 years of experience in applying IFRS, Europe might express a desire for the change. As a first step, Cairns proposes to focus on common positions rather than on the differences.
5.5. Discussion about the future: Political Vs. technical issues

As part of its intervention in the first session of the Riga meeting, Patrick De Cambourg, the actual President of the French Accounting Standards Authority said that: “after the initial implementation phase of IFRS (the pragmatic phase), we are entering in the phase of reflexion and consolidation”. Mr. De Cambourg declared that the reinforcement of the standard-setting capacity of Europe depends heavily on the success of EFRAG reforms and the establishment of a right level of cooperation between contributors and decision makers’. De Cambourg also affirmed that a confident and constant dialogue is essential between the EU and IASB in order to maintain the reconciliation between the criteria of endorsement set out in EU law and the standards developed by the global standard-setter.

From the legitimacy perspective, the EU and the IASB are testing different methods to gain even more legitimacy, on one hand the EU is making efforts to recover years of international presence lost for the benefit of other global actors, principally caused by the divergence between its Member States. The decision of the EU to renew its financial contribution to IFRS Foundation through the Regulation No 258/2014 has turned Europe to become the largest contributor to this organisation and could use the funding as an instrument to exert more pressure on the IASB and thus to gain more legitimacy. On the other hand and with the objective of maintaining its legitimacy, the IASB is strengthening considerably its network especially to deal with rising powers (Nölke, 2015) and with new regional accounting standard-setting organisations (e.g. the AOSSG and the GLASS), through the implementation of the ASAF by the IFRS Foundation (IFRS, 2015e). The IFRS Foundation is also taking important steps toward reinforcing its relationship with securities regulators by signing protocols of cooperation with IOSCO, in September 2013 (IFRS, 2013) and with ESMA, in July 2014 (IFRS, 2014).

After analysing the present situation of EU financial regulatory institutions, Véron (2015) recommends to the EU to make a strict separation between three important matters i.e. the discussion about individual standards; the standard-setting organization and its governance; and the funding arrangements. Additionally, Véron (2015) advises the EP to not directly intervene in accounting standard-setting decisions. However the EP does not see the matter in this light, indeed by a means of another letter sent for Commissioner Hill on 19 of March 2015, Kamall and Giegold urged the EC to ask the IFRS Foundation to fully disclose the costs and expenses incurred in the past five years. Recently the EP goes even further through a draft
According to the past and actual institutional environment of financial reporting regulation, the upcoming situation seems to be even more difficult. Firstly for the reason that the divergence between the EP and the EC still exist. Secondly, because the recent structural reforms of EFRAG are more political than technical and this could seriously jeopardise the technical discussions between the IASB and EFRAG TEG which is called to play a second role in the new architecture of the body.

Concerning the persistence of critics from the UK long-term investors including their presence during the EU public consultation show us that the EU may do more efforts in order to consider all categories of stakeholders who are still unsatisfied with the content of IFRS 9. Finally, in the transnational accounting regulation arena, institutions as EFRAG and ASAF can play a good role of intermediaries in order to bring together the public and private interests.

6. Conclusion

The main aim of this paper has been to examine the political and institutional pressures exerted on accounting standard-setting structures and relations, and this from the EU perspective by introducing the new EU reforms in the area of financial reporting. To achieve our objective, the legitimacy theory has been used to look at the incentives of the European Commission and the European Parliament through the investigation of different EU documents related to the EC’s evaluation of IAS Regulation. Furthermore, we have considered the Maystadt’s reforms who proposed the strengthening of EFRAG in order to have more European influence on the IASB work as well as some reactions from a number of MEPs and those of the UK long-term stakeholders who have been extremely critical about IFRS these last years.

At the time of writing this paper, the final outcomes cannot yet be forecasted however from the actual situation some observations can be made already. First, the EC’s evaluation of IAS
Regulation was a comprehensive policy examination without including technical review of the standards, in this issue Nobes (2015) wonders whether the ‘EU has learnt to love IFRS’. Second, the EP still continue to play its political and critical roles toward the EC and the IASB, in fact the EP has gone until proposing the transformation of EFRAG and IFRS foundations into public institutions, however some of its preoccupations can be understood notably when he asked the EC to clarify the notion of EPG.

Internationally the EU has made a big step forward in its incentives to have more influence on the IASB standards largely thanks to its funding programme. Nevertheless some improvements are needed such as a better consideration of the stakeholders concerns e.g. UK investors in the case of IFRS 9 as well as reduce the divergence between its institutions and Members States. For the future, organisation as EFRAG, ESMA, ECB and the forum of ASAF can play key roles in order to make easy the achieving of the European single voice objective and to reduce the worldwide divergence in the financial reporting regulation.

List of Abbreviations

ARC: Accounting Regulatory Committee
AOSSG: Asian-Oceanian Standard-Setters Group
ASAF: Accounting Standards Advisory Forum
CEO: Chief Executive Officer
EBA: European Banking Authority
EC: European Commission
ECB: European Central Bank
EECS: European Enforcers Coordination Sessions
EFRAG: European Financial Reporting Advisory Group
EIOPA: European Insurance and Occupational Pensions Authority
EP: European Parliament
EPG: European Public Good
ESMA: European Securities and Markets Authority
EU: European Union
FASB: Financial Accounting Standards Board
FSB: Financial Stability Board
FRC: Financial Reporting Council
G20: Group of 20
GLASS: Group of Latin American Accounting Standard Setters
IAS: International Accounting Standards
IASB: International Accounting Standards Board
IASC: International Accounting Standards Committee
IFAC: International Federation of Accountants
References


Jorissen, A., Lybaert, N., Orens, R. & Van Der Tas, L. 2013, “A geographic analysis of constituents’ formal participation in the process of international accounting standard setting:
Do we have a level playing field?", Journal of Accounting and Public Policy, vol. 32, no. 4, pp. 237-270.


LAPFF. 2015a, “LAPFF Calls on MEPS to Safeguard Shareholders and Block Defective Banks’ Accounting Standard”.


Verón, N. 2007, "EU adoption of the IFRS 8 standard on operating segments" - Note for the ECON Committee of the European Parliament, Bruegel policy contribution.


