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POLITICAL AND INSTITUTIONAL ISSUES IN IFRS ADOPTION

PRESENTADA POR:

MOHAMMED AMIN TALEB

DIRECTORES:

Dra. BEGOÑA GINER INCHAUSTI

Dr. MIGUEL ARCE GISBERT

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List of Abbreviations

AOSSG: Asian-Oceanian Standard-Setters Group.

ARC: Accounting Regulatory Committee.

ASAF: Accounting Standards Advisory Forum.

ASB: Accounting Standards Board.

BBA: Building Block Approach.

CEO: Chief Executive Officer.

CMAC: Capital Markets Advisory Committee.

DP: Discussion Paper.

EBA: European Banking Authority.

EC: European Commission.

ECB: European Central Bank.

ED: Exposure Draft.

EECS: European Enforcers Coordination Sessions.

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.

FSAP: Financial Services Action Plan.

FSB: Financial Stability Board.

FRC: Financial Reporting Council.

G20: Group of 20.

GLASS: Group of Latin American Accounting Standard Setters.

GPF: Global Preparers Forum.

IAS: International Accounting Standards.

IASB: International Accounting Standards Board.

IASC: International Accounting Standards Committee.

IFAC: International Federation of Accountants.

IFRS: International Financial Reporting Standards.

IOSCO: International Organization of Securities Commissions.

LAPFF: Local Authority Pension Fund Forum.

MEP: Member of the European Parliament.

MoU: Memorandum of Understanding.

NSS: National Standard Setters.

OCI: Other Comprehensive Income.

PAA: Premium Allocation Approach.

PAT: Positive Accounting Theory.

SEC: Securities and Exchange Commission.

SME: Small and medium-sized enterprise.

TEG: Technical Expert Group.

TRG: Transition Resource Group.

VFA: Variable Fee Approach.

INTRODUCCIÓN

La presente tesis doctoral examina fundamentalmente tres objetivos generales:

1. Identificar los mecanismos de legitimidad en el proceso de establecimiento de las Normas Internacionales de Información Financiera (NIIF) emitidas por el International Accounting Standards Board (IASB).
2. Analizar los problemas políticos e institucionales relacionados con la adopción de las NIIF por parte de la Unión Europea (UE).
3. Investigar empíricamente las prácticas de *lobbying* durante el procedimiento de elaboración y consulta pública de la NIIF 17 sobre los contratos de seguro (IASB, 2017a).

Las motivaciones que nos llevaron a emprender la realización de este proyecto de investigación son las siguientes: En primer lugar, el IASB constituye un caso único entre las organizaciones transnacionales no gubernamentales, tanto por su carácter privado, como también por sus sofisticados procedimientos de consulta públicos en el proceso de emisión de normas. De hecho, el IASB se creó en 2001 como un organismo de normalización contable, transnacional, privado, sin fines de lucro, con el fin de facilitar la elaboración de los informes financieros (IFRS, 2015a), y es supervisado por la IFRS Foundation. El principal objetivo del IASB es desarrollar normas aceptadas a nivel mundial conocidas como las NIIF (IFRS Foundation, 2018a). Para ayudar a que estas normas sean aceptadas y se apliquen en el mundo, el IASB ha creado un mecanismo de consulta denominado proceso debido (*due process*). El objetivo del *due process* es implicar al mayor número de personas y organizaciones interesadas de todo el mundo en cada proyecto de norma. Como productor de normas de contabilidad global, la legitimidad es una cuestión vital para el IASB, ya que permite el cumplimiento de sus actividades diariamente, pero también para lograr una estabilidad a largo plazo (Mayntz, 2010; Botzem y Dobusch, 2012). En segundo lugar, el carácter global de las NIIF y su impacto en las diferentes regiones del mundo ofrece una excelente oportunidad para la investigación de estos fenómenos, especialmente en los años de la crisis financiera iniciada en 2008. El caso europeo es particularmente relevante, ya que, desde el inicio de la crisis financiera se establecieron acuerdos institucionales para tener una posición más activa en el *due process* del IASB. Así la UE abordó nuevas iniciativas para lograr el objetivo de tener una única voz que representara a Europa. Finalmente, las cartas de comentarios enviadas por los diferentes grupos de interés en respuesta a las consultas públicas del IASB, ofrecen una buena oportunidad para analizar las prácticas de *lobbying* en el *due process* del IASB. En la elección de la NIIF 17 como caso de estudio se ha tenido en cuenta que el IASB había realizado tres consultas públicas antes de la publicación de la norma en mayo de 2017.

Siguiendo a Baudot y Walton (2014) en la literatura, la influencia en el establecimiento de las normas contables se ha abordado desde dos perspectivas: El primer conjunto de estudios analiza las presiones políticas (por ejemplo, Perry y Nölke, 2006; Königsgruber, 2010) e institucionales (por ejemplo, Botzem, 2012; Jupille et al., 2013) ejercidas sobre las estructuras de establecimiento de las normas. El segundo grupo examina las motivaciones y características observadas en las partes interesadas que participan en el proceso de establecimiento de normas, así como el contenido de sus cartas de comentarios (por ejemplo, Larson y Brown, 2001; Georgiou, 2004 y 2010; Hansen, 2011; Larson y Herz, 2013; Allen y Ramanna, 2013; Kosi y Reither, 2014; Erb y Pelger, 2015). La mayoría de las investigaciones orientadas a analizar el *lobbying* de diferentes partes interesadas se basan en la teoría económica de la regulación o de la elección racional (Stigler, 1971). Desde esta perspectiva, la investigación sobre la participación asume que los incentivos subyacentes para participar dependen de los beneficios que se esperan obtener menos los costos relacionados con dicha participación (Watts y Zimmerman, 1978; Sutton, 1984). Algunos artículos han combinado las dos perspectivas: institucional y elección racional (por ejemplo, Giner y Arce, 2012 y 2014; Jorissen et al., 2013).

Como en esta tesis se trata a los aspectos de legitimidad en el establecimiento de normas contables internacionales, también se utiliza la teoría de la legitimidad (Suchman, 1995; Larson y Kenny, 2011; Burlaud y Colasse, 2011; Richardson y Eberlein, 2011; Botzem y Dobusch; 2012; Botzem, 2014). La legitimidad del IASB se investiga a lo largo de los tres capítulos de esta tesis. Utilizamos el marco de Tamm Hallström y Boström (2010) para estudiar cómo el IASB busca la legitimidad a través de varias fuentes. De acuerdo con ese marco, la legitimidad se estructura en tres procesos distintos, pero interrelacionados: entrada (*input),* salida (*output*) y legitimidad del procedimiento (*procedural),* los cuales se abordan en los capítulos en los que se organiza este trabajo.

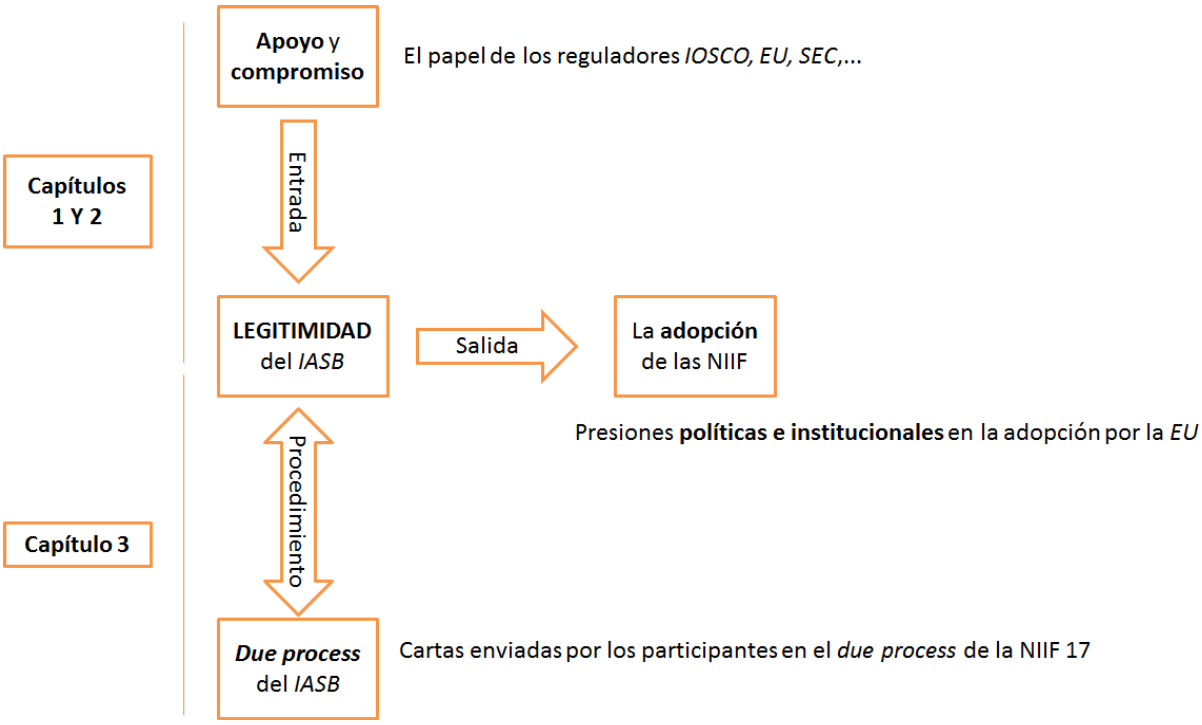
El primer capítulo trata sobre la legitimidad de entrada y salida. La legitimidad de entrada se refiere a la inclusión de partes interesadas en la elaboración de normas (Richardson y

Eberlein, 2011). Con respecto al IASB, su legitimidad de entrada proviene principalmente, pero no únicamente, del apoyo internacional de organizaciones y organismos reguladores mundiales, como la International Organisation of Securities Commissions (IOSCO), y de la participación de partes interesadas (empresas, profesión, usuarios, académicos…) de diversos orígenes geográficos en su proceso de establecimiento de normas. La legitimidad de salida se refiere a las normas que están siendo adoptadas por los actores relevantes. Como afirman Botzem y Dobusch (2012), las altas tasas de adopción se encuentran en el corazón de la legitimidad de salida, por lo tanto, la adopción mundial de las NIIF es crucial para el IASB. En particular, debemos resaltar la decisión de la UE de exigir a todas las compañías de esta jurisdicción que cotizan en bolsa que preparen las cuentas consolidadas de acuerdo con las NIIF. Esta decisión convirtió a la UE en el principal usuario de las normas del IASB desde 2004, y al mismo tiempo como la fuente principal de la legitimidad de salida del IASB. Sin embargo, debe tenerse en cuenta que la legitimidad no es una característica persistente. En efecto, los mismos actores globales que impulsaron la legitimidad del IASB y sus normas durante la primera parte de la década del 2000, contestaron la autoridad del IASB durante y después de la crisis financiera de 2008. Esta situación llevó al IASB a buscar soluciones para mantener su legitimidad porque la legitimidad no es una condición estable, sino que debe crearse, recrearse y conquistarse repetidamente (Tamm Hallström y Boström, 2010, p.160).

Como la UE es el principal usuario de las NIIF, dedicamos el segundo capítulo a analizar los incentivos de las principales instituciones de la UE, es decir, la Comisión Europea (CE) y el Parlamento Europeo (PE), con respecto a las NIIF. Frecuentemente se ha constatado que tanto la CE como el EP han tenido posiciones divergentes sobre múltiples temas vinculados con la adopción de las NIIF. Este capítulo proporciona un análisis sobre las presiones políticas e institucionales generadas por las iniciativas de la UE en relación con la información financiera que se han introducido en los últimos años. Nos centramos en el informe del Maystadt (2013) y en la evaluación impulsada por la CE acerca de la regulación IAS.

Finalmente, en el capítulo tres nos ocupamos de la legitimidad de procedimiento. Se refiere a la transparencia, la rendición de cuentas y los procedimientos de toma de decisiones que permiten a diferentes grupos electorales someter sus posiciones a debate (Richardson y Eberlein, 2011). En el caso del IASB, la legitimidad de procedimiento se conoce en términos más formales como *due process*. En este capítulo abordamos la legitimidad de procedimiento desde una perspectiva empírica mediante el análisis del proceso de la NIIF 17 Contratos de seguro (IASB, 2017a). Adoptando el marco de trabajo de Sutton (1984), analizamos las cartas de comentarios enviadas por los diferentes grupos de interés (por ejemplo, preparadores, usuarios...) y de varios orígenes geográficos. Basándonos en el trabajo de Giner y Arce (2012), observamos la actividad del *lobbying* de los participantes en el proceso de la NIIF 17, analizamos sus posiciones sobre el modelo de contabilidad de seguros, así como sus posiciones sobre los tres temas clave seleccionados para nuestro estudio (medición, rendimiento y presentación), examinamos los argumentos incluidos en las respuestas y finalmente observamos su posible influencia en la toma de decisiones del IASB. La figura 1 proporciona un esquema de la estructura de esta tesis.

Figura 1: Estructura de la tesis



<u>Fuente</u>: Marco de legitimidad de Tamm Hallström y Boström (2010).

Del capítulo uno y dos, podemos resumir las siguientes ideas clave. Primero, aunque el IASB fue capaz de construir una sólida legitimidad que le permitió ser considerado como el normalizador global de las normas de contabilidad, los acontecimientos que tuvieron lugar en los años de la crisis financiera iniciada en 2008 demostraron que la legitimidad no es persistente. De hecho, durante y después de la crisis, el IASB recibió muchas críticas sobre sus normas y sus estructuras de gobierno, principalmente de la UE. Efectivamente, los acuerdos institucionales creados por las organizaciones de la UE, es decir, la CE y el PE, llevaron al IASB a tomar algunas medidas para mantener su legitimidad (entrada) y la de sus normas (salida). Por una parte, IFRS Foundation revisó su estructura constitucional, al incluir representantes de las autoridades públicas y organizaciones internacionales. Además, la IFRS Foundation fortaleció la red del IASB al crear nuevos organismos para tratar con diferentes partes interesadas (usuarios, países emergentes, emisores de normas nacionales y regionales, etc.) y reforzó la relación del IASB con las organizaciones de regulación del mercado de valores (IOSCO y ESMA). Por su parte, la UE, afectada por la divergencia de sus organizaciones y sus estados miembros, hizo un cambio importante para obtener más influencia en el IASB. Fue en gran parte gracias a su programa de financiación, que permitió a la UE estar entre los principales contribuyentes de la IFRS Foundation y del IASB, y así superar la brecha con otros actores internacionales (principalmente las cuatro grandes firmas de auditoría, las llamadas Big 4). Con respecto a las iniciativas de la UE sobre la información financiera, las reformas propuestas por Maystadt (2013) sobre el EFRAG fueron más políticas que técnicas y afectaron al mecanismo de aprobación de las NIIF. En lo que respecta a la evaluación de la CE (2014) sobre la regulación IAS, fue un examen de política integral sin incluir la revisión técnica de las normas. Sin embargo, los eurodiputados siguen siendo críticos con la CE y el IASB (por ejemplo, propusieron la transformación de EFRAG y IFRS Foundation en instituciones públicas). Para el futuro, organizaciones como la European Securities and Markets Authority (ESMA), el European Central Bank (ECB) y el Accounting Standards Advisory Forum (ASAF) pueden desempeñar funciones clave para facilitar el logro del objetivo de alcanzar una voz única europea y reducir la divergencia en la aplicación de las NIIF.

Los principales resultados del estudio empírico del *lobbying* muestran que hubo una respuesta amplia de las partes interesadas ante la NIIF 17 del IASB, principalmente por parte de los elaboradores de los estados financieros. Fueron particularmente activos en el *lobbying* a favor del reconocimiento de ganancias durante el período de cobertura y la presentación de la volatilidad en el resultado integral, Other Comprehensive Income (OCI) (principalmente las compañías de seguros de vida). La mayoría de los que respondieron, proceden de Europa, y las organizaciones europeas tuvieron una importante participación (por ejemplo, EFRAG, ESMA y ECB). Aunque los que respondieron desde los Estados Unidos participaron menos que los europeos, ejercieron una gran presión sobre el modelo de contabilidad de seguros y sobre la cuestión de la medición. Los estadounidenses estaban a favor de opciones compatibles con la visión del FASB sobre los contratos de seguro, es decir, con la separación entre el seguro de vida y el de no vida y la adopción de un único margen compuesto. En cuanto a los argumentos, los elaboradores se basaron más en los argumentos de consecuencias económicas, mientras que los profesionales de la contabilidad en los argumentos conceptuales. Finalmente, en general, el IASB se alineó con la posición mayoritaria de los que participaron en el proceso.

INTRODUCTION

The present doctoral thesis fundamentally aims to achieve three general objectives:

1- To identify the legitimacy issues in the international accounting standard setting process.
2- To analyse the political and institutional issues in connection with the EU adoption of IFRS.
3- To investigate empirically the lobbying practices during the due process of IFRS 17 *Insurance Contracts* (IASB, 2017a).

The following motivations led us to undertake the realisation of this research project. In the first place, the International Accounting Standards Board (IASB) constitutes a unique case among the transnational non-governmental organisations, not only by its private nature, but also by its sophisticated consultation procedures. Indeed, the IASB was created in 2001 as a transnational, private, not-for profit standard setter on accounting and financial reporting (IFRS, 2015a), and it is overseen by the International Financial Reporting Standards Foundation (IFRS Foundation). The main objective of the IASB is to develop global accepted standards known as IFRS (IFRS Foundation, 2018a). Among others to help these standards that are accepted and implemented worldwide, the IASB has created a consultative mechanism called due process, with the aim to involve the maximum number of interested individuals and organisations from around the world. As a global accounting standard setter, the role of legitimacy is vital for the IASB; as it allows getting day-to-day compliance, but also achieving long-term stability (Mayntz, 2010; Botzem and Dobusch, 2012). Second, the global character of IFRS and their impact on different regions of the world present a good opportunity to observe their impact, especially when the financial crisis (2007-2008) occurred. This is particularly relevant in Europe since at that period, institutional arrangements were created to have a more active position in the IASB due process; thus, new initiatives were taken by the European Union (EU) in order to achieve the objective of Europe speaking with a single voice. Finally, the comment letters submitted by different stakeholders, in response to the IASB public consultation process, offer a good opportunity to analyse lobbying practices towards the IASB due process. Given that IFRS 17 was published in May 2017, before that, the IASB has undertaken three public consultations.

Baudot and Walton (2014) address the literature about the influence on accounting standard setting from two perspectives. The first set of studies focus on how the political (e.g. Perry and Nölke, 2006; Königsgruber, 2010) and the institutional (e.g. Botzem, 2012; Jupille et al., 2013) pressures exert influence on standard setting structures. The other group examines the motivations and characteristics observed among stakeholders that participate in the standard setting due process, as well as the content of their submissions (e.g. Larson and Brown, 2001; Georgiou, 2004 & 2010; Hansen, 2011; Larson and Herz, 2013; Allen and Ramanna, 2013; Kosi and Reither, 2014; Erb and Pelger, 2015). The majority of the research aiming to analyse lobbying of different 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 and Zimmerman, 1978; Sutton, 1984). Some articles have combined the institutional and the rational-choice perspectives (e.g. Giner and Arce, 2012 & 2014; Jorissen et al., 2013).

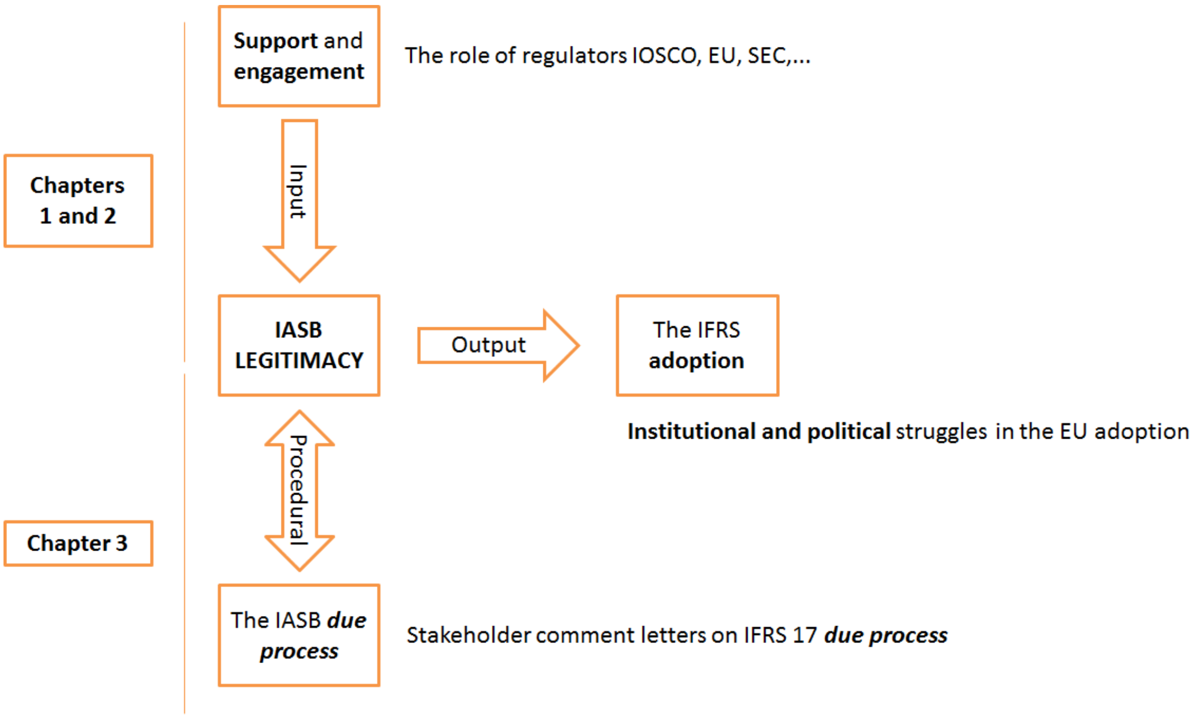
As this thesis deals with the legitimacy issues in the international accounting standard setting, the legitimacy theory is also used (Suchman, 1995; Larson and Kenny, 2011; Burlaud and Colasse, 2011; Richardson and Eberlein, 2011; Botzem and Dobusch; 2012; Botzem, 2014). The legitimacy of the IASB is considered along the three chapters of this thesis. We use the framework of Tamm Hallström and Boström (2010) to study how the IASB seeks legitimacy from various sources. According that framework, the legitimacy is structured in three distinct, but interrelated processes: input, output, and procedural legitimacy. They are considered in the chapters in which this work is organised.

The first chapter deals with input and output legitimacy. The input legitimacy refers to the inclusion of stakeholders in the standard-setting process (Richardson and Eberlein, 2011). Regarding the IASB, its input legitimacy comes mainly, but not only, from the international support of worldwide organisations and regulatory bodies such as the International Organization of Securities Commissions (IOSCO), and from the engagement of stakeholders of various geographic origins in its standard setting process. The output legitimacy refers to the standards being adopted by the relevant actors, such as the EU. As Botzem and Dobusch (2012) state, high adoption rates lie at the heart of output legitimacy. So, the worldwide adoption of IFRS is crucial for the IASB. In particular, we should highlight the EU decision to require all its publicly listed companies to prepare group accounts in accordance with IFRS. It turned the EU as the main user of the IASB standards since 2005, and at the same time as the main source of the IASB output legitimacy. However, legitimacy is not a stable condition, the same global actors who boosted the IASB legitimacy and its standards during the first part of the 2000 decade, contested the IASB authority during and after the 2008 financial crisis. This situation prompted the IASB to find solutions in order to maintain its legitimacy. Indeed, legitimacy must be repeatedly created, recreated, and conquered (Tamm Hallström and Boström, 2010, p.160).

As the EU is the main user of IFRS, we devote chapter two to analyse the incentives of the EU institutions, i.e. the European Commission (EC) and the European Parliament (EP), with respect to IFRS. Historically, the EU institutions tended to diverge about multiple topics linked to the IASB standards. This chapter provides an analysis about the political and institutional pressures generated from the EU financial reporting initiatives that were introduced in the last few years. We focus on the Maystadt report and the EC evaluation of the so-called IAS regulation, among others.

Finally, in chapter three we deal with the procedural legitimacy. It refers to transparency, accountability, and decision-making procedures that allow different constituencies to submit their positions to debate (Richardson and Eberlein, 2011). In the case of the IASB, the procedural legitimacy is known as more formal terms as the due process. In this chapter, we address the procedural legitimacy from an empirical perspective by analysing the due process of the IFRS 17 *Insurance Contracts* (IASB, 2017a). Adopting Sutton's (1984) framework, we examine the comment letters sent by constituents of different interest groups and of various geographic origins. Relying on the work of Giner and Arce (2012), we observe the constituent's lobbying activity in the due process of IFRS 17, analyse their positions on the insurance accounting model, as well as their positions on the three key issues selected for our study (measurement, performance, and presentation), examine their arguments in the set of the letters and finally observe their possible influence on the IASB decision making. Figure 1 provides a scheme of the structure of this thesis.

Figure 1: Structure of the thesis



Source: based on the legitimacy framework of Tamm Hallström and Boström (2010)

From chapter one and two, we can highlight the following key ideas. First, the IASB was able to build a strong legitimacy that allowed it to be considered as the global accounting standards setter. The events that surrounded the financial crisis proved that legitimacy is not persistent. Indeed, during and after the crisis, the IASB received many criticisms about its standards and its overall governance structures, mainly from Europe. In fact, institutional arrangements created by the EU organisations, i.e. EC and EP, prompted the IASB to take some measures in order to maintain its legitimacy (input) and that of its standards (output). The reactions were via the IFRS Foundation that reviewed the constitution structure by including representatives of public authorities and international organisations. In addition, the IFRS Foundation strengthened the IASB network by creating new bodies to deal with different interest groups such as users, emerging countries, national and regional standards setters, and reinforced the IASB relationship with securities regulatory organisations (IOSCO and ESMA). For its part, the EU affected by the divergence of its organisations and its members states did an important progress to get more influence on the IASB. It was largely thanks to its funding programme, which allowed the EU to be among the largest contributors to the IFRS Foundation/IASB, and thus catch up the gap with other international actors, mainly the Big Four auditing firms. Regarding EU initiatives on financial reporting these last years, the Maystadt reforms about

EFRAG (2013) were more political than technical. Concerning, the EC evaluation of the IAS regulation (2014), it was a comprehensive policy examination without including technical review of the standards. Invited to give their opinions on the EU initiatives, the MEP are still critical toward the EC and the IASB (e.g., they proposed the transformation of EFRAG and IFRS Foundation into public institutions). For the future, we argue that organisations such as the European Securities and Markets Authority (ESMA), the European Central Bank (ECB) and the Accounting Standards Advisory Forum (ASAF) can play key roles in order to make easy the achieving of the European single voice objective and to reduce the divergence in implementing IFRS.

The main results of the lobbying empirical study show that the IASB received a significant feedback from stakeholders, mainly from preparers of financial statements. They were particularly active in the lobbying in favour of the recognition of profit over the coverage period and the presentation of volatility in Other Comprehensive Income (OCI) (mainly companies selling life contracts). Most of respondents came from Europe with an important participation of European organisations (e.g. EFRAG, ESMA and ECB). Although U.S. constituents participated less than European did, they exerted much lobbying on the insurance accounting model and on the measurement issue. Americans were in favour of options, which are compatibles with the FASB vision on insurance contracts, i.e. the separation between life and non-life contract and the adoption of a single composite margin. Regarding the arguments, preparers based more on economic consequences arguments, while accounting profession on conceptual arguments. Finally, overall, the IASB aligned itself with the majority of the respondents.

CHAPTER 1: THE IASB AND ITS LEGITIMACY

During the two last decades, governments have delegated a vast regulatory authority to international private organisations. According to Büthe and Mattli (2011), this delegation offers economic advantages for global markets through common rules and fills the inability of government regulators to provide enough expertise and resources to deal with urgent regulatory tasks, which are becoming more and more complex.

One of the most accountable transnational organisations that emerged from the global financial governance architecture is the IASB. It is a private body known by its technical competence in developing and producing financial reporting standards (IFRS). The IASB was created in 2001 after the restructuring of the International Accounting Standards Committee (IASC)[1]. The standards issued by the IASC were called International Accounting Standards (IAS).

At the time of the financial crisis (2007-2008), public authorities such as the International Organization of Securities Commissions (IOSCO) and the U.S. Securities and Exchange Commission (SEC) expressed that expertise in accountancy was no longer a sufficient condition to legitimise the IASB (IOSCO, 2007). Moreover, with the importance of the IASB's standards, the IFRS, political pressure has increased from different regions, each one wanting to gain more influence on the IFRS Foundation, the organisation that is responsible of the standards, and the IASB, the group that produces the standards, because accounting redistributes wealth and a new standard may benefit some stakeholders at the cost of others (Wagenhofer, 2014).

This chapter introduces the legitimacy issues in the international financial reporting regulation by focusing on how the IASB built its legitimacy (input) and that of its standards (output); how the IASB reacted to deal with the 2008 financial crisis, and how the IFRS Foundation reacted to deal with global actors in order to maintain the overall structure of the transnational body. In this part, we will also provide some data about the progress of using IFRS in individual countries and other jurisdictions, as a way to illustrate how the IASB has strengthened its position as the global accounting standard setter.

[1] It will be discussed later in section 1.3.1.

1.1. The International Accounting Standards Board (IASB)

The IASB was created in 2001 as a transnational, private, not-for profit standard setter on accounting and financial reporting. It is overseen by the IFRS Foundation, a self-mandated Board of Trustees whose members are recruited on the basis of expertise in international accounting and finance. The IASB produces the standards and 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). As Camfferman and Zeff (2018, p.291) state: "*From 2001, when it replaced the IASC, to about 2004, the new IASB functioned as designed by its creators: a purely private-sector body, designed to allow an independent Board of experts to develop accounting standards that would have to find acceptance in the world on the basis of their quality*".

In his analysis of the IASB proceedings in 2002 and 2003, Walton (2009) shows that the debate was dominated by the Anglo-Americans. Walton (2015) makes a more recent 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). Along this line, Giner et al. (2016) suggest opening the Board membership to more persons with non- Anglo-American background and with a more diversified profile, to achieve wider representation.

Regarding the financial donors of the IASB, Larson and Kenny (2011) provide an interesting analysis about the donor diversity since the IASC days by covering the period 1990-2008. The authors give the following data: in 2008, the major donors were the large public accounting firms (33%). The largest donations by geographic grouping were Anglo-Americans (26%), the EU (25%), the U.S. (15%), and Japan (12%). Concerning the evolution of the large public accounting firms, the tendency is increasing, they provided about 20–25% of the IASB's donations in the period 2001–2005, 29% in 2006 and 2007, and 33% in 2008. Botzem (2015) emphasizes that initially the main sources of income were from the private sector, chiefly from 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). However, from 2009 onwards, contributions by public authorities have strongly increased, and turned them as the main donor of the IASB[2].

The main objective of the IFRS Foundation is to reach uniformity of accounting standards throughout the globe: "*Our mission is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world*" (IFRS Foundation, 2018a, p.1). Consequently, the IASB seeks more the full adoption of IFRS in the maximum of jurisdictions rather than partial adaptation to national accounting rules (Botzem et al., 2017).

Camfferman and Zeff (2007 & 2015) declare that the objectives and assumptions of IFRS have significantly changed since the initial movement in the 1970s: from harmonisation to convergence of rules, from a variety of purposes to a central focus on capital market efficiency, and from the information needs for a mixture of interest groups to a more specific and exclusive focus on those of investors. Thus, nowadays "*The IASB is responsible for developing financial reporting standards that serve investors and other market participants in making informed resource allocation and other economic decisions*" (IFRS Foundation, 2016, p.15).

Concerning the development of IFRS, they are developed through an open consultation process, the due process, which allows interested individuals and organisations from around the world to participate. The IASB due process comprises six stages, where the Trustees of the IFRS Foundation have to ensure compliance at various points (IFRS, 2015b). The six stages are: 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; and 6- Procedures after an IFRS is issued.

1.2. Legitimacy framework (model)

After having covered a wide literature on the organisational legitimacy, Suchman (1995, p.574) provides the following definition of legitimacy: "*a generalised 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*".

[2] It will be discussed in section 2.5.3. Funding issues.

Tamm Hallström and Boström (2010) divide the legitimacy into three distinct, but interrelated processes: input, output, and procedural legitimacy. The input legitimacy refers to the inclusion of stakeholders in rule-making or standard-setting. Regarding, the output legitimacy, it refers to the standards being adopted by the relevant actors. Concerning the procedural legitimacy, it refers to transparency, accountability, and decision-making procedures that allow different constituencies to submit their positions to debate (Richardson and Eberlein, 2011). Thus, from the legitimacy model of Tamm Hallström and Boström (2010), all legitimacy processes (input, output and procedural) are interrelated in order to construct the legitimacy of the overall global accounting regulatory system, which should be established and maintained along the time.

Sanada (2012) and Sanada and Kusano (2014) build a legitimacy model and distinguishes the legitimacy of the IASB from the one of IFRS. Both are constructed by separate elements. The elements of the IASB legitimacy are: *"(1) justification through organisational structure and due process and (2) superior organizations' delegation and/or acceptance of standard setting activity"* (Sanada and Kusano, 2014, p.7). While the elements of the IFRS legitimacy are: *(1) justification through benefits brought from application of IFRS, (2) taking advantage of the power of other organisations, (3) providing decision-useful information, (4) theoretical consistency, and (5) consistency among other institutions*" (Sanada and Kusano, 2014, p.8).

It is our view that Sanada (2012) bases its model on input legitimacy and output legitimacy by considering the due process of the IASB as an element of the input legitimacy. Although the Sanada model is more recent than that of Tamm Hallström and Boström (2010), to our study we prefer using the earliest model because we consider it is more helpful to distinguish between the legitimacy of the standard setter (IASB) and the legitimacy of its due process.

1.3. Legitimacy issues in the international financial reporting regulation

1.3.1 How did the IASB build its legitimacy?

The literature has paid much attention to know how the IASB built its legitimacy and acceptance as a global standard setter (Black and Rouch, 2008; Burlaud and Colasse, 2011; Danjou and Walton, 2012; Danjou, 2014; Richardson and Eberlein, 2011; Sanada, 2012; Botzem, 2014; Nowrot, 2014; Sanada and Kusano, 2014). It is indeed remarkable that a private body has been recognised and accepted by public institutions; to the extent, they do not control it.

Before obtaining the position that led the IASB to be considered by some as one of the most accountable of transnational organisations (Richardson and 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[3] (Nölke 2015, p.98). This private initiative was materialised in 1973 when professional accounting bodies of nine countries[4] 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 (IFAC). The newly created IFAC (1977) recognised 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 to be used 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).

In May 2000, the IASC's entire member bodies, i.e. the 143 professional accounting bodies coming from 104 countries approved the restructuring. As Zeff (2012) points out through this

[3] Valuable contributions to the historical developments of international standardisation literature have focused on the historical developments of the IASC/IASB (see, e.g. Camfferman and Zeff, 2007; Nobes and Parker, 2008; Zeff, 2012; Camfferman, 2014; Street, 2014).

[4] Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom and Ireland (combined), (see Zeff, 2012, p.810).

decision, the worldwide accounting profession surrendered their ownership of the IASC. The author explains that a similar surrender of accounting-profession ownership of the national standard setting body took place in U.S. when the Financial Accounting Standards Board (FASB) succeeded the Accounting Principles Board (APB) in 1973 and in the U.K. when the Accounting Standards Board (ASB) succeeded the Accounting Standards Committee (ASC) in 1990. At the beginning of 2001, the restructured IASC was renamed IASB and was charged with the mission of producing new standards under the new name, i.e. 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 in 2002. At the time, the EU decided to require all its publicly listed companies to prepare their group accounts in accordance with the IAS/IFRS[5] after 2005 (Danjou, 2014). Burlaud and Colasse (2011) maintain that throughout this step the IASB gained its political legitimacy.

Consequently, the support from organisations such as the IOSCO and the engagement of stakeholders from the EU in the IASB standard setting process helped the IASB to obtain the necessary input legitimacy. In addition, the decision of the EU to adopt the IFRS caused the successful globalisation of the IASB standards, and then this decision turned the EU as the main user of the IASB standards, and then as the main source of the IASB output legitimacy.

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

During the financial crisis (2007-2008), political criticism emerged rapidly and addressed fundamental issues related with the responsibility of IFRS, and the IASB, in it. In particular, financial institutions criticised the new standards due to their procyclicality. As a result, the financial crisis was also a crisis of global accounting standard setting (Botzem, 2014, p.947). Sanada and Kusano (2014, p.20) state that the system of global accounting standards faced two crises of legitimacy during this period: (1) the possibility of another carve-out[6], this is an elimination of some paragraphs in the standards, from any jurisdiction in the world, which could, in turn, bring a loss of legitimacy in IFRS (output legitimacy) and (2) the IASB general

[5] In the rest of the thesis when referring to all the standards IAS and IFRS, following the IASB, we will refer to IFRS or IFRS standards.

[6] The EC carved out the full fair value option in the original IAS 39. More details are given on section 2.4. Political and institutional confrontation between EU and IASB.

mode of operation came also under massive public fire. Indeed, a number of governments questioned the IASB for the lack of accountability to any public authority which was seen as a signal of the IASB vulnerability, which could potentially lead to a loss of market confidence in the IASB, and thus to a loss of its own legitimacy (input legitimacy).

The increasing of political pressure, principally from Europe, pushed the IFRS Foundation to make several adjustments in its governance structure in order to maintain the legitimacy. For instance, a report of the 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, and questioned their procedures. In particular, the report addressed the following 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 IFRS Foundation/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?*" (European Parliament, 2008, p.15).

The IFRS Foundation reacted with a review of the constitution that eventually in 2009 established the Monitoring Board, with representatives of public authorities and international organisations as a second oversight body besides the Trustees. The Monitoring Board has been set up as a mechanism for formal interaction between capital markets authorities (i.e. European Commission, IOSCO, the U.S. SEC and the Japanese Financial Services Authority) and the IFRS Foundation. Thus, the Monitoring Board is the result of public authorities' desire (Black and Rouch, 2008, p.226).

A further important measure was taken by the IFRS Foundation to cope with the criticisms and maintain its legitimacy through the strengthening network by adding more groups to the IASB channel. In 2008, the IASB jointly with the FASB established the Financial Crisis Advisory Group (FCAG) to consider those financial reporting issues arising from the crisis. The FCAG considered how improvements in financial reporting could help to enhance investor confidence in financial markets. Among others, the FCAG was invited to discuss areas where financial reporting helped identify issues of concern, or created unnecessary concerns, during the financial crisis; as well as areas where financial reporting standards could have provided more transparency to help either anticipate the crisis or respond to the crisis more quickly. The FCAG also helped to identify significant accounting issues that required the urgent and immediate attention of the FASB and the IASB through the identification of priorities for both Boards that should be reconsidered in light of the financial crisis. For example, the FCAG strongly urged the FASB and the IASB to re-evaluate their models for loan loss accounting, consequently the two Boards set about developing new standards that could solve the problems identified and so avoid criticisms (Giner and Mora, 2019).

Next, we describe the IASB advisory groups (see Table 1) that were created in order to reinforce the IASB relationships with different interest groups, from a broad range of backgrounds and geographical regions. Among the groups created, we highlight the Capital Markets Advisory Committee (CMAC) with the specific aim to provide the IASB with regular input from the international community of users of financial statements. CMAC members are selected on the merits of their professional competence as capital market participants using financial reporting information and their ability to represent capital market participants' views. The CMAC meets with the IASB representatives three times a year in the IFRS Foundation office. One of those meetings is held jointly with the Global Preparers Forum (GPF). The GPF was created to consult with the international community of preparers. It consists of members with considerable practical experience of financial reporting and established commentators on accounting matters in their own right, or through working with representative bodies in which they are involved. The members are drawn from a variety of industry and geographical backgrounds and are selected by the GPF on the merits of their professional competence and practical preparer experience in order to contribute to the development of high quality of global accounting standards. Moreover other groups were created such as the Emerging Economies Group (EEG) with the aim of enhancing the participation of emerging economies in the development of IFRS Standards; the SME Implementation Group (SMEIG) with the mission of supporting the international adoption of the IFRS for SMEs Standard and monitor its implementation, as well as the Transition Resource Groups (TRG)[7] to inform the IASB about potential implementation issues that could arise in the implementation of a new standard (IFRS, 2015d).

[7] For example, TRG was created for the implementation of IFRS 17 *Insurance contracts* (IASB, 2017a) and another TRG for IFRS 15 *Revenue from contracts with customers* (IASB, 2014a).

In 2013, a new technical advisory body to the IASB, the Accounting Standards Advisory Forum (ASAF), was implemented to achieve more coordination with national and regional standard setters. The IASB had previously entered into bilateral arrangements for co-operation with national standard setters with responsibility for various aspects of the jurisdictional development or endorsement of accounting standards. The IASB had formally entered into such arrangements, in each case in the form of a Memorandum of Understanding (MoU), with national accounting standard setters in Brazil, China, Japan and the United States. After 2012, the number of countries adopting IFRS was expanding significantly, thus complicating the task of maintaining a series of bilateral arrangements. At the same time, in some regions, there were regional organisations to better co-ordinate regional accounting standard setting activity or to provide jurisdictional advice on financial reporting matters. Among these regional standard-setting organisations, we highlight the Asian-Oceanian Standard-Setters Group (AOSSG) and the Group of Latin American Accounting Standard Setters (GLASS). In response to these developments, the Trustees of the IFRS Foundation have recommended the maintenance of a network of national and regional standard-setting bodies as in integral part of the global standard-setting process. ASAF responds to that recommendation by replacing multiple, bilateral MoUs, with a single agreement to be signed by all ASAF members and accommodating regional standard-setting bodies within that arrangement. 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 IFRS around the world has complicated the task of maintaining bilateral MoUs with multiple jurisdictions. Second, many parts of the world have established regional accounting standard setting organisations and forums to offer advice and to discuss matters related to IFRS*" (IFRS, 2015e, p.3). Camfferman (2014) states these regional organisations aim also to be strong interlocutors of the IASB. The ASAF's MoU was made at the inaugural meeting in London (8 & 9 April 2013). This document sets the objectives of ASAF and its operational activities.

Table 1: IASB advisory bodies

IASB advisory bodies	Category of stakeholder
Accounting Standards Advisory Forum (ASAF)	International standard setters
Capital Markets Advisory Committee (CMAC)	Users
Emerging Economies Group (EEG)	Emerging Economies
Global Preparers Forum (GPF)	Preparers
SME Implementation Group (SMEIG)	Area experts
Transition Resource Groups (TRG)	Preparers, auditors and users

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

1.4. The current governance structure of the IFRS Foundation: A transnational governance scheme

As Figure 2 shows, three kinds of bodies are involved in the IFRS Foundation, which have different functions: The *oversight and accountability bodies*, the *standard setting bodies* and the *advisory bodies* (IFRS, 2018). In the following we will briefly define the role of each of them.

The ***oversight and accountability bodies*** include the Monitoring Board[8] and the Trustees of the IFRS Foundation. As mentioned earlier the Monitoring Board was created in January 2009 in order to enhance the public accountability of the IFRS Foundation. It consists of capital markets authorities responsible for setting the form and content of financial reporting. Regarding the Trustees, they are responsible for the governance and oversight of the IASB. However, they are not involved in any technical matter relating to IFRS standards.

The ***standard setting bodies*** include the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee. The IASB is responsible for the development and publication of IFRS standards, including the IFRS for SMEs standard and approving interpretations of IFRS standards, as developed by the IFRS Interpretations Committee.

[8] The current members of the Monitoring Board are representatives of the IASB and the Growth and Emerging Markets Committee of the International Organization of Securities Commissions (IOSCO), the European Commission (EC), Financial Services Agency of Japan (JFSA), U.S. Securities and Exchange Commission (SEC), Brazilian Securities Commission (CVM), Financial Services Commission of Korea (FSC), and Ministry of Finance of the People's Republic of China (China MOF). The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer (IFRS, 2018).

The ***Advisory bodies*** include the IFRS Advisory Council, which is the formal advisory body to both the IASB and the Trustees of the IFRS Foundation. It consists of a wide range of representatives from groups that are affected by and interested in the Board's work. In addition, as mentioned earlier the IFRS Foundation includes other standing advisory bodies and consultative groups such as the ASAF.

Figure 2: IFRS Foundation structure

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

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

1.5.1. International map of IFRS users in the world: The jurisdiction profiles project developed by the IFRS Foundation

After the lack of progress in the direction of a European harmonisation of accounting standards[9], the delegation to a private professional body became the most effective 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

[9] More information about the European harmonisation on section 2.1. Evolution of the European legislation on financial reporting.

states of the European Economic Area, except Switzerland[10] (IFRS Foundation, 2018b, p.4). Furthermore in 2005, Australia and New Zealand also introduced IFRS.

The second major block which adopted IFRS came in 2012 where another 12 countries implemented the global standards for all or most publicly accountable entities (e.g. Russia, Argentina, Nigeria, and Sri Lanka). Dvořák and Vašek (2015) explain the wide implementation of IFRS in these countries by their intention to strengthen a confidence in capital markets and thus encourage activity in them.

Concerning the U.S. case, in 2007, the SEC began allowing foreign companies to compile their financial statements based on IFRS without reconciliation to US GAAP (SEC, 2007). 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.

Before 2012, the IFRS Foundation had never undertaken an initiative in order to keep track of IFRS adoption (Camfferman and Zeff, 2015). During its first decade, the IASB tended to rely on data reported by the large audit firms, notably the IAS Plus website maintained by Deloitte (Camfferman and Zeff, 2018). 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; IFRS Foundation, 2015b). The IFRS Foundation used information from various sources to develop the country/jurisdiction profiles. Indeed, it conducted a survey in collaboration with national and regional standard setters, and 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). The IFRS Foundation addressed some important issues in each profile such as the support for global accounting

[10] Since 2005, IFRS in Switzerland are just permitted but even so, in May 2018, 134 of the 228 companies (59%) whose primary securities listings have been on the SIX Swiss Exchange have used IFRS standards (IFRS Foundation, 2018b).

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.

First, in 2014, the IFRS Foundation posted 122 jurisdiction profiles (Pacter, 2014, p.9). After one-year profiles were completed for 140 jurisdictions (IFRS Foundation, 2015a). At present[11], profiles are prepared for 166 jurisdictions (IFRS Foundation, 2018b). In the following, we provide some statistics and observations about the current state of jurisdiction profiles completed by the IFRS Foundation. The results of the survey are summarized in Table 2:

- A vast majority of the jurisdictions (144) require IFRS for all or most domestic publicly accountable entities (listed companies and financial institutions).
- 12 of the remaining 22 jurisdictions that do not yet require IFRS for all or most domestic listed companies also permit IFRS including Japan, 2 jurisdictions are in the process to move substantially (i.e. convergence, Indonesia) or entirely towards IFRS (i.e. full adoption, Thailand), one jurisdiction requires IFRS for financial institutions but not for listed companies (Uzbekistan). However, there are 7 jurisdictions using national or regional standards.
- 86 of 166 profiled jurisdictions require or permit the use of the IFRS for SMEs Standard.
- 15 of the G20 jurisdictions have adopted IFRS Standard for all or most companies in their public capital markets.
- On 1 January 2019, companies listed on a stock exchange and other publicly accountable companies in the 17 West and Central African jurisdictions that are members of the Organisation for the Harmonization of Corporate Law in Africa (OHADA) began using IFRS Standards in their consolidated financial statements.

[11] Information updated 25 April 2018 on www.ifrs.org.

Table 2: Jurisdiction profiles by region

Region	Jurisdiction Profiles				
	Jurisdictions in the region	IFRS required for all or most companies	IFRS permitted for all or most companies	IFRS required for financial institutions only	using national or regional standards, or in the process of moving for IFRS
Europe	44	43	1	0	0
Africa & Middle East	51	49	1	0	1
Asia and Oceania	34	25	2	1	6
Americas	37	27	8	0	2
Total	166	144	12[a]	1[b]	9[c]
Percentage	**100%**	**87%**	**13%**		

a: Bermuda, Cayman Islands, Guatemala, Honduras, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland and Timor-Leste.
b: Uzbekistan.
c: Bolivia, China, Egypt, India, Indonesia, Macao, Thailand, United States and Vietnam.

Source: Based on IFRS Foundation survey data (2018)

1.5.2. The convergence with the U.S. GAAP

A convergence program between the FASB and the IASB was signed in 2002 through the Norwalk Agreement (FASB, 2002), which had the objective of converging U.S. GAAP and IFRS. It was launched as a short-term project aimed at removing a variety of individual differences between those standards, and therefore make the existing financial reporting standards a fully compatible as soon as practicable. This agreement was reached following the appointment of Robert Herz as a FASB Chairman, who served as a part-time member of the IASB. He brought with him a commitment to convergence, which complemented the objectives of the restructured IASB under David Tweedie (Ong, 2018).

From 2005 onwards, and encouraged by the SEC, the FASB and the IASB intensified their cooperation and displayed specific plans for convergence of their standards in a MoU in 2006 (FASB, 2006; Camfferman and Zeff, 2018). At this phase, the convergence project began to vacillate because both the FASB and the IASB considered that it was essential to affirm their commitment to the relationship. However, they shifted from the strategy of converging standards as this was proving too difficult and moved to a strategy of developing new standards to replace the old ones (Ong, 2018).

In 2008, the Memorandum of Understanding (MoU) was updated (FASB, 2008), with the implementation of a new Road Map that was met with considerable applause, but there were signs that the adoption of IFRS by the U.S. was uncertain. A major obstacle was the 2008 financial crisis (Ong, 2018). Effectively, the eruption of the financial crisis truly coincided with the announcement of the SEC's plans for U.S. adoption of IFRS. A new phase started, characterized by a hectic pace of work, both to face political pressures calling for crisis remedies, and to finish the MoU projects by 2011 in order to provide the SEC a basis for its decision on domestic use of IFRS. Despite arduous efforts by the FASB, major portions of the MoU agenda remained unfinished by June 2011. As opposition to IFRS adoption in the U.S. gained strength, it became clear that this was not a predictable outcome. The SEC let 2011 pass without committing itself, and in 2012 the SEC stated that it was not yet ready to decide. By 2014 the idea of mandatory domestic use of IFRS in the United States was as good as dead (Camfferman and Zeff, 2018). Finally, the convergence project has been a long journey, but, with a disappointing end.

Hussey and Ong (2011 & 2014) and Ong (2018) make an analysis to evaluate the history of the IASB/FASB relationship through identifying successes and failures regarding some projects that were extremely complex (such as stock options and leases). A review of these projects demonstrates not only the complexity facing the two Boards in reaching an agreed standard, but also reinforces the fact that standard setting is extremely difficult. Indeed, to achieve a standard that everyone accepts and that will last forever is an impossibility because economic conditions, business practices and societal values are variable.

One major aspect of the U.S. debate was stock options, i.e. how companies should account for the options. U.S. standard did not require companies to report executive stock options as an expense if they resulted from an issuance of "at the money" stock options. The result was that organisations reported higher profits and directors received benefits without the full knowledge of shareholders. There were some voices demanding that stock options should be expensed, but there were political obstacles preventing this from taking place (see Giner and Arce, 2012). In June of 1993, the FASB issued an Exposure Draft (ED) on stock options that recommended the fair value approach, i.e. options issued to employees should be recorded in the financial statements as compensation expense. Lobbying of Congress took place and the FASB retreated from their recommendation. However, the process of convergence brought about some change. In December 2004, the FASB published FASB Statement 123: Share-based Payment. This requires that the compensation cost relating to share-based payment transactions be recognised in financial statements. In the same year, the IASB issued IFRS 2 *Share-based Payment* (IASB, 2004a). The standard requires an entity to recognise share-based payment transactions (such as granted shares, share options, or share appreciation rights) in its financial statements; including transactions with employees or other parties which are to be settled in cash, other assets, or equity instruments of the entity. Some might argue that there was no convergence as the two Boards were unable to reach full agreement. However, given the domestic resistance faced by the FASB, substantial progress was made. Before the revision, these accounting transactions were poorly regulated and were subject to fraudulent or misleading practices. In fact, when the FASB and the IASB issued similar standards on the treatment of stock-based compensation, financial accounting and reporting considerably improved.

Concerning the accounting for leases, Hussey and Ong (2011) argue that the efforts to bring about a new leasing standard were undertaken more to keep the FASB and IASB relationship alive than for technical or conceptual reasons. The issues surrounding accounting for leases had been present for many years and discussions started in 2006 as part of the convergence project. These led to an extended period of discord and strong indications that the discussions would not produce a converged standard. For instance, the two Boards published a jointly exposure draft Leases in August 2010, but the proposals in the exposure draft did not meet wide acceptance. It became evident that a final, converged agreement would not be achieved. The IASB and the FASB each issued their own standards for leases: IFRS 16 (IASB, 2016) and Accounting standards update No. 2016-02 (Topic 842) (FASB, 2016a), respectively. However, as Giner and Prado (2018) state, despite the differences between the two standards, there are many similarities. Indeed, both reach the same conclusions on the main aspects, both impose the capitalisation of all leases, and both require including operating leases in the statement. Concerning the differences, Giner and Prado (2018) mention the FASB keeps a dual model and retains a distinction between operating and finance leases, which affects the recognition of the lease expense in the income statement (as well as the cash flow statement). The IASB imposes a single model for all leases (in fact it does not refer to operating and finance leases at all).

The above examples point out the many problems facing the FASB and the IASB. The FASB is responsible to national government or organisation (in that case the SEC), while the IASB must satisfy the requirements of many countries and organisations. Indeed, its standards must be universally acceptable and cannot be structured to meet the needs of the U.S.

CHAPTER 2: EU INSTITUTIONAL AND POLITICAL ISSUES IN CONNECTION WITH IFRS

The IASB and IFRS, its standards, have constantly experienced power struggles between the international standard setter and the various global actors, among these confrontations there is one that we pay special attention in this chapter, the one with the EU.

The relationship and confrontation between the EU and the IASB have attracted considerable attention by the academic research literature (e.g. Dewing and Russell, 2008; André et al., 2009; Chiapello and Medjad, 2009; Bengtsson, 2011; Baudot and Walton, 2014; Crawford et al., 2014; 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 the financial crisis (2007-2008); and how the EU managed the divergence between its own institutions in this period.

This chapter concentrates on confrontations within the EU by providing an analysis about the political and institutional pressures generated from the new EU financial reporting initiatives that have been introduced in the last few years. This analysis tries to examine the behaviour of the different EU institutions mainly the European Commission (EC) and the European Parliament (EP) toward multiple topics linked to IFRS (e.g. endorsement stage of IFRS). Historically, both institutions tended to contest the IASB standards (e.g. IAS 39, IFRS 8). To identify the EC standpoint, we take into account (1) the public consultation made in 2014 about the impact of IFRS (2) the conclusions of the international conference of Riga co-organised between the Ministry of Finance of Latvia and the EC that exposed the key findings of the last EC evaluation of the IAS Regulation and (3) the final report of the assessment. To know the EP standpoint, we consider the positions of some of its more active members, by analysing an exchange of letters between two MEPs and Commissioner Hill during 2015. We also consider the studies of academics at the request of the EP (i.e. Bischof and Daske, 2015, as well as Botzem, 2015). In addition, we base our analysis on some legislative texts (See Appendix A).

Our objective here is to compare the EC and EP viewpoints in order to understand their differences towards IFRS in general, and in particular about some issues that have recently emerged in the discussions, such as the notion of European public good, and, the EU's ability to speak with a single voice on the international accounting stage.

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

2.1. Evolution of the European legislation on financial reporting

Before addressing the political and institutional confrontations between the EU and the IASB, we first look into the evolution of the European legislation in financial reporting, since the introduction of the Fourth and Seventh Directives until the EU adoption of IASB standards through the IAS Regulation.

In this part, we discuss how the European accounting legislation has changed since the introduction of the Fourth and Seventh Directives (the Accounting Directives)[12] and summarise the main developments that have affected the process of accounting harmonisation in Europe and the objectives searched during its different steps.

We base on diverse documents published by the European legislator, supported by several researchers who have before contributed on this topic, including those who have had experience within of the EC, such as Professor Karel Van Hulle, a former Head of Unit at the EC.

With the objective to create the European common market where persons, companies, capital, goods and services could move freely, as stated in the Treaty of Rome in the 1960s, the accounting harmonisation process started in Europe as a part of a company law harmonisation programme. One of the principal instruments of that programme was the Fourth Company Law Directive (1978), which established the form and content for individual company financial statements (Baudot and Walton, 2014).

[12] Repealed and replaced by Directive No. 2013/34/EU (European Parliament and the Council, 2013).

The principal objective of the Fourth Directive was to set up a minimum level of harmonisation because of the preference of equivalence over uniformity. The later would not have been possible, but moreover it was not even considered desirable due to variant socio-economic and legal traditions (Van Hulle, 2008; Van Hulle and Hellemans, 2010). However, the comparability of financial statements based on the Fourth Directive played a more limited role than equivalence.

Among the principal provisions of this Directive was the fact that the annual accounts should give a true and fair view of a company's assets and liabilities, this is of its financial position, as well as the profit or loss obtained in the period. The publication of these documents containing equivalent information, combined with specific disclosure in the notes concerning the different valuation methods used, should make possible to compare the information. Although different, the financial statements were considered equivalent for listing purposes. The Fourth Directive was followed by the Seventh Company Law Directive (1983) concerning consolidated accounts.

Although it was agreed setting up the Contact Committee composed of representatives of the Member States to make easier the harmonised application of the Directives, negotiations were difficult. Haller (2002, p.157&159) exposes several reasons, in particular the unsatisfactory level of comparability and equivalence between financial statements within Europe and the conflicting perception of accounting in the Member States, implying different interpretations of the true and fair view principle from one country to another.

Whereas a serious risk of accounting divergence in Europe threatened to question the harmonisation level under the Accounting Directives, it was agreed that efforts should continue in order to progress along the path. Therefore, in 1990 the EC decided to create a new advisory body called the Accounting Advisory Forum[13] chaired by itself. Its principal function was to advise the EC on accounting matters and in particular on possible ways to facilitate further harmonisation. Other important roles were given to the Forum such as advising the EC on technical solutions to resolve the problems related with the implementation of the Accounting Directives and providing guidance on the position to be taken in international accounting harmonisation debates (Van Hulle, 2004).

[13] This Forum was created at the conference that the Commission organised in 1990 on the future of harmonisation of accounting standards in the EU. It was composed by national standard setters and European organisations of users and preparers of accounts.

Before discussing the mandatory adoption of the Regulation No. 1606/2002, it is important to make a short preview of the main communications published by the EC in the 1990s. This period was characterised by the end of regional harmonisation and the beginning of a new accounting strategy in Europe. Several studies have investigated this period (Flower, 1997; Haller, 2002; Schaub, 2005; Van Hulle 2004 and 2008) and more recently Alexander and Eberhartinger (2010) and Baudot and Walton (2014).

Alexander and Eberhartinger (2010) confirm that before the publication of the Regulation No. 1606/2002, the key documents to understand the EC views were the EC communications of 1995 and 2000. After providing an interesting comparative analysis between these two documents, the authors suggest that the EC Communication of 1995 aims to reach three objectives:

- A new EU approach through its intent to align the harmonisation efforts with the global international harmonisation;
- A preference for the standards issued by the IASC. As noted by Van Hulle (2004, p. 358), the EC chose IAS over U.S. GAAP because the American standards had been destined to satisfy the needs of the American capital market without any European input; and
- A greater influence on the IASC from the EU.

Concerning the EC Communication of 2000, Alexander and Eberhartinger (2010) conclude that it develops and extends the proposals of the earlier document. It focuses on the need for an EU influence by exercising oversight via an endorsement process: *"In order to provide for the necessary public oversight, an EU endorsement mechanism is needed. The role of that mechanism is not to reformulate or replace IAS, but to oversee the adoption of new standards and interpretations, intervening only when these contain material deficiencies or have failed to cater for features specific to the EU environment. The IAS used in the EU will be the standards endorsed by this mechanism"* (European Commission, 2000, Para. 20).

In the same way, Van Hulle (2008) adds that the principal difference between the aforementioned Communications is that the first one had an external focus by making easy the access of EU companies to the international capital market, and the second focused on the situation within the EU by implementing the Lisbon conclusions[14] which mainly derived from the Financial Services Action Plan (FSAP)[15] with the purpose of creating an efficient and transparent EU capital market.

In addition, during their analysis of the FSAP document, Baudot and Walton (2014) note that it aimed to fulfil another objective, which was the enhancement of comparability in financial reporting. The FSAP document states: *"Comparable, transparent and reliable financial information is fundamental for an efficient and integrated capital market. Lack of comparability will discourage cross-border investment because of uncertainty as regards the credibility of financial statements"* (European Commission, 1999, p.7).

Indeed, on the one hand the EU made a substantial legislative effort to deal with the growing pressure from capital markets and, on the other hand, to solve the problem related with the difficulty to transpose the Accounting Directives into national law. Therefore, the EC decided to use another legal instrument named: A Regulation.

Comparing this new instrument with the Directive, it is useful to remark that the Regulation can be implemented directly on the entities of all Member States without the intervention of national legislators. In this setting, Van Hulle (2008) confirms that only a Regulation could ensure the uniformity of standards application and minimise the risk of amending or imposing additional requirements by Member States. This was especially important for large companies in the EU that looked for capital abroad and wanted to have a common market language. Besides it also guaranteed a common application deadline, however the transposition of directives into local legislations varies in terms of number of years in the different countries.

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[14] At the Lisbon Special European Council (European Council, 2000), the Heads of State and Governments of Member States decided to set a tight timetable so that the Financial Services Action Plan should be implemented by 2005.

[15] As summarised by Schaub (2005, p.611), the FSAP (European Commission, 1999) was a regulatory reform package, composed of forty-two (42) separate measures divided into three levels of priorities, with the objective to set up a fully integrated European financial market. The Plan was also a response to the growing importance of capital markets for corporate finance in the EU. One of the main thrusts of the Plan was therefore to improve the quality of financial information in the EU through a new reporting strategy.

2.2. Regulation No. 1606/2002: A response to the new needs of EU listed companies

Jermakowicz and Gornik-Tomaszewski (2006) state the pronouncement of the EC to adopt IAS through the Regulation No. 1606/2002 (IAS Regulation) could be seen as the most important thing for global accounting convergence. Indeed, this decision introduced important changes to financial reporting in Europe and directly affected the financial statements of about 7000 EU-listed companies.

Those companies governed by the law of a Member State and falling within the scope of application of IAS Regulation have to prepare consolidate financial statements by using endorsed[16] IFRS standards for each financial year starting on or after 1 January 2005 (article 4 of the IAS Regulation).

However, Article 5 of the IAS Regulation gives the possibility for the Member States to extend this scope by permitting or requiring:

(i) Listed companies, to prepare their individual annual accounts in accordance with international standards.

(ii) Non-listed companies, to prepare their consolidated accounts and/or individual annual accounts in accordance with IAS.

Furthermore, the application of endorsed IFRS standards in the EU was extended to third country issuers through the Prospectus and Transparency Directives:

(i) The Prospectus Directive (European Parliament and Council, 2003), implemented by the Prospectus Regulation (European Commission, 2004a), concerns to wishing third country issuers that want to make a public offer of securities in the Community or their securities to be admitted to trading on a regulated market (article 20 (1) of the Prospectus Directive and Para. 20 of the preamble of Prospectus Regulation).

(ii) The Transparency Directive (European Parliament and Council, 2004) established requirements in relation to the disclosure of periodic and ongoing information. It refers to issuers whose securities are already admitted to trading on a regulated market situated or operating within a Member State (article 1 of the Transparency Directive).

[16] See section 2.2.1. The endorsement process.

Enriques and Gattti (2007) confirm that the Prospectus and Transparency Directives were two of the main measures adopted by the EC between 2003 and 2004, which fell within the policy and harmonisation choices made by the EC in the implementation of the FSAP. Indeed, under these legal instruments third country issuers had a transitional period in which they were exempted from preparing their financial statement to the financial year starting on or after 1 January 2007[17].

In this transitional exemption period, the issuers had the choice to prepare their financial statements, in the form of prospectus statement (i.e. within the Prospectus Regulation) or annual and half-yearly financial reports (i.e. within the Transparency Directive) under IFRS, or in accordance with third country GAAP which were "equivalent" to the EU endorsed IFRS. Transitional arrangements were applied under Article 35 in the case of Prospectus Regulation and under Article 26 (3) in the case of Transparency Directive.

In connection with these legal measures, Article 23(4) of the Transparency Directive required the EC to set up a mechanism for the determination of the equivalence of the information. Accordingly, on 21 December 2007, the EC adopted the Regulation No. 1569/2007 (European Commission, 2007) which laid down the conditions for acceptance of third country accounting standards for a limited period expiring on 31 December 2011. Thus Article 4 (1) states: "*Third country issuers may be permitted to use financial statements drawn up in accordance with the accounting standards of a third country in order to comply with obligations under Directive 2004/109/EC and, by derogation from Article 35(5) of Regulation (EC) No 809/2004, to provide historical financial information under that Regulation for a period commencing any time after 31 December 2008 and expiring no later than 31 December 2011*" (European Commission, 2007).

To put the Regulation No. 1569/2007 into practice, the EC requested the technical advice of the Committee of European Securities Regulators (CESR)[18] regarding the assessment of "equivalence" of different third country GAAPs. The EC adopted two other legal measures (i.e. Commission Regulation (EC) No. 1289/2008 and Commission Decision No. 2008/961/EC). After this consultation CESR recommended the acceptance of the financial

[17] On 4 December 2006, the Commission adopted two Regulations to postpone this date until 1 January 2009. [See Commission Regulation (EC) No. 1787/2006 and Commission Decision (EC) No. 2006/891].

[18] Since 2011, this institution has been replaced by ESMA.

statements using GAAPs of China, Canada, South Korea and India on a temporary basis, being the 31 December 2011 the deadline.

Nonetheless, the EC extended this date until 31 December 2014. Thus, Preamble Para. 3 of the Regulation No. 310/2012 states: *"The Commission evaluated the usefulness and functioning of the equivalence mechanism and concluded that it should be extended for a period of 3 years until 31 December 2014...This is necessary in order to provide legal certainty to issuers from the relevant third countries listed in the Union and avoid the risk that they might have to reconcile their financial statements with International Financial Reporting Standards (IFRS). The provision of retroactivity thus alleviates any potential additional burden on the issuers concerned".* (European Commission, 2012).

2.2.1. The endorsement process

The EU decided to delegate the production of accounting standards to a private authority, i.e. the IASB, but introduced a mechanism to control the standards to be used in its jurisdiction, the so called "endorsement process". Chiapello and 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 IASB standards offered the possibility of being rapidly recognised in international financial markets. The final output of the delegation of European public interest to the IASB was the adoption of the EC Regulation No. 1606/2002, known as the IAS regulation (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 compete on an equal footing for financial resources in the world capital markets"* (European Commission, 2015a, p.3).

However, to guarantee at least some control over the standards to be used in the EU, the IAS Regulation established an endorsement mechanism (Figure 3) for all standards, interpretations or amendments to them, which involves many EU institutions. Thus, after a request of advice from the EC, EFRAG a private body gives an "endorsement advice". EFRAG is composed by technical experts which would advise the EC on whether a standard should thereafter be endorsed for use in Europe, and would engage with the IASB upstream of the issue of standards (Van Mourik and Walton, 2018). After the EFRAG's advice, if the EC aims to endorse, it prepares a draft implementing measure which is submitted for voting to the ARC (a Committee composed of representatives from relevant Member State authorities). If the vote is positive, the EC submits a draft implementing measure to the Council and the European Parliament for a three-month scrutiny period. Finally, the EC adopts an endorsing regulation (European Commission, 2015b).

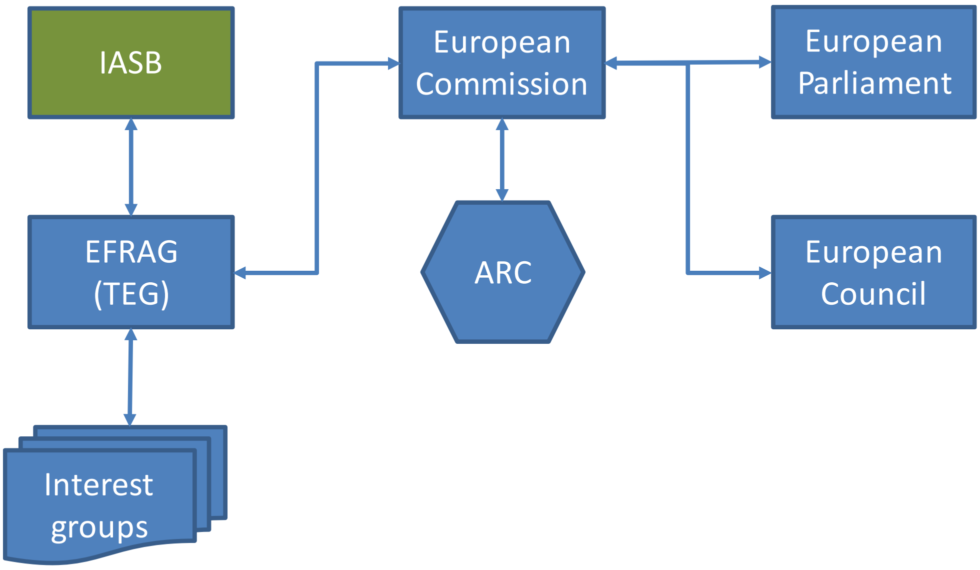
Before being endorsed the standards must meet certain conditions:

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.

Figure 3: The EU endorsement process



<u>Source</u>: Maystadt Report (2013)

2.3. Political and institutional analyses

As pointed out by Baudot and Walton (2014, p.320), the political analysis 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 organisational level (national accounting standard setters, advisory bodies, professional and industry associations); and at constituent level (i.e. individual business and investor interests)*".

Besides the political analysis, the institutional analysis is also useful to study the influence on accounting standard setting and power relations. Arnold (2009, p.4) argues 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 internationalisation of financial accounting practice*".

Regarding the EU, since the 2008 financial crisis, the IASB has received much political criticism (Burlaud and Colasse, 2011; Botzem, 2014). Institutional arrangements created by the EU at the time of crisis prompted some researchers to investigate the power struggles during this period (e.g. Dewing and Russell, 2008; André et al., 2009; Chiapello and Medjad, 2009; Bengtsson, 2011; De Bellis, 2011; Baudot and Walton, 2014; Crawford et al., 2014; Palea, 2015).

2.4. Political and institutional relationship between the EU and the IASB

Despite the initial significant boost from the EU in the recognition of the IASB as the global accounting standard setter (input legitimacy) and after the adoption of IFRS as worldwide accounting standards (output legitimacy), the relationship between the EU and IASB has not always been set fair. The 2008 financial crisis made it worse by generating a serious confrontation (Baudot and Walton, 2014, 330-331).

The history between the IASB and the EU started relatively well because in June 2002, EFRAG advised the EC to endorse all existing standards *en bloc* (EFRAG, 2002). However, the problem began in 2003, when the ARC suggested the adoption of all IASs except IAS 32 *Financial Instruments: Presentation* (IASB, 2003a) and IAS 39 *Financial Instruments:*

Recognition and Measurement (IASB, 2003b). The ARC vote was followed by a Regulation in which the EC endorsed all standards except the IAS 32 and IAS 39 (European Commission, 2003). Botzem and 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 and Russell (2008, p.249) argue that this was mainly due to the controversial *fair value*[19] principle and some of its applications which were inconsistent with European law because the Fourth Directive did not permit full fair valuation of all liabilities. After the IASB revised IAS 39, EFRAG did not issue any advice whether IAS 39 should be endorsed or not because of diverging opinions within the body (EFRAG, 2004). Thus, voting on IAS 39, five members supported endorsement of IAS 39, but six members opposed endorsement, and in that period to oppose endorsement a two-third supermajority was required. Consequently, there was no advice on IAS 32. Subsequently, in December 2004, IAS 32 was not really endorsed either and the ARC made two carve-outs in IAS 39. 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 EC 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, 2004b). After the second revision of IAS 39 by the IASB, the EC resolved the first carve-out in 2005 (European Commission, 2005).

From the controversial endorsement of IAS 39 two important lessons about the future role of the EU in the global accounting standard setting have been learnt. Firstly, the carve-outs show that the EU endorsement mechanism can be a real 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, and with the initial idea of accepting IFRS as the supermajority rule suggests, what happened with IAS 39 indicates that the endorsement of future standards could be more difficult than initially perceived. Baudot and Walton (2014) acknowledge that this difficulty is principally due to the institutional arrangements created by the EU which present many opportunities to exercise influence. Not only the EU institutions involved in the endorsement process, but also other institutions and networks of individual

[19]After the financial crisis a vigorous debate about the pros and cons of *fair value* accounting has attracted a broad research attention (see, e.g. Ryan, 2008; Laux and Leuz, 2009; Nobes, 2015; Palea, 2015).

actors who wish to influence standard setting outcomes may become active in that process. In the following we will address some examples.

As mentioned above, since the 2008 financial crisis, political criticism against IFRS 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 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 put pressure on two French Presidents with the aim to influence IFRS[20]. The first time in 2003 with Mr. Jacques Chirac when they persuaded him to send a letter to the EC in order to ask the IASB to modify IAS 32 and 39 by highlighting their potential harmful consequences. After the financial crisis, in a context of increasing political pressure in Europe to alter IFRS, French banks did another tentative of lobbying by persuading Mr. Nicolas Sarkozy to ask Mr. René Ricol, a former IFAC President to give an opinion about how IFRS places European banks in an unfavourable position in relation with their U.S. counterparts.

Another extreme example where the EU has faced the divergent views between its institutions, mainly EP and EC, in their temptations to contest the authority of the IASB is analysed by Crawford et al. (2014). The authors examine the highly politicised debate concerning the adoption of IFRS 8 *Operating Segments* (IASB, 2006). Once the endorsement was approved on February 2007 by the ARC and the standard was ready to enter European law, the EP interposed to try stopping it (Baudot and Walton, 2014). The EP criticised the IASB for the “Americanisation” of IFRS by following the approach adopted by the FASB in the case of SFAS 131. Indeed IFRS 8 is 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 EC, as it was argued 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

[20] French banks have to keep some statement in public sector companies.

requiring the EC to conduct an impact assessment prior to IFRS 8 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 phases of IFRS 9 were published in 2009 and 2010 by introducing "new classification and measurement requirements". In 2013, the IASB published another phase “new hedge accounting model”. The final version of IFRS 9 *Financial Instruments* (IASB, 2014b) was published in July 2014 and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). It replaced the earlier versions of IFRS 9 and completed the IASB’s project to replace IAS 39. Baudot and Walton (2014) confirm that the confrontation between the EU and IASB did not stop, and that from the first phases of IFRS 9, indeed when the standard was put forward to the ARC by the EC, 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 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 what the rest of the standard would look like, even though all phases of IFRS 9 would have been submitted individually. Finally, after several years of technical work and consultations with stakeholders, the IFRS 9 has been endorsed on November 2016 to be applied in the EU since 1 January 2018.

Other issues related with the work of the IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee, IFRIC) was also a subject of competing interests. IFRIC 12 *Service Concession Arrangements* issued in 2006 created much debate as well. Indeed, IFRIC 12 ruled that where ownership of the infrastructure asset passed to the government sponsor in return for the right to raise future revenue, the concession operator should recognise an intangible. This approach was inconsistent with the rules of some countries, and therefore caused a considerable resistance, especially from Spain, where concession operators had recognised as a tangible. In fact, Spain argued this would have important economic consequences because banks would apply less favourable lending rules for an intangible in comparison to a tangible asset. After many meetings and a long time spent debating this issue, EFRAG finally came to get an absolute majority. In fact, EFRAG issued a favourable endorsement advice in March 2007, accompanied by dissents from three out of twelve TEG members. Spain continued to oppose the endorsement of the IFRIC 12 through the ARC, but was unable to collect a blocking minority.

In the case of IFRIC 3 *Emission Rights* issued in 2004, it was one of the issues that the IASB was slow to address in relation with the preparation of the EU adoption of IFRS. Indeed, it was a need for some guidance on how to account for the emissions trading scheme that the EU had initiated in that period. Consequently, The IASB asked the IFRIC to issue an Interpretation, rather than a new standard. The scheme provides for companies that emit greenhouse gases to be given a reducing annual allowance for authorised emissions. Companies exceeding their allowance have to buy more. On the other hand, those not using their allowance can sell on the market. IFRIC 3 said that allowances should be recognised as an intangible when acquired, and measured at fair value, and that the obligation to surrender the rights should be recognised progressively as emissions took place, being measured at fair value also. However, European constituents estimated this was a conflicting solution, since the use of fair value measurement at different times meant that the allowance received and the allowance subsequently surrendered could be measured differently, giving rise to a profit or loss. Economically there was neither a profit nor a loss. IFRIC 3 was not endorsed by EFRAG and was unexpectedly withdrawn by the IASB in 2005 (Baudot and Walton, 2014).

2.5. Recent political issues within the EU and future outlook

2.5.1. The EU initiatives regarding financial reporting

Over the recent years, the EC launched two important initiatives in the area of financial reporting. In 2013, the EC initiated an evaluation of IAS Regulation. Before dealing with this initiative, we first consider another important action initiated 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, Mr. Michel Barnier appointed Mr. 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, and thus achieving the objective of Europe speaking with a single voice (European Commission, 2013).

After conducting a series of interviews and consultations with stakeholders, Mr. Maystadt wrote his final report. The main problem raised by Mr. Maystadt was the weak influence of EFRAG on the international debate because of tense relations with the national standards setters of the largest Member States. As solutions, Mr. Maystadt proposed three options in order to reform EFRAG:

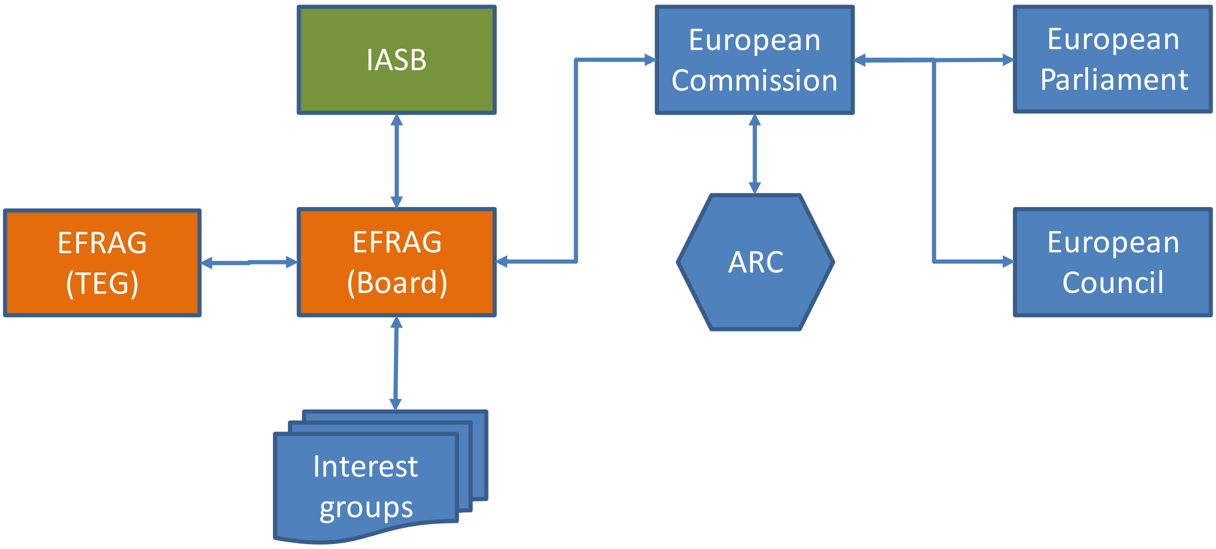
- **option 1**: transforming EFRAG.
- **option 2**: transferring the responsibilities of EFRAG to ESMA (European Securities and Market Authorities).
- **option 3**: replacing EFRAG by an agency of the European Union.

The preferred option of Mr. Maystadt was the restructuring of EFRAG (option 1), because it received maximum support from the stakeholders, and it was the least burdensome. As the author states: "*EFRAG would remain a private organisation and the Commission, as a guardian of the European 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). This was the situation implemented (as explained in next section).

Then, 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 based on three pillars. In the first pillar, European public institutions (members from ESMA, EBA, EIOPA and the ECB, respectively) should be included; in the second, European stakeholder organisations should be included, and in the third pillar, National standard setters should be part of the Board. In this composition, the new Board would determine the positions of EFRAG. So far, this task was previously attributed to the Technical Expert Group (EFRAG TEG). Subsequently, in the new structure, EFRAG TEG would be limited to the role of adviser to the new Board. So, the structural reform of EFRAG proposed by Mr. Maysdadt was more political than technical (Figure 4). This could seriously jeopardise the technical discussions between the IASB and EFRAG TEG, which is called to play a secondary role in the new architecture of the body.

In addition to the recommendations for reforming EFRAG, Mr. Maystadt recommended also the EU to clarify the current criteria of the IAS Regulation to endorse any IFRS. In particular, he advised to add other criteria to clarify the public good concept along the following idea: "*the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the Union*" (Maystadt, 2013, p.10). He also was keen to maintain the meetings between EFRAG members and representatives of all NSS in Europe; it is acknowledged that these meetings are important especially for smaller Member States. 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 the NSS and other European bodies.

Figure 4: The EU endorsement process after the Maystadt reforms on EFRAG



<u>Source</u>: Maystadt Report (2013)

The second key initiative that the EC agreed at that time was the evaluation of the IAS Regulation. This is Regulation No. 1606/2002. The evaluation process took place by means of a public consultation, conducted between August and November 2014, which is about 10 years after its implementation (European Commission, 2014a). Besides, the EC relied on the assistance from an informal expert group composed of European stakeholder organisations, various NSS and ESMA (see European Commission, 2014b). It also discussed the initiative with the EU Member States, within the ARC.

In June 2015, the EC reported the EP and the Council on the conclusions of the evaluation of the IAS Regulation (European Commission, 2015a). The report was accompanied by a

Working Document with more detailed information produced by the Commission Staff, which deals with several issues (European Commission, 2015b).

- 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 U.S. 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).

2.5.2. Outcomes from the EU initiatives

Regarding the public consultation about the evaluation of the IAS Regulation, the EC received 200 contributions (see Table 3). In terms of nature of the stakeholders, the respondents were preparers and users of financial statements; accountants and auditors (including audit firms); public authorities (including NSS and the European supervisory authorities); private individuals; and others (e.g. academics). 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 of responses, 46 of them were anonymous (including 20 from companies and 12 from individuals).

Concerning the geographic origin, the largest number of responses came from the global and/or EU-wide organisations (26%) and the single-country analysis showed that most respondents came from three Europeans countries (43%): in which Germany (17%), United

Kingdom (15%) and France (11%), 29% came from 22 other European countries[21]. A very few responses came from the rest of the world (2%)[22].

Table 3: Type of respondent per profile

Profile	Respondents	%
Preparers	93	**46%***
Accounts/Auditors	30	**15%**
Public authorities	27	**14%**
Private individual	24	**12%**
Users	16	**8%**
Others	10	**5%**
Total	**200**	**100%**

(*): This percentage includes 6% of companies which are both preparers and users of financial statements.

The vast majority (93%) of comments were positive and only nine responses were negative that mainly came from the U.K. 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%);
- IFRS 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 and global

[21] 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.

[22] Which represent 3 responses from Brazil, Canada and Kenya.

level (63%); improved investor protection (71%); and helped maintain confidence in financial markets (67%).

The reactions were less positive regarding the trade-off between benefits and costs of implementing IFRS (60%). One recurrent argument 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 of the EC evaluation of IAS Regulation and the progress of the Maystadt reforms were presented on 18 June 2015, in an international Conference[23] co-organised between the Ministry of Finance of Latvia and the EC, in Riga (Latvia) "The Riga meeting".

There, Mrs. Valérie Ledure from the EC exposed the conclusions of the evaluation by putting forward some recommendations given by the stakeholders, such as, for the EU the convergence IFRS/US GAAP remained seen as important but a high quality of IFRS was preeminent. Most stakeholders considered that the endorsement process was working well but there were some practical improvements to do through the enhancement of the collaboration between EU institutions (ARC, EP, EC). However, they highlighted the paramount role of effect analysis both at the level of IASB and EFRAG, which helps understanding the effect of each standard. In addition, the stakeholders suggested 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 European Enforcers Coordination Sessions (EECS)[24] and developing a common European approach on the enforcement of financial information. Finally, the stakeholders encourage the pursuit of EFRAG reforms which still are in the process of implementing.

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[23] The conference is available from: http://www.fm.gov.lv/en/s/accounting_policy/international_conference_on_evaluation_of_the_ias_regulation/50247-international-conference-on-evaluation-of-the-ias-regulation-potential-impact-on-business-development-and-globalization

[24] A forum organised by ESMA that includes 41 European enforcers from 28 Member States and 2 countries in the European Economic Area (EEA) with responsibilities in the area of supervision and enforcement of financial information.

Concerning the progress of the Maystadt recommendations, and in particular the EFRAG reorganisation, the EFRAG General Assembly of 31 October 2014 appointed the EFRAG Board acting President and its Members (EFRAG, 2014). But contrary to the Maystadt recommendation that proposed a new structure of EFRAG Board in three pillars, the new organisation maintains two pillars, the first one: European stakeholder organisations[25] and the second: NSS because the European supervisory authorities (ESMA, EBA, EIOPA) and the ECB refused their representativeness in EFRAG Board, choosing only to be appointed as observers with speaking rights. 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), which differs considerably to the prior voting system at EFRAG TEG, and the request to make public dissenting views.

Under its new governance structure, EFRAG has started to provide the EC with an assessment of the cost/benefit trade-off of any new IFRS pronouncement that the EC could use to support its endorsement decision. Furthermore, following recommendations in the Maystadt report, EFRAG has strengthened its assessment on whether a new standard is conducive to the public good. This will include the interaction with financial stability and economic growth. The Maystadt report also recommended that EFRAG in providing endorsement advice could be asked to analyse more thoroughly the compliance with prudence. In this respect, the Board of EFRAG has discussed the basis on which it would provide an explicit assessment of prudence in the endorsement process. The preliminary conclusion is that prudence should encompass both the exercise of a degree of caution in making judgments under conditions of uncertainty and the notion that it may be appropriate, under some circumstances, to have asymmetry in recognition of gains and losses (European Commission, 2015c). In its request for endorsement advice concerning IFRS 9 *Financial Instruments* (IASB, 2014b), the EC after consulting the ARC, identified a number of specific issues, including the public good notion, that needed to be analysed by EFRAG. It also asked for an assessment of the use of fair value and whether the changes brought could have detrimental effects on financial stability. EFRAG started working on the draft endorsement advice of IFRS 9 already in 2014. It issued a draft

[25] Including: European Business Federations (BUSINESSEUROPE), European Banking Federation (EBF), European Association of Cooperative Banks (EACB), European Savings and Retail Banking Group (ESBG), European (re)insurance Federation (Insurance Europe), Federation of European Accountants (FEE), European Federation of Accountants and Auditors for SMEs (EFAA), European Federation of Financial Analysts Societies (EFFAS).

endorsement advice on 4 May 2015 where it seeks stakeholders` views both on its assessment of the standard against the technical criteria in the EU and on its assessment of whether IFRS 9 is conducive to the European public good. The final endorsement advice of IFRS 9 was issued in September 2015 (EFRAG, 2015a).

Moreover, during 2014 EFRAG started the preparation of the endorsement advice of another major standard IFRS 15 *Revenue from Contracts with Customers* (IASB, 2014a). The draft endorsement advice included an open question to constituents as to whether they had reasons to believe that IFRS 15 would not be conducive to the European public good. In finalising the endorsement advice, the EFRAG Board took into account the feedback of constituents and considered that the new standard was conducive to the European public good. It was found that IFRS 15 could be expected to have a positive impact on the cost of capital whereas it had not identified any potential negative effect for the European economy. The final endorsement advice issued in March 2015 included this assessment (EFRAG, 2015a).

2.5.3. Funding issues

The IASB reliance on private funding (mainly from big accounting firms) has always been a constant matter of debate (e.g. André et al., 2009; Larson and Kenny, 2011; Botzem, 2015; Nölke, 2015; Walton, 2015). However, at the end of 2008, a reconfiguration of the financing scheme occurred. André et al. (2009) mention that the Sarbanes Oxley Act funding requirements marked the start of a change in attitude towards the financing of the IASB. Indeed, Europe heavily hit by the financial crisis (2007-2008), realised it had little control over IFRS. There was concern about a private sector body writing standards for Europe, and about the fact that the Big Four auditing firms contributed with a substantial percentage on the IASB budget (Walton, 2015).

As a result, in 2009, the EU took the decision to increase considerably its participation in financing the IFRS Foundation through a programme which covered the period 2010-2013 (European Parliament and the Council, 2009a). 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....*".

In 2014, the European public and private contributors provided one third of the IFRS 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). In 2017, the main source of the IFRS Foundation income were financial contributions from public authorities around the world (52%) (IFRS Foundation annual report of 2017).

2.5.4. Reactions about what is happening in Europe

Before discussing some reactions to the European initiatives, we will first continue our political and institutional analyses by dwelling a little longer on IFRS 9 (see the section 2.4) to know what happened after the EFRAG gave its endorsement advice. It all started in the U.K. when a group of 10 long-term shareholders called Local Authority Pension Fund Forum (LAPFF)[26] declared that the focusing of IFRS on neutrality over prudence had dangerously weakened the implementation of true and fair accounting in practice (LAPFF, 2014). More attention was given to the concerns of the U.K. 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 U.K. and Republic of Ireland, but it will also have misinformed the position of EFRAG, as well as the Commission, for the whole EU.*", declared Mr. Kieran Quinn the Chair of LAPFF. Then, on 23 September 2015, the LAPFF accused EFRAG of having misread EU legislation in its broadly positive endorsement advice to the EC on IFRS 9 (LAPFF, 2015b). However, Véron (2015) argues that the criticisms received from the U.K. long-term

[26] Sarasin & Partners LLP, London Pensions Fund Authority, Local Authority Pension Fund Forum, USS Investment Management Ltd, RPMI Railpen, Environment Agency Pension Fund, Threadneedle Investments, Royal London Asset Management, GO Investment Partners, U.K. Shareholders' Association.

stakeholders towards IFRS 9 are not representative of the U.K. investor community as a whole.

In the context of reviewing the EU criteria for endorsement of IFRS 9, two academics Bischof and Daske were asked to perform a study for the EP. Their conclusions state that the three criteria of the EU endorsement of IFRS (true and fair view, conducive to the European public good and qualitative criteria) are vague by nature. This 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, Bischof and Daske (2015) declare that the vagueness complicates a clear-cut ex post endorsement recommendation and makes the endorsement process susceptible to firms lobbying for special interests. In addition, Bischof and Daske (2015) review the new components (financial stability and economic development) that Mr. Philippe Maystadt recommended adding to the public good criterion. They mention that the implementation of the economic development is too vague for the implementation of European public good 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. They also believe that the only feasible way to assess the European public good is by means of a comprehensive cost-benefit analysis that considers the reactions of different stakeholders to the proposed standard.

At the Riga meeting (2015), Mr. Theodor Dumitru Stolojan, a Romanian MP commented the final report of the EC evaluation of IAS Regulation. He stated that it contained nothing spectacular. Furthermore, he also asked the EC for an engagement to be returned to the EP with a statement of intent to clarify the understanding of the European public good concept. On 16 July 2015, two MEPs: Mr. Syed Kamall, from U.K. and Mr. Sven Giegold, from Germany sent a letter to Commissioner Hill to raise some concerns. Among them, they requested the EC for a ful 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 Mr. Philippe Maystadt. In addition, Mrs. Françoise Flores the EFRAG chairman from 2010 to 2016 declared in the EFRAG annual report of 2015 (EFRAG, 2015b, p. 6-7) that during her period as chair: "*EFRAG's assessments were limited to an analysis of whether new IFRS were meeting the technical criteria in the IAS Regulation*". Mrs. Flores added that until 2012, requests from the EC for endorsement advice did not include the public good criterion:

"*Assessing whether an IFRS would be conducive to the European public good was…totally new territory*". In fact, Mrs. Flores said that endorsement advice took the view that if the standard met the technical criteria, it was conducive to the public good, absent any contrary evidence (Van Mourik and Walton, 2018).

Commenting the EC's evaluation of the IAS Regulation, Walton (2015) says that the European attitude over the IASB and its standards continues to evolve. In fact, the EC considers that its commitment to IFRS should be evidenced by establishing permanent financial contributions to fund the IFRS Foundation, proportionate to a contributor country's GDP. Thus, the EC urged the IFRS Foundation to review its governance structure to ensure that the use of IFRS and the existence of a permanent financial contribution are conditions for membership of the governing and monitoring bodies of the IFRS Foundation. In Nobes's view (2015), even though the responses to the EC 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".

Regarding 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 does not work in a coordinated way, and this diminishes the weight of EU internationally. Along these lines, Botzem (2015) highlights the unclear collaboration between EC, ECB and ESMA in the formulation of a common European position and adds that there is no single forum where fundamental issues of European accounting policy are publicly discussed. The author mentions the high complexity of different standardisation projects going on at the same time, as well as the high entry barriers that stakeholders perceive, which cause their rarely participation in public discussions. Moreover, Cairns (2015) says European countries have never expressed a single view on most accounting issues, chiefly due to the differences within Europe. Nevertheless, the author thinks perhaps with its 10 years of experience in applying IFRS, Europe might express a desire for the change, although prior experiences suggest that "a single European voice" will not be easy to reach. As a first step, Cairns (2015) proposes to focus on common positions rather than on the differences.

2.5.5. Discussion about the future: political vs. technical issues

As part of its intervention in the first session of the Riga meeting, Mr. Patrick De Cambourg, the actual President of the French Accounting Standards Authority said: "*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. He 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.

After analysing the present situation of the EU financial regulatory institutions, Véron (2015) recommends the EU to make a strict separation between three important matters: (1) the discussion about individual standards, (2) the standard setting organisation and its governance, and (3) the funding arrangements. Additionally, the author states it is not ordinarily the role of the EP to intervene directly in accounting standard setting decisions. Nevertheless, he recognizes that EU arrangements have provided the EP a voice in the IFRS adoption process. Véron (2015) concludes this voice should be used actively only in rare cases when all other actors in the chain of decision-making have failed to achieve the objective of high-quality standards, and to safeguard the interests of users of financial information.

In fact, the EP has continued to use its voice by a means of another letter sent to Commissioner Hill on 19 of March 2015, in which Mr. Kamall and Mr. Giegold express a lack of clarity about how the IFRS Foundation spends EU funds. They say: "*As a recipient of EU funds and as a body responsible for the setting of accounting standards with such far-reaching implications for the European companies, it would be appropriate for the EC to follow through its commitment to assess the structures and functioning of the IFRS Foundation itself*". Furthermore, they state: "*EU funds should not be sent on marketing or advertising of IFRS in third countries, or for first class travel by IASB Board members*". Finally, both MEPs urged the EC to ask the IFRS Foundation to fully disclose the costs and expenses incurred in the past five years.

On May 2016, the EP went even further through a draft report prepared by Mr. Theodor Dumitru Stolojan (European Parliament, 2016). It contains 101 motions for a resolution in which certain MEPs submit some propositions even stronger. Thus, Mr. Fabio De Masi proposes the transformation of EFRAG into a public agency by 2020, Mrs. Pervenche Barès proposes the integration of IFRS Foundation and IASB into Public International Institutions, and Mr. Sven Giegold suggests more involvement of EP in the standard setting process.

According to the past and actual institutional environment of financial reporting regulation, the upcoming situation seems to be even more difficult. Firstly, because the divergence between the EP and the EC still exists. 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 criticisms from the U.K. long-term investors, we argue the EU might 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.

We conclude this chapter with a reference to the IFRS 17 *Insurance Contracts* (IASB, 2017a) whose endorsement has been problematic as well. Indeed, after two years of its issuance, IFRS 17 have not been endorsed yet in the EU. We will give details in the empirical part of this thesis that is in chapter 3, where we analyse lobbying practices during the standard setting process of IFRS 17.

CHAPTER 3: LOBBYING ON THE INSURANCE CONTRACTS (IFRS 17)

After analysing the influence on the standard setting process through the political and institutional pressures exerted on the IASB, in this chapter we focus on the participation of constituents. They come from different interest groups and from different geographical origins that significantly contribute to the procedural legitimacy of the IASB (Suchman, 1995; Richardson and Eberlein, 2011). Thus, this chapter studies the motivations and characteristics observed among stakeholders that participate in the IASB standard setting process. To that end, we use comment letters that are considered as a good proxy for measuring overall lobbying to which a regulatory body is subjected (Georgiou, 2004). Furthermore, comment letters sent by stakeholders in responding discussion papers and exposure drafts play an essential role in the IASB's due process, as stated by the IASB (IFRS Foundation, 2016).

In particular, we examine the lobbying behaviour of constituents towards IFRS 17 *Insurance Contracts* (IASB, 2017a). IFRS 17 was issued in May 2017 and will be effective for annual accounting periods starting on or after 1 January 2021. It supersedes IFRS 4 *Insurance Contracts* (IASB, 2004b) issued in 2004 and marks the achievement of the IASB in its twenty-year long insurance project. The issuance of IFRS 4 was made at a critical time when IFRS were to be adopted in the EU and other jurisdictions for the first time. But due to the complexity of the topic, it was a very wide standard that in practice allowed all treatments and gave essentially grandfathered any national GAAP. On the contrary, IFRS 17 is a new complete standard that has been strongly questioned not only along the production process, but also in the EU endorsement process. Besides, there has been also controversies as the IASB and the FASB had different views on the issue.

Based on Giner and Arce (2012), we adopt Sutton's (1984) framework, and our objectives are as follows: First, we analyse the lobbying activity of interest groups who submitted comment letters to the documents issued by the IASB before the publication of IFRS 17. The IASB issued the DP in 2007 and published the first ED in 2010 (ED1), which was revised in 2013 (ED2). Thus, by selecting the insurance contracts project for this investigation, we cover all the spectrum of the steps of the IASB's due process, a complex and material accounting topic significantly debated by interest groups around the world. Second, we examine the constituent positions on the accounting insurance model (i.e. IASB single accounting model for all insurance contracts vs. FASB accounting model for a separation between life and non-life contracts). Third, we analyse the constituent positions on each of the following key issues: measurement issue (i.e. single composite margin vs. separate risk adjustment with a residual margin); performance issue (i.e. recognition of profit over the coverage period vs. initial recognition of profit); and presentation issue (i.e. volatility in profit and loss account vs. volatility in other comprehensive income). Fourth, we identify the strategies of persuasion used by the stakeholders in the set of the letters (i.e. arguments used and strength of the responses). Finally, we observe the influence of the lobbying activity to assess if the lobbying positions of stakeholders on the key issues selected are reflected in a final standard (IFRS 17).

We choose to investigate IFRS 17 due to three key reasons. First, the accounting for insurance contracts project is a complex issue with heavy impacts on financial statements, but that has been little discussed by the literature (Post et al., 2007; Gatzert and Schmeiser, 2008; Kosi and Reither, 2014). Second, after the completion of the first phase of accounting for insurance contracts in 2004 by issuing IFRS 4, the IASB entered on a second phase that deals with various accounting issues related to measurement and performance of contracts; this allows addressing lobbying practices on different accounting issues in a single-case approach. Third, the IASB has undertaken three public consultations on its insurance contract proposals, which guarantee large participation. However, and more important, it suggests that constituents' preferences might have affected the different documents, as the IASB made many changes along the process. Furthermore, that project was dealt by both the FASB and the IASB, and in the existing literature, there is a lack of studies investigating jointly participation, content, and influence of lobbying (excepting works of Giner and Arce, 2012 & 2014; García Osma et al. 2015).

To achieve our objectives empirically, we do a content analysis of 601 comment letters submitted between 2007 and 2013. Consistent with prior research (Kwok and Sharp, 2005; Giner and Arce, 2012; Jorissen et al., 2013), we distinguish seven interest groups: preparers, accounting profession, regulators, users, actuaries and consultants, individuals and academics.

This chapter is organised as follows. First, we address prior research about lobbying activities during the standard setting process. Then, we present the IFRS 17 *Insurance Contracts* (IASB, 2017a). Next, we identify the three key issues selected for our study. The remaining sections are related with the empirical work (description of the sample, research questions, methodology and results).

3.1. Literature review of lobbying activities

Lobbying activities play a central role in the due process of standard setters such as the IASB and the FASB. They are described as efforts by individuals and organisations to support, influence or hinder the proposed standards (Watts and Zimmerman, 1978; Durocher et al., 2007; Stenka and Taylor, 2010). While the initial purpose of the consultation process is to address technical aspects of the standards, it could also have a political dimension.

Gipper et al., (2013, p.524) define political influence over standard setting as a "*purposeful intervention in the standard setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve some other self-interested purpose inconsistent with the standard setter mission*".

Based on economics of regulation theory (Stigler, 1971), rational choice theory (Olson, 1965) and agency theory (Jensen and Meckling, 1976), the accounting literature has long been interested in the extent to which politics affect the standard setting process. To some extent this was introduced by the positive accounting theory (PAT) of Watts and Zimmerman (1978). An empirical literature about the political economy of the standard setting has emerged largely by testing economics-based theories of standard setting that capture these political forces through the analysis of comment letters (Giner and Arce, 2012; Jorissen et al., 2013).

The majority of the research aiming the analysis of lobbying from various stakeholders stem from the rational-choice model of lobbying developed by Sutton (1984). According to this model, the involvement of a rational agent in the process of standard setting is linked to the expected benefits of lobbying that must be exceed the costs related of such participation.

3.1.1. Direct versus indirect lobbying methods

Based on the research of Georgiou (2004 & 2010), Orens et al. (2011, p.215) resume the lobbying methods available to exert influence on the IASB. They are categorised in direct and indirect lobbying methods.

The direct lobbying methods can take two forms (formal or informal). Sending comment letter to the standard setter in response to a public consultation is considered as the formal way of direct lobbying. While attending private meetings or participating to telephone conversations with members of the standard setter represent the informal way of direct lobbying method.

In addition, stakeholders can use indirect lobbying methods by articulating their views on the IASB proposals to other parties than the IASB (Georgiou, 2010). In fact, interest groups can express their opinions passing through a group of the IASB network such as the IFRS Advisory Council. Another example is preparers who submit opinions to the external auditor or to the industry association, in order they communicate the preparers' views to the standard setter.

Georgiou (2004) shows that preparers perceive direct lobbying methods as more effective compared to indirect lobbying methods. Along these lines, the author explains that preparers consider submitting comment letters, organising pre-arranged private meetings with the standard setter and having consultants appointed on projects related with the standard setting process, as the most effective lobbying methods.

From the different classifications, it's clear that the form of lobbying which is most visible and most accessible for formal analysis is that observed via the submission of comment letters from stakeholders on discussion papers and exposure drafts prior the publication of the final financial reporting standards. Concerning the other lobbying forms cited previously, neither of these types could feasibly be analysed empirically (Stenka and Taylor, 2010, p.4-5). This is the reason why in this research we focus on comment letters.

3.1.2. Lobbying practices towards the standard setting process

The behaviour of stakeholders during the process has largely been considered by the accounting researchers who started to pay attention to this area in the 1980s (e.g. Watts and Zimmerman, 1978; Kelly, 1982; Sutton, 1984; Francis, 1987), but the interest has increased in recent years again (e.g. Larson and Brown, 2001; Kwok and Sharp, 2005; Giner and Arce, 2012; Jorissen et al., 2012 & 2013; Allen and Ramanna, 2013; Larson and Herz, 2013; Kosi and Reither, 2014; Mora and Molina, 2014; Chircop and Kiosse, 2015; Bamber and McMeeking, 2016; Mellado and Parte, 2017, Pelger and Spiess, 2017; Hewa et al., 2018, Molina and Bautista, 2018). These empirical studies have relied on the framework of Sutton (1984) through the analysis of comment letters.

The literature cited previously has tried to answer one or several of the following questions:

- Who does the lobbying?
- When do they lobby?
- What arguments do they employ?
- Whether the IASB decision making has been influenced or not?

The question about who does the lobbying is linked to whether to lobby or not and it concerns to the decision of interest groups to participate in the due process. The rational choice theory suggests that: "*the choice of a party to lobby or not is considered to be a function of lobbying costs and benefits accrued from successful lobbying*" (Georgiou, 2004, p.221).

Almost all the literature provides clear evidence that the stakeholders' participation in the due process is at some extent driven by the expected economic consequences of the proposed standard. Indeed, the stakeholders attempt to influence the direction and content of accounting standards by writing comment letters and greatly lobbying on the IASB (e.g. Kwok and Sharp, 2005; Hansen, 2011; Giner and Arce, 2012; Kosi and Reither, 2014).

Preparers might have larger interest in the outcome of the due process and in turn more incentives to lobby. Across the PAT of Watts and Zimmerman (1978), many studies provide evidence of the existence of a relationship between the involvement of preparers in the due process and the economic impact of the standard on the accounting numbers (Francis, 1987; Dechow et al., 1996; Ang et al., 2000; Hill et al., 2002; Georgiou and Roberts, 2004; Jorissen et al., 2012; Giner and Arce, 2012). From the angle of the firm management, these studies indicate that benefits of participation depend on the potential impact of the new accounting treatment proposed on the firm's expected future cash flows. A proposed standard may have an effect on these cash flows for the subsequent reasons: (1) it modifies political costs (e.g. a stricter regulatory environment, higher taxes…etc.), (2) it alters accounting numbers fixed in the firm's internal and external contracts (e.g. debt covenants, management incentive systems…etc.), or (3) it has an impact on information production costs (Jorissen et al., 2012). Inspired by the work of Buckmaster et al. (1994), Dobler and Knospe (2016) identify three categories of accounting issues: (1) standardisation issues such as recognition, measurement and valuation; (2) technical issues (e.g. definitions, scope, transition and the conceptual framework); and (3) disclosure issues. The impact on accounting numbers is larger when accounting standards are changed in the area of recognition and measurement, i.e.

standardisation issues. Besides, thanks to their important economic resources, in principle preparers are more likely to participate than users.

The participation of users in the accounting standard setting process has also been investigated in the literature (e.g. Durocher et al., 2007; Larson, 2007; Georgiou, 2010; Jorissen et al., 2012). Although as Durocher et al. (2007) declare that the main benefit of user participation is to obtain standards that provide useful information in financial statements. Users have difficulties in participating in the lobbying process, as unless they are organised it is unlikely that the benefits of the process exceed the costs. Georgiou (2010) analyses the participation and perceptions of U.K. users to the IASB's due process. He finds that users send relatively few comment letters, but from those who participate, a considerable number does it through their trade association. In addition, he states some users such as mutual or pension funds are wealthy, but they are less affected by a particular standard because of their diversified portfolios.

The participation of elite audit firms (Big Four) during the standard setting process has attracted a lot of attention (e.g. Puro, 1984; Hussein and Ketz 1991; Jorissen et al., 2006, Larson; 2007; Cortese et al., 2010; Durocher and Fortin, 2011). This literature has mainly argued that these audit firms are in favour of complexity and in supporting of regulation changes that are likely to increase their fees due to additional audit efforts. Indeed, audit firms' intentions to participate are related with complex accounting rules. In addition, the extensive involvement of accounting professionals in the IASB's committees and working groups could turn the IASB to give a significant consideration for the accountants' letters. For the legitimacy issues, the important practical expertise of the accounting profession in developing accounting standards can give a good input to the IASB which is always in search of legitimacy (Suchman, 1995, and Richardson and Eberlein, 2011).

The regulators and other domestic or regional accounting standard setters are also very involved in the IASB standard setting process. Particularly national accounting standard setters who take part in the development of local standards and encourage the convergence between national and global accounting standards, they are interested in launching and preserving the connections with the IASB (Giner and Arce, 2014).

Larson and Herz (2011) investigate the academic community's participation in the IASB's standard setting process through the submission of comment letters for 79 issues (for 55 IASB issues, academics provided 2.7% of total responses and for 24 draft interpretations issued by the IASB's IFRIC, academics provided 1.9% of total responses). The authors explain the low participation of academics through the language barriers in combination with sometimes brief comment periods that may be hindering academic participation from non-English speakers. The results suggest that language may be a significant obstacle hindering non-English speakers from participating.

Jorissen et al. (2012) perform a content analysis of 3,234 comment letters sent to the IASB during the period 2002-2006 concerning to 33 IASB issues (i.e. multi-period/multi-issue approach). After making a comparison between the stakeholders' participation in relation with the type of issues, Jorissen et al. (2012) find that preparers, accounting profession, and standard setters write more letters to issues with a major impact on company accounting numbers. On the contrary, users and stock exchanges are more active when disclosure issues are engaged.

In recent years, the literature on standard setting has greatly increased its interest on analysing the geographic origins of the comment letters (see Jorissen et al., 2013; Larson and Herz, 2013; Dobler and Knospe, 2016). These works specify that interest groups from EU participate most frequently in the due process of the IASB followed by constituents from North America and Asia/Oceania.

Jorissen et al. (2013) examine the evolution of constituent participation in international accounting standard setting in terms of geographic diversity over the period 1995–2007. They perceive an increase in participation over time. However, they find distortions in the geographic representation of constituents, due to differences in the institutional regimes of countries, as well as differences in participation costs, proxied by the level of familiarity with the accounting values embedded in IFRS, with the system of private standard setting, and with the English language. Furthermore, Jorissen et al. (2013) explain that constituents from countries where IFRS have been adopted are likely to endure more severe economic consequences than constituents from countries where IFRS have not been adopted. Indeed, after the adoption of IFRS in 2005, the EU countries became directly impacted by new or amended standards issued by the IASB. In addition, after the 2008 financial crisis, political and institutional criticism increased significantly from EU against the IASB and its standards (as explained before on section 2.5). These institutional arrangements could not only involve EU organisations such as EFRAG and ESMA, but also other constituents from Europe, all of them with the intention to become active in the due process of insurance contracts standard. On the other hand, the 2008 financial crisis triggered the beginning of the end of convergence project between IFRS and U.S. GAAP (Ong, 2018). This made constituents from the U.S. to be less affected by the IASB standards, and consequently, it might make them less interested to participate on the IASB due process. In summary, the greater participation from Europe these last years is mainly explained by the repoliticalization of accounting standard setting in course of the financial crisis when the EU has strengthened its participation on the IASB due process, at the expense of the U.S. (Bengtsson, 2011).

From the legitimacy perspective (discussed before on section 1.2. Legitimacy framework), the constituents' geographic representativeness in the due process is very important for the IASB in order to get more procedural legitimacy (Richardson and Eberlein, 2011) and consequently to maintain its legitimacy as a global standard setter (Larson and Herz, 2013). Assuming that part of the IASB's legitimacy (procedural) depends upon comment letters coming from all geographical areas; the study of Larson and Herz (2013, p.103) investigates different aspects such as: "*whether and how various geographic constituencies submit comment letters to the IASB; whether institutional and other factors may be associated with participation levels, as well as; whether geographic responses vary by the nature of the issue; whether comment letters writing increases over time; and whether different stakeholder interest groups dominate responses in different countries*". The study finds that geographic diversity and response rates are greater in the IASB than its predecessor the IASC, however they are lower than those of the FASB, probably raising due process and legitimacy issues for the IASB.

As mentioned earlier, we also focus on the timing of lobbying. Sutton (1984) predicts that lobbying is more likely to occur in early phases of the due process instead of later ones. Indeed, Sutton's model suggests that it is easier for interest groups to exercise influence over the standard setter when general views and ideas are under discussion (i.e. on the discussion paper stage), than after the publication of an exposure draft. Following this logic, constituents of different interest groups and from various geographical origins would be predisposed to provide comments in the first stage of the process. In fact, Jorissen et al. (2012) find that on average stakeholders submit more comment letters during the discussion paper stage, except preparers. However, the findings of Giner and Arce (2012) for IFRS 2 *Share-Based Payments* (IASB, 2004a) show that the exposure draft is the most commented period by constituents, which is in opposition with the Sutton's (1984) predictions.

Regarding the arguments employed, inspired in the work of Tutticci et al., (1994), Stenka and Taylor (2010) expose two types of arguments that respondents use in order to express their positions, i.e. conceptual and economic consequences. Conceptually-based arguments deal with accounting concepts and principles (theoretical and conceptual) as well as examining technical feasibility of the proposals (technical issues). Economic consequences-based arguments refer to the economic changes associated with the proposed standard and the implications of those changes.

The analysis of arguments used to measure the strength of respondents' comments when justifying their position has been addressed by Jupe (2000); Stenka and Taylor (2010); Bamber and McMeeking (2016). Additionally, the study of Giner and Arce (2012) reveals that respondents could use a combined arguments perspective, which deals jointly with both conceptual considerations and economic consequences.

Finally, the last question concerns the influence of stakeholders on the IASB decision making, i.e. the possibility that the IASB changes its proposals based on the comment letters put forward by interest groups. There are few studies that analysed the IASB's decision-making process. This literature presents mixed findings. Some studies find that the IASB can remain independent without succumbing to the influence exerted from different interest groups. Giner and Arce (2012) find no evidence of significant influence by interest groups on the development of IFRS 2 *Share-based Payment* (IASB, 2004a). Bamber and McMeeking (2016) examine potential influences from interest groups on the development of IFRS 7 *Financial instruments: Disclosures* (IASB, 2005). Despite concerns that the IASB favours the elite accounting firms in the due process, these authors find that these firms have actually little influence on the IASB. Indeed, whilst accounting firms' comments are discussed fairly by the Board, the majority of accounting firms' proposed amendments were rejected. Hewa et al. (2018) scrutinise the interest groups' influence on the IASB's development of the IFRS 9 expected credit loss model. They find that preparers from financial institutions submitted the majority of comment letters and attempted to exercise influence across all the five key changes. However, this influence from interest groups was significant on only two from the five major changes identified.

Other studies report influence, but only from preparers (Kwok and Sharp, 2005; Cortese et al, 2010). Kwok and Sharp (2005) find significant influence by preparers in the development of

IAS 14 *Segment reporting*[27]. The study of Cortese et al. (2010) on the standard setting process of IFRS 6 *Exploration for and Evaluation of mineral resources* (IASB, 2004c) shows significant influence by interest groups from the extractive industry, resulting in the introduction of flexible accounting requirements for preparers. According to Cortese et al. (2010), preparers' power can lead to significant influence over the standard setter and therefore compromise the standard setter's independence.

3.2. Discussion about the IFRS 17 *Insurance Contracts*

In this section, first, we discuss the timeline of the insurance contracts project by highlighting the reasons that prompted the IASB to product a new standard on insurance contract. Second, we address the different consultation documents prior to the publication of IFRS 17. Then, we focus on the main content of the standard (objective, scope, etc.). Next, we describe which companies are expected to be affected by IFRS 17. Finally, we highlight the different measurement approaches.

3.2.1. Steps prior to the publication of IFRS 17

The standard setting process of IFRS 17 (IASB, 2017a) took 20 years which is the longest in the IASC/IASB history. Two clear phases may be stated, from 1997 to 2004 and from 2004 to 2017 (see Figure 5). The project started under the IASC and reflected contributions of 30 full-time IASB members. Some reasons of this lengthy process are (Grant Thornton, 2017, p.5):

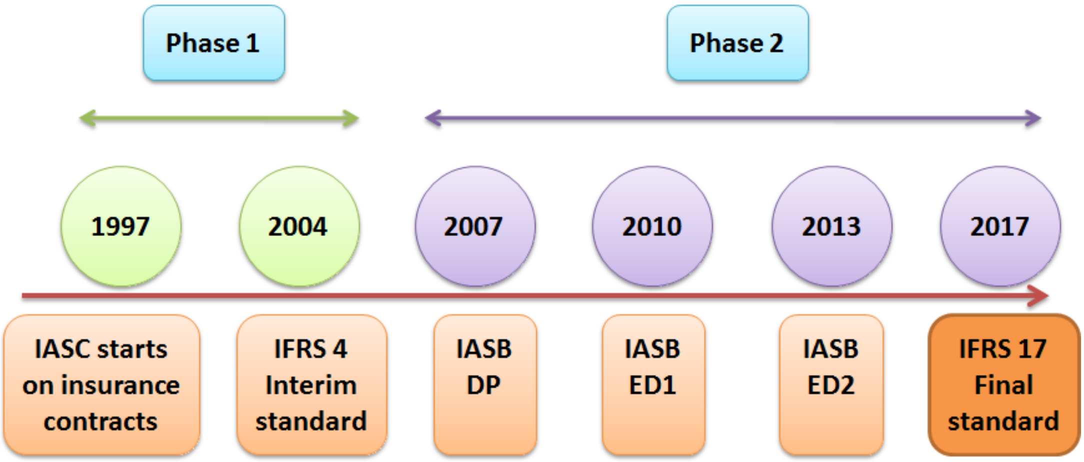
- Wide range of insurance accounting practices.
- Vast range of jurisdiction-particular products, tax issues and regulations that need to be captured by a uniform measurement model.
- Important national and regional specificities that could affect pricing and solvency, which interfered with measurement principles; they could not be ignored even if the objectives of the standard setters and regulators were never meant to be fully aligned (e.g. consider the implementation of Solvency II Directive across the EU[28]).
- Convergence effort with other standard setters (e.g. FASB insurance project).

[27] Superseded by IFRS 8 *Operating Segments* (IASB, 2006).

[28] The Solvency II Directive codifies and harmonises the EU insurance regulation. It mainly concerns the amount of capital that EU insurance companies must hold to reduce the risk of insolvency (European Parliament and the Council, 2009b).

- Reliance and align with the principles of other major standards, e.g. IFRS 9 *Financial Instruments* (IASB, 2014b), IFRS 15 *Revenue from Contracts with Customers* (IASB, 2014a).

Figure 5: Timeline of the insurance contracts project



Source: IFRS Foundation (www.ifrs.org)

The IASC started to discuss about the need for a standard on insurance contracts in 1997. At that time, a steering committee was set up to carry out an initial work on the project. After the creation of the IASB in 2001, the Board decided to add the project in its agenda in 2002 and proceed in two phases to establish the accounting for insurance contracts (Deloitte, 2004).

Phase 1 had been completed in 2004 by issuing the IFRS 4 as the first guidance from the IASB which focused on enhanced disclosure of the amount, timing and uncertainty of future cash flows from insurance contracts. This was a solution aimed to the adoption of IFRS by listed companies throughout the world in 2005 (Deloitte, 2004).

Fitch Ratings (2004) analysed the implications of IFRS 4 and welcomed the progress made by the IASB towards the standard, especially with regard to transparency and comparability across regions. However, Fitch Ratings (2004) identified some issues that needed to be addressed in a following phase, such as the perception of the risk, the greater use of discounting and fair values, and changes to income recognition.

The principal concern that Fitch Ratings (2004) observed in phase 1 was about the effect of the expected additional volatility stemming from IFRS 4, which does not reflect the underlying economic reality and therefore lacks informational content (i.e. information provided on the mismatch between assets and liabilities and thus on the overall risk). Many other interest groups believed that it was important and imperative to replace IFRS 4 and have a comprehensive standard.

Just after the ending of phase 1, the IASB launched phase 2 by creating an Insurance Working Group in September 2004 to support the Board in the development of a comprehensive IFRS standard for insurance contracts. The aim of phase 2 was to improve and further develop the existing standard by focusing on the measurement and presentation of insurance. This group consisted of representatives from different stakeholders as users, insurance industry, actuaries, accountants and regulators (IASB, 2017b, p.2).

Between 2004 and 2007, the Board developed the DP (IASB, 2007), which sets out the IASB's *preliminary views on insurance contracts*, on the main components of an accounting model for an entity's rights and obligations (i.e. assets and liabilities) arising from an insurance contract. The DP (IASB, 2007) was published in May and proposed 21 questions in order to have feedbacks from different stakeholders. We argue that the main proposition introduced during the DP period was that exit value should be used to measure insurance contracts through using the building block approach. The exit value is the price that an insurer is willing to pay to transfer the present insurance obligations to another entity. It is the discounted value of the expected cash flows of the insurance liabilities. Besides, under the exit value it is permitted the recognition of profit when a contract is initially recognised. In addition, other important matters were addressed in the DP as the policyholder behaviour, customer relationships and acquisition costs, as well as the policyholder participation (participating contracts), and the changes in insurance liabilities (e.g. premiums, presentation in profit and loss).

After publishing the DP (IASB, 2007), the Board continued to consult the Insurance Working Group. Additionally, the Board conducted field tests in 2009 to understand better some aspects of the practical application of the proposed insurance model. Sixteen insurers and reinsurers participated from Asia, Australia, Europe and North America.

Then, the IASB published for public comment its first exposure draft (ED1) *Insurance Contracts* on 30 July 2010 (IASB, 2010a), in which 19 questions were asked. The main observation that we can make is that much of ED1 was devoted to the measurement issue. Indeed, the IASB proposed 5 questions related with that issue. According to ED1, the IASB confirmed the building block approach[29] as the core method for measuring insurance contracts based on the estimation of cash flows plus a risk adjustment and a residual margin. The main change between the DP and ED1 is that the IASB decided moving from exit value to the fulfilment value. With this new approach cash flows arise as a company fulfils the contracts, rather than transferring the present insurance obligations to another party. So, the cash flows used to measure insurance contracts would be those within the contract boundary.

Furthermore, the following changes were incorporated during the ED1 period:

- A single IFRS that all insurers, in all jurisdictions, should apply to all contract types on a consistent basis. The proposed IFRS should be applied by writers of insurance and reinsurance contracts as well as by investment contracts with discretionary participation features.
- The cash flows of an insurance contract would be outside the contract boundary when the insurer has the right or practical ability to reprice the contract to fully reflect its risk.
- The option of initial recognition of profits was removed.
- The effect of changes in discount rates would be recognised in profit and loss account.
- Regarding the first application of the new accounting requirements for insurance contracts, the residual margin for contracts in force at transition would be set to zero.

More than 400 meetings were organised with potential affected parties in order to examine proposals and to understand concerns raised on the ED1.

Three years later (June 2013), the IASB developed a revised exposure draft (ED2) *Insurance Contracts* (IASB, 2013). The IASB does not usually issue a second exposure draft in its standard projects, but it has also happened in some conflictive standards, such as IFRS 16 *Leases* (IASB, 2016). We suspect there were three reasons that could push the IASB to revise the exposure draft. The first reason is the IASB received different point of views from the prior consultation periods (i.e. at the DP and ED1 periods). The second one is the insurance contracts standard is a project with much economic consequences for the stakeholders (mainly for the insurance industry). Finally, the failure of the IASB in delivering an exposure draft, that could be broadly accepted by the public due to different local regulations.

[29] More information will be given about this approach in the section 3.2.4. Measurement of insurance contracts.

The ED2 included another 7 questions and focused on the following aspects of insurance contract accounting:

- The insurer has the right or practical ability to reprice the contract to fully reflect the risk of the portfolio, rather than the risk of the contracts (as proposed in the ED1).
- The effect of changes in discount rates would be recognised in other comprehensive income (OCI).
- Full retrospective approach in the transition.

On May 2017, the IASB issued IFRS 17 (IASB, 2017a), that will be effective for annual accounting periods starting on or after 1 January 2021. According to the IFRS Foundation (IASB, 2017b, p.3-7), IFRS 17 implies many improvements for jurisdictions, companies and insurance contracts compared to IFRS 4 among them:

- IFRS 17 will provide specific requirements for most aspects of the recognition and measurement of insurance contracts. Under IFRS 4, companies had been developing and applying accounting policies for insurance contracts based on the requirements of the national GAAP or variations of those requirements, for the measurement of their insurance contracts issued.
- IFRS 17 requires all insurers to reflect the effect of economic changes in their financial statements in a timely and transparent way. It will also provide improved information about the current and future profitability of insurers. Companies will recognise revenue as they deliver insurance coverage.
- IFRS 17 establishes the accounting for insurance contracts issued by a company which will apply a consistent accounting framework for all insurance contracts, and where insurance accounting differences will be removed.
- Under IFRS 17, information about insurance contract profits will be provided in a comparable manner by all companies. This is enabling investors and analysts to properly identify economic and risk similarities and differences between companies issuing insurance contracts.
- Under IFRS 4, financial statements lacked regular updates of the value of insurance obligations to reflect the effect of changes (such as changes in interest rates and risks) in the economic environment. With IFRS 17, companies will measure insurance contracts at current value by using updated assumptions about cash flows, discount rate and risk at each reporting date.

3.2.2. IFRS 17 as a new insurance contracts standard

Objective and scope of IFRS 17

The objective of IFRS 17 is clearly indicated on paragraph 1 of the standard: "*to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows*" (IASB, 2017a). In addition, the same paragraph details the scope: "*IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard*". Moreover, paragraph 3 of IFRS 17 (IASB, 2017a) mentions that an entity shall apply IFRS 17 to:

a) Insurance contracts issued, including reinsurance contracts (i.e. sold);
b) Reinsurance contracts held (i.e. acquired); or
c) Insurance contracts with direct participation features, i.e. investment contracts with discretionary participation features issued.

IFRS 17 largely preserves the scope of IFRS 4; indeed, the new requirements affect fundamentally the same population of contracts accounted for when applying IFRS 4. Similar to IFRS 4, IFRS 17 does not apply to insurance contracts in which the company is the policyholder, except when those contracts are reinsurance contracts (IASB, 2017b).

Insurance contract is defined on appendix A of IFRS 17 (IASB, 2017a) as: "*A contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder*".

The same appendix defines a reinsurance contract as: "*An insurance contract issued by one entity (the reinsurer) to compensate another entity for claims arising from one or more insurance contracts issued by that other entity (underlying contracts)*".

Insurance contracts with direct participation features are investment contracts where an insurer shares the performance of underlying items with policyholders (e.g. a participating life insurance policy is a policy that receives dividend payments from the life insurance company. It is called participating because it is entitled to share or participate in the surplus earnings of the life insurance company). These contracts have similar economic characteristics as insurance contracts. The amount or timing of the return is contractually determined at the discretion of the issuer. IFRS 17 applies only to investment contracts with discretionary participation features that are issued by a company that also issues insurance contracts. Companies that do not issue insurance contracts apply the requirements in IFRS 9 to account for their investment contracts with discretionary participation features (IASB, 2017b).

However, there are several scope exemptions where it is not possible applying IFRS 17 (IASB, 2017a, Para. 7). These exemptions are dealt by other standards:

a) Warranties provided by a manufacturer, dealer or retailer in connection with the sale of a product (either a good or a service) to a customer, i.e. IFRS 15 *Revenue from Contracts with Customers* (IASB, 2014a);
b) Employers' assets and liabilities that arise from employee benefit plans, i.e. IAS 19 *Employee Benefits* (IASB, 2011) and IFRS 2 *Share-based Payment* (IASB, 2004a) and retirement benefit obligations reported by defined benefit retirement plans, i.e. IAS 26 *Accounting and Reporting by Retirement Benefit Plans* (IASC, 1987);
c) Contractual rights or contractual obligations contingencies on the future use of, or the right to use, a non-financial item (for example, some licence fees, royalties, variable and other contingent lease payments and similar items), which are treated by IFRS 15, IAS 38 *Intangible Assets* (IASB, 2004c) and IFRS 16 *Leases* (IASB, 2016);
d) Residual value guarantees provided by a manufacturer, dealer or retailer (IFRS 15);
e) A lessee's residual value guarantee embedded in a lease (IFRS 16);
f) Financial guarantee contracts, unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used the accounting guidance applicable to insurance contracts. The issuer shall choose to apply either IFRS 17 or IAS 32 *Financial Instruments: Presentation* (IASB, 2003a), IFRS 7 *Financial Instruments: Disclosures* (IASB, 2005) and IFRS 9 *Financial Instruments* (IASB, 2014b) to such financial guarantee contracts;
g) Contingent consideration payable or receivable in a business combination, i.e. IFRS 3 *Business Combinations* (IASB, 2008);
h) Insurance contracts in which the entity is the policyholder, unless those contracts are reinsurance contracts held.

Separation and disaggregation

An insurance contract typically creates a number of rights and obligations that together generate a package of cash inflows and cash outflows. Some insurance contracts include features in addition to the transfer of significant insurance risk, such as derivatives, deposits and asset management services. These features are known as non-insurance components (IASB, 2017b).

Under IFRS 4, in certain circumstances embedded derivatives[30] and deposit (investment) components must be unbundled from the host insurance contract and accounted for separately. In other circumstances, insurers have the option to voluntarily unbundle deposit components (Ernst & Young, 2018).

However, under IFRS 17, the option to voluntarily separate components has been removed. So, IFRS 17 retains the concept of unbundling, described now as "separation and disaggregation" (IASB, 2017a, Para. 10-13), in which the standard requires a company to:

a) Separate the non-insurance components from an insurance contract if a separate contract with the same features would be within the scope of another IFRS standard; and
b) Account for those non-insurance components applying that other IFRS Standard.

The following standards should be applied for these non-insurance components:

- IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative;
- IFRS 9 to account for the separated investment component (separate from a host insurance contract an investment component if, and only if, that investment component is distinct);

[30] Some financial instruments and other contracts combine a derivative and a non-derivative host contract in a single contract (a hybrid contract). The derivative part of the contract is referred to as an "embedded derivative". Its effect is that some of the contract's cash flows vary in a similar way to a stand-alone derivative, for example, the principal amount of a bond may vary with changes in a stock market index. In this case, the embedded derivative is an equity derivative on the relevant stock market index. On the other hand, a derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a "separate financial instrument" (IASB, 2014b, Para. 4.3.1).

- IFRS 15 if a product provides goods and services not related to insurance risk. According to IFRS 15, distinct performance obligations to provide goods or services must be separated from the host insurance contract.

Level of aggregation

IFRS 17 (IASB, 2017a, Para. 14-24) states that an entity shall identify portfolios of insurance contracts: "*A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together*". On the other side: "*Contracts in different product lines would not be expected to have similar risks.... and hence would be expected to be in different portfolios*" (IASB, 2017a, Para. 14).

Each portfolio of insurance contracts issues shall be divided into a minimum (IASB, 2017a, Para. 16) :

a) A group of contracts that are onerous at initial recognition, if any;
b) A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
c) A group of the remaining contracts in the portfolio, if any.

3.2.3. Companies affected by IFRS 17

The IASB Chairman, Hans Hoogervorst said about the new IFRS 17: "*The insurance industry plays a vital role in the global economy; high-quality information to market participants on how insurers perform financially is therefore extremely important. IFRS 17 replaces the current myriad of accounting approaches with a single approach that will provide investors and others with comparable and updated information*" (IFRS, 2017). However, IFRS 17 is not a standard for the insurance industry but a standard about insurance contracts because its effects will be felt beyond the entities authorised to carry out regulated insurance and reinsurance activities in a jurisdiction. For example, banking groups with insurance subsidiaries, their insurance operations will be affected by IFRS 17 in the same way that insurers with the same operations will be affected (Grant Thornton, 2017). IFRS 17 will also affect unlisted insurance companies using IFRS, counting, for instance, mutual insurers[31].

Companies issuing different types of insurance contracts are expected to be affected in different ways by the IFRS 17 requirements. Four broad categories of insurance companies can be identified, based on a common industry classification[32] (IASB, 2017b):

a) ***Non-life insurers (Property and casualty insurers)***: They typically issue insurance contracts providing insurance coverage over a relatively short period of time, such as one year. Most of these companies will apply a simplified approach, i.e. the *Premium Allocation Approach* for most of their contracts. The greatest effect of implementing IFRS 17 for these companies will come from the need to consider the requirement to discount and apply an explicit risk adjustment for incurred claims.

b) ***Life and health insurers***: They typically sell products that cover risks over longer periods, possibly many decades. These companies are expected to be the most affected by IFRS 17, primarily on the measurement of the contracts. In fact, before IFRS 17, they did not measure their insurance contracts using fully updated information, which is a requirement of IFRS 17 (i.e. These companies must now to update cash flows, discount rate and risk at each reporting date).

c) ***Multi-line insurers***: They may have diversified interests in property and casualty, life and health. The effects of IFRS 17 on these companies will principally depend on the mix of the insurance contracts they issue.

d) ***Reinsurers:*** Insurers typically deal with some risks assumed by issuing insurance contracts by transferring a portion of the risk on those underlying insurance contracts to another insurance company called reinsurer. The effects of IFRS 17 on reinsurers will depend on the type of reinsurance contracts they issue (non-life or life contracts).

[31] A mutual insurer is an insurance company which is collectively owned by its members who are at the same time its policyholders (IASB, 2017b).

[32] Applying the Global Industry Classification system developed by MSCI and Standard & Poor.

3.2.4. Measurement of insurance contracts

IFRS 17 uses three different measurement approaches. See Table 4 at the end of this section:

1- Building Block Approach (BBA), which is the default model.
2- Premium Allocation Approach (PAA), for short-term contracts and;
3- Variable Fee Approach (VFA), for direct participating contracts.

Building Block Approach (BBA)

Under IFRS 17 (IASB, 2017a, Para. 32), the Building Block Approach requires entities to measure an insurance contract at initial recognition as the total of:

a) The fulfilment cash flows which comprise:
   - Estimate of future cash flows;
   - An adjustment to reflect the time value of money and the financial risks associated with the future cash flows, i.e. discounting rates and;
   - An explicit risk adjustment for non-financial risk.
b) The contractual service margin.

In order to measure the future cash flows, as stated in the standard, an entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (IASB, 2017a, Para. 34). The concept of a contract boundary is used to determine which cash flows[33] should be considered in the measurement of an insurance contract (PwC, 2017).

However, IFRS 17 (IASB, 2017a, Para. 24) also allows to estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual

[33] Some examples of cash flow types related directly to the fulfilment of an insurance contract are: premiums and related payments; claims and benefits; discretionary payments and payments to policyholders that vary depending on returns from underlying items from existing contracts; payments resulting from embedded derivatives (such as options and guarantees) and non-distinct investment and service components that are not separated from the insurance contracts; insurance acquisition cash flows, if they are attributable to the portfolio to which the contract belongs; policy administration and maintenance costs, including recurring commissions paid to intermediaries; transaction-based taxes and levies (such as premium-based taxes) and payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder; fixed and variable overheads; and other costs chargeable to the policyholder in accordance with the terms of the contract (PwC, 2017, p.15).

groups of contracts. Under IFRS 17 (IASB, 2017a, Para. 33) the estimates of future cash flows shall:

a) Incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (Para. B37-B41). To do this, an entity shall estimate the expected value (i.e. the probability-weighted mean) of the full range of possible outcomes;
b) Reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (Para. B42-B53);
c) Be current, i.e. the estimates shall reflect conditions existing at the measurement date; including assumptions at that date about the future (Para. B54-B60);
d) Be explicit, i.e. the entity shall estimate the adjustment for non-financial risk separately from the other estimates (Para. B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk; unless the most appropriate measurement technique combines these estimates (Para. B46).

Under IFRS 17 (IASB, 2017a, Para. 36), the estimates of future cash flows should be adjusted to reflect the time value of money and other financial risks, such as currency and liquidity risk associated with those cash flows, unless the financial risks have been included in the estimates of cash flows. The discount rates should:

a) Reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
b) Be consistent with observable current market prices for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and
c) Exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

The aim of the risk adjustment is to measure the effect of uncertainty in the cash flows of insurance contracts that arise from non-financial risk (IASB, 2017a, Para. 37). It should reflect risks that arise from the rights and obligations created by an insurance contract, such as general operational risks (Grant Thornton, 2017).

The contractual service margin is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the entity will recognise as it provides services in the future (IASB, 2017a, Para. 38).

Premium Allocation Approach (PAA)

The premium allocation approach is a simplified method for measurement of the liability for the remaining coverage. This method could be applied in certain groups of insurance contracts. Under IFRS 17 (IASB, 2017a, Para. 53), a group is eligible for the premium allocation approach if:

- Each contract in the group has a coverage period of one year or less; or
- The entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ substantially from the one that would be produced applying the requirements of the default model (BBA).

Variable Fee Approach (VFA)

Variable fee approach should be applied to insurance contracts with direct participation features. This approach assumes that a participating contract creates an obligation for the entity to pay the policyholder an amount equal to the fair value of the underlying items, net of a consideration charged for the contract, i.e. a variable fee. This approach cannot be used for the measurement of reinsurance contracts (Ernst & Young, 2018).

Table 4: The three measurement models of IFRS 17

Building Block Approach (BBA)	Premium Allocation Approach (PAA)	Variable Fee Approach (VFA)
Application		
Default valuation approach.	Optional simplified approach for short-term contracts (duration of one year or less), or where it is a reasonable approximation to BBA. Many non-life insurance contracts will meet these criteria.	Model for participating contracts, as defined by three criteria, but based on policyholders sharing in the profit from a clearly identified pool of underlying items
Initial valuation		
Fulfilment cash flows: Future cash flow estimates + Adjustment for time value of money (discount) + Risk adjustment for non-financial risk.	Pre-claims coverage liability and an incurred claims liability.	Insurance contract liability based on the obligation for the entity to pay the policyholder an amount equal to the value of the underlying items, net of a consideration charged for the contract, a variable fee.
Offset by the Contractual Service Margin (CSM), which represents unearned profit the insurer recognises as it provides services under the contract.		

Source: Based on Ernst & Young (2018, p.5).

3.3. Institutional issues on insurance contracts

3.3.1. The role of the FASB in the development of insurance contracts

In August 2007, the FASB issued an invitation for its interest groups to comment *An FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders*[34] (FASB, 2007). The FASB received 45 comment letters. Supported by the responses in the comment letters, the FASB decided to participate in the project jointly with the IASB since October 2008 with the purpose of improving and simplifying U.S. GAAP. The FASB also tried to enhance the convergence of the financial reporting requirements for insurance contracts and to provide investors with useful information for making decisions. However, this project is not part of the *Memorandum of Understanding* agreed between the IASB and FASB in 2002[35], which had the aim of accomplishing improvements in accounting standards and growing the convergence between IFRS and U.S. GAAP. As discussed in chapter 1 (section 1.5.2), the convergence project was abandoned by 2013.

Since the FASB joined the project, many decisions were made between the two standard setters on the features of the insurance contracts model. However, in the half of 2010, the FASB decided to seek additional feedback before publishing a consultation document. Therefore, on July 2010, the IASB published its ED1 (IASB, 2010a) on insurance contracts independently from the FASB. A few months later (in September), the FASB issued a discussion paper (FASB, 2010b) to have preliminary views on insurance contracts rather than an exposure draft. This choice was made because the FASB was not in the same direction as the IASB regarding some issues proposed on the IASB DP. The main difference was about the approach to determine the margin. Indeed, probably the area of disagreement between IASB and FASB that has been debated the longest is the number and characterisation of margins that should be included in the measurement of the liability. During a FASB/IASB joint meeting, that took place on May 2010 (FASB, 2010a), the Boards discussed about margins and decided to adopt two different approaches. The IASB position is that there should be two margins on top of the expected present value of future cash flows i.e. the risk adjustment and the remaining residual margin. Regarding the FASB position is that there

[34] On appendix C of the FASB proposal was included the IASB DP: *Preliminary Views on Insurance Contracts* (IASB, 2007).

[35] Updated in 2006 and 2008 (Camfferman and Zeff, 2018).

should only be one margin which eliminates any gain at issue. This margin has been called the single composite margin. Under the IASB's vision, the risk adjustment would be calculated based on the variability of future cash flows. The risk adjustment would be recalculated each reporting period based on the uncertainty remaining in the future cash flows. If, at inception, the expected present value of future cash flows plus the risk margin was less than the initial premium, a residual margin would be added to the initial liability as a plug to avoid a gain at issue. Under the FASB's vision, the single composite margin is equivalent to the combination of risk adjustment and residual margin. The composite margin charged initially remains constant regardless of the fluctuation in the cash flow. This means that the price per unit of the risk will not change, it will always use the initial price upon inception.

According to the basis for conclusions in ED1 (IASB, 2010b), at the time, there were significant differences between the IASB and FASB regarding the extent of accounting guidance for insurance contracts. In fact, existing U.S. GAAP for insurance contracts only applies if the insurer issuing the contract is an insurance company. It does not apply to contracts issued by non-insurance companies that contain identical or similar economic characteristics, in particular banks. In the case of IFRS, they did not have comprehensive guidance. In addition, the FASB was seeking additional input on whether the guidance proposed in the FASB's discussion paper (FASB, 2010b) and the model proposed in the IASB's ED1 of 2010, would represent an improvement to U.S. GAAP. Furthermore, the FASB was considering whether one or two models would result in more useful information about insurance contracts. The option of two models means to have different models for different types of insurance contract, i.e. one for short-duration insurance contracts (for property and casualty contracts) and other for long-duration insurance contracts (for life and annuity contracts). The FASB wanted to obtain additional input from stakeholders on whether different types of insurance contracts warranted different recognition, measurement and presentation and, if so, what the criteria should be for determining which, if any, types of insurance contracts would use each model.

On June 2013, the FASB issued an exposure draft: *Proposed accounting standards update Insurance Contracts (Topic 834)* for public comment (FASB, 2013). In this document the FASB argued that the current model being followed by insurance companies is unique to the industry, which generates complexity for users that are familiarised with financial statements of other sectors. Therefore, the FASB proposed a new guidance that would require contracts that transfer significant insurance risk to be accounted for in a similar manner, regardless of the type of insurer issuing the contracts. This means that non-insurance regulated companies such as banks and guarantors will account for arrangements that they currently account for using other models (e.g., revenue recognition, contingencies, guarantees, and financial instruments, among others), as insurance contracts. Through its proposition to modify the scope, we can say that the FASB tried to follow the same approach of the IASB, by including all companies that propose insurance contracts. During the exposure draft consultation period, the FASB received 214 comment letters, where stakeholders overwhelmingly supported limiting the scope of insurance accounting to insurance companies. Considering the feedback received on the 2013 proposed update, the FASB decided continuing to limit the scope to insurance entities as described in existing U.S. GAAP.

On February 2014, the FASB (2014) decided to abandon its convergence efforts with the IASB on insurance contracts, and instead focus its future efforts on making targeted improvements to the existing U.S. GAAP insurance accounting model. This decision would result in a U.S. insurance accounting model that would diverge significantly from the insurance accounting model proposed by the IASB. Thus, for short-duration contracts, the FASB decided to limit the targeted improvements to enhancing disclosures. The FASB issued on May 2015 an exposure draft: *Accounting standards update No.* 2015-09 *financial services-insurance (Topic 944): Disclosures about short-duration contracts* (FASB, 2015). Related to the long-duration contracts, the FASB issued on September 2016 an exposure draft: *A proposed accounting standard update financial services-insurance (Topic 944)*: *targeted improvements to the accounting for long-duration contracts* (FASB, 2016b). Finally, unlike IFRS 17, U.S. GAAP establishes industry-specific accounting and reporting guidance for insurance companies, as opposed to accounting for insurance contracts. For entities other than insurance companies, any contract issued that would meet the definition of an insurance contract under IFRS is accounted for in accordance with other applicable U.S. GAAP literature. The reason is the specific contract has not been issued by insurance, reinsurance, or certain financial guarantor companies.

3.3.2. The issues selected for our study

In our study, we focus on three conflicting issues that took the attention of most of the respondents to the DP and the EDs: the determination of the margin (measurement issue), the recognition of profit (performance issue), and the volatility (presentation issue). The selected issues concern the main topics that the IASB proposed for comment on the three public consultations on its insurance contracts proposals (as explained before on section 3.2.1). The conflicting issues are chosen based on the changes that the IASB made moving from one stage to another of the consultation process until the publication of the final standard IFRS 17. This gives us the possibility to observe if one or many interest groups exerted lobbying on the IASB and if this lobbying has been successful.

Table 5 summarises the IASB's changes about the three key issues under study, from the DP until the issuance of the IFRS 17 and counting the two intermediate steps ED1 and ED2.

The measurement of the risk and the margin was the main divergence point between the IASB and the FASB, and they decided to adopt a different approach. Thus, the IASB opted for a separation between the risk adjustment and the residual margin, while the FASB selected the single composite margin (both approaches were explained before on section 3.3.1). We choose this issue in order to observe how the interest groups reacted when the IASB asked them to choose between the two approaches on ED1 (IASB, 2010a).

Regarding the recognition of profit, the DP (IASB, 2007) established that profits should be recognised when initially recorded. However, neither ED1 (IASB, 2010a) nor ED2 (IASB, 2013) proposed that a company should recognise any gain (i.e. unearned[36] profit) at initial recognition. Instead, at initial recognition, the company should recognise the "unearned profit" of the insurance contracts on the balance sheet as a component of the insurance contract liability. The unearned profit would then be recognised in profit or loss over the insurance coverage period. IFRS 17 validated the proposals of both EDs by requiring the contractual service margin to be recognised over the coverage period in a pattern that reflects the provision of insurance coverage (IASB, 2017c).

Related to the volatility caused by changes in insurance obligations arising from market fluctuations (e.g. changes in discount rates), the IASB proposed on the DP and ED1 that all

[36] Referred to as the "residual margin" in ED1 and the "contractual service margin" in ED2.

these changes would be recognised in profit and loss account. On the contrary, in ED2 the IASB changed completely its view and proposed a mandatory recognition of the volatility in other comprehensive income (OCI) rather than in profit and loss account. However, IFRS 17 implemented a softer approach by letting companies to choose between presenting the effects of changes in discount rates and other financial variables either in profit and loss or in OCI. So, the IASB opted for the flexibility in the presentation of the volatility on the IFRS 17. This softer approach will allow a company to align the accounting treatment of each portfolio of insurance contracts with the accounting treatment of the assets that back that portfolio and, therefore, will help the company to reduce accounting mismatches (IASB, 2017c).

Table 5: Comparison between DP, ED1, ED2 and IFRS 17

Issue	DP (2007)	ED1 (2010)	ED2 (2013)	IFRS 17 (2017)
Measurement: Risk and Margin	Separation: risk margin+ service margin	Separation: risk margin+ service margin Single composite margin	Separation: risk adjustment + residual margin	Separation: risk adjustment + residual margin
Performance: Recognition of profit	At the initial recognition of the contract	Over the coverage period	Over the coverage period	Over the coverage period
Presentation: Volatility	Profit and loss account	Profit and loss account	Other comprehensive income	Profit and loss account Other comprehensive income

3.4. Sample

In this study, we categorise and analyse the comment letters submitted by the interest groups that responded any of the three consultation periods: DP (IASB, 2007), ED1 (IASB, 2010a) and ED2 (IASB, 2013), which the IASB set before the publication of the final standard IFRS 17 (IASB, 2017a). We focus on the 601[37] different comment letters submitted by 629 respondents (See Appendix C) to the IASB along the due process of the insurance contracts project, which were available in the IASB website. Fifteen (15) letters represent a joint response to the IASB of more than one stakeholder, we treat them as if each party has submitted its own letter.

We classify the comment letters by interest group, geographic origin and consultation period (DP, ED1 and ED2). We use the Pearson χ^2 or Fisher's exact tests to compare responses among groups, regions and consultation periods (Giner and Arce, 2012).

Consistent with prior research (Kwok and Sharp, 2005; Giner and Arce, 2012; Jorissen et al., 2013), we distinguish seven interest groups: preparers, accounting profession, regulators, users, actuaries and consultants, individuals and academics.

We divide preparers into individual companies, as well as associations. We also classify preparers by sector in 6 groups: insurer, reinsurer, mutual, multi sector (refers to companies or associations in relationship with many sectors at the same time, for example UNESPA is an association that its members include insurance and reinsurance companies), financial, and others (companies or associations that do not fit into any of the groups cited before). In addition, we do another classification which is related with types of contract that companies are selling, i.e. life contracts, non-life contracts and multi-line contracts (i.e. both life and non-life contracts).

The accounting profession includes associations of accountants and auditors, and audit firms. We classify the group of regulators into the following three subcategories: accounting standard setters (national and regional), stock exchanges, and regulatory and legal authorities. Actuaries are classified in the same group with consultants because they are essential to the insurance and reinsurance industries, either as staff employees or as independent advisors.

[37] Actually, the IASB received 610 comment letters but nine (9) of them were not available to the public.

Users comprise investors, financial analysts, or other parties that use financial information for decision making purposes.

Finally, when the author states explicitly that s/he is writing in her/his own name, the comment letter is classified under individuals, unless they belong to the academic community. However, as Larson (1997) and Jorissen et al. (2013) do, we classify individuals who are connected to specific companies as preparers.

Concerning the geographic categorisation, we allocate a letter to the country of origin of the sender (being an individual or an organisation). However, organisations that operate internationally were deemed "*international*" because the respondents could not be seen as belonging to a single geographical region, as examples: Big Four auditing firms, Standard & Poor's, International Organisation of Securities Commissions (IOSCO), International Actuarial Association (IAA). Some regional organisations are classified as "*regional organisation*", such as EFRAG and Group of North American Insurance Enterprises (GNAIE) as European and North American, respectively.

3.4.1. Description of the sample

Before addressing our research questions, we determine how the lobbying activity is distributed across stakeholders, regions and consultation periods. The nature of the issuer and the stage of the project have been widely treated by the literature (Sutton, 1984; Georgiou, 2010; Giner and Arce, 2012; Jorissen et al., 2012). In this case given that the issuer is the IASB, we focus on the stage of the project; this allows us to observe the stakeholders' decision regarding whether to take part in each of the consultation periods prior to the publication of the IFRS 17. A geographic origin analysis of the comment letters gives us the ability to observe lobbying activity from different regions (Jorissen et al., 2013).

Table 6 provides the details of the constituent participation by interest group in the due process of the insurance contracts standard. Panel A indicates the IASB received a significant feedback from preparers (324 respondents), who represent the largest proportion of replies (51%). The remaining 49% are shared among regulators (17%), accounting profession (13%), actuaries and consultants (10%), users (4%), individuals (4%), and academics (1%).

Table 6 Panel B focuses on the lobbying activity of the preparers in the due process of IFRS 17. We observe that preparers were principally individual companies (61%) while the rest of respondents were associations (39%). An analysis by sector indicates that preparers came predominantly from the insurance area (76%) that include insurers (63%), reinsurers (4%), mutual (6%) and multi sector (3%). The rest of the preparer participation is divided between financial services (16%) and others (8%).

Our results of the constituent participation by interest group are in accordance with prior works (Kwok and Sharp, 2005; Larson, 2007; Georgiou, 2010; Giner and Arce, 2012; Jorissen et al., 2013). The results show that the IASB received a significant feedback from stakeholders. Preparers represented the largest interest group because half of respondents were companies or associations. This is preparers participate far more than users while there are intermediate levels of participation for regulators and accounting profession. These numbers should be read with caution, since we should know the entire population of stakeholders to affirm which groups are more active. The broad involvement of preparers is consistent with the PAT (Watts and Zemmerman, 1978), as they may be the most impacted by the new accounting treatments proposed by the IFRS 17. On the contrary, users show less interest in participating in the lobbying process because their main benefit from that participation is to obtain standards that provide useful information in financial statements and they might not be familiar with this industry (Durocher et al., 2007). In the case of the due process of IFRS 17 the costs might exceed the benefits. In addition, the low participation of users could be explained by their diversified portfolios and thus they could be less affected by the outcome of the due process (Georgiou, 2010). Finally, the very low participation of academics might be explained by the language barriers which could be a serious handicap for non-English speakers (Larson and Herz, 2011). Indeed, the five academics that participated were from English-speaking countries. Besides there are no much incentives for this type of action within the academic community, which is mainly focused on academic research and not so much transference of knowledge.

Table 6: Constituent participation by interest group

***Panel A**: All interest groups*

Interest group	Respondents	%
Preparers	**324**	**51.51%**
Associations	127	20.19%
Companies	197	31.32%
Regulators	**107**	**17.01%**
Accounting standard setters	62	9.86%
Regulatory and Legal Authorities	44	7.00%
Stock Exchanges	1	0.16%
Accounting profession	**81**	**12.88%**
Associations of accountants & auditors	60	9.54%
Audit firms	21	3.34%
Actuaries & Consultants	**63**	**10.02%**
Actuaries	52	8.27%
Consultants	11	1.75%
Users	**25**	**3.97%**
Investors	15	2.38%
Financial analysts	10	1.59%
Individuals	**24**	**3.82%**
Academics	**5**	**0.79%**
Total	**629**	**100%**

***Panel B**: Preparer sector*

Preparer	Respondents	%
Companies	**197**	**60.80%**
Insurance	131	40.43%
Reinsurance	12	3.70%
Mutual	10	3.09%
Multi sector	5	1.54%
Financial	33	10.19%
Other	6	1.85%
Associations	**127**	**39.20%**
Insurance	74	22.84%
Reinsurance	1	0.31%
Mutual	8	2.47%
Multi sector	5	1.54%
Financial	18	5.56%
Other	21	6.48%
Total	**324**	**100%**

Table 7 presents the results of the constituent participation in the due process of the insurance contracts standard by geographic origin. We observe a broad participation from Europe (38%) and the single-country analysis shows that principal countries are U.K. (14%), France (4%) and Germany (4%). The rest of the European respondents came from other countries (12%) and from European organisations (4%) such as European Securities and Markets Authority (ESMA), European Federation of Financial Analysts Societies (EFFAS). The second largest participation was from North America with 22% of respondents divided between U.S. (13%), Canadians (7%), and constituents from Bermuda and North American organisations (2%). The rest of the constituent participation is divided between Asia (15%), Australia and New Zealand (10%), International[38] (8%), Africa (5%), and Latin and South America (2%).

The constituent participation in the IASB standard setting process by geographic origin is in accordance with prior works (Jorissen et al., 2013; Larson and Herz, 2013; Dobler and Knospe, 2016). Indeed, the overrepresentation of European participation in the IASB due process could be explained by the position of this region as the main user of IFRS and thereby as the most impacted by new or amended standards issued by the IASB. This is also consistent with the repoliticalization of accounting standard setting in course of the 2008 financial crisis (Bengtsson, 2011). For this reason, we observe an important participation of the European organisations (such as EFRAG, ESMA, and ECB), in the due process of IFRS 17, more than any other region. This interpretation is consistent with institutional theory, as it may be seen as institutional arrangement created by the Europe to be more active in the IASB due process, especially through its organisations (Burlaud and Colasse, 2011; Baudot and Walton, 2014; Botzem, 2014; Crawford et al., 2014; Giner and Arce, 2014; Palea, 2015). The first period of consultation about insurance contracts standard, i.e. DP period (IASB, 2007), coincided also with the financial crisis (2007-2008) that triggered the beginning of the end of the convergence project between the IASB and the FASB. This explains why U.S constituents had less interest for participating in the due process of IFRS 17 than European constituents. Finally, from the legitimacy perspective, the constituents' geographic representativeness in the due process of IFRS 17 is very important for procedural legitimacy of the IASB (Richardson and Eberlein, 2011) and consequently to maintain its legitimacy as a global standard setter (Larson and Herz, 2013).

[38] For examples: Audit firms (Ernst & Young, Mazars…etc.) and other international organisations such as Standard & Poor's and Corporate Reporting Users' Forum (CRUF).

Table 7: Constituent participation by geographic origin

Geographic origin	Respondents	%
Europe	**238**	**37.84%**
U.K.	86	13.67%
France	27	4.29%
Germany	22	3.50%
Other countries[39]	78	12.40%
European organisations	25	3.97%
North America	**136**	**21.62%**
U.S.	83	13.20%
Canada	43	6.84%
Bermuda	8	1.27%
North American organisations	2	0.32%
Asia	**92**	**14.63%**
Australia & New Zealand	**65**	**10.33%**
International	**52**	**8.27%**
Africa	**33**	**5.25%**
Latin and South America[40]	**12**	**1.91%**
Not provided	**1**	**0.16%**
Total	**629**	**100%**

[39] Austria, Belgium, Czech Republic, Denmark, Finland, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden; Switzerland.

[40] As Mexico has the same cultural, historical and linguistic characteristics of the countries from Latin and South America, it is classified with them.

Tables 8 and 9 summarise the results of the timing of lobbying by interest group and by geographic origin, i.e. the lobbying activity in each of the three consultation periods (DP, ED1 and ED2).

We observe that constituents participated more on both EDs with 260 comment letters in consultation period of ED1, and 202 comment letters in that of ED2, while in the DP period, the IASB received 167 comment letters. For instance, preparers and users sent two times more to ED1 than DP. Thus, our results about the timing of lobbying are in opposition with the Sutton's (1984) prediction because we observe more lobbying activity of constituents in later stages of the due process (ED1 and ED2) instead of the DP period. This could be explained by the general character of the DP period which proposed preliminary views for stakeholders, while the ED period (mostly ED1) proposed the main issues of the standard (i.e. measurement, recognition, valuation, disclosure…etc.), that could be directly impact the constituents of the different interest groups (Giner and Arce, 2012).

We made non-parametric tests (Pearson χ^2 or Fisher's exact tests) for differences among the constituents from the publication of the DP to the ED1 and from the ED1 to the ED2. In Table 8, the χ^2 test confirm there are no statistical differences among the different stakeholders. In Table 9, the χ^2 test shows only one significant difference in lobbying activity, which is between Asia and Europe (p = 0.026).

Table 8: Constituent participation on the three consultation periods by interest group

Interest group	DP		ED1		ED2	
	Respondents	**%**	**Respondents**	**%**	**Respondents**	**%**
Preparers	**79**	**47.31%**	**141**	**54.23%**	**104**	**51.49%**
Associations	39	23.35%	51	19.62%	37	18.32%
Companies	40	23.95%	90	34.62%	67	33.17%
Regulators	**29**	**17.37%**	**40**	**15.38%**	**38**	**18.81%**
Accounting standard setters	17	10.18%	22	8.46%	23	11.39%
Regulatory and Legal Authorities	12	7.19%	17	6.54%	15	7.43%
Stock Exchanges	0	0.00%	1	0.38%	0	0.00%
Accounting profession	**26**	**15.57%**	**28**	**10.77%**	**27**	**13.37%**
Associations of accountants & auditors	19	11.38%	20	7.69%	21	10.40%
Audit firms	7	4.19%	8	3.08%	6	2.97%
Actuaries & Consultants	**17**	**10.18%**	**24**	**9.23%**	**22**	**10.89%**
Actuaries	15	8.98%	19	7.31%	18	8.91%
Consultants	2	1.20%	5	1.92%	4	1.98%
Users	**6**	**3.59%**	**14**	**5.38%**	**5**	**2.48%**
Financial analysts	4	2.40%	4	1.54%	2	0.99%
Investors	2	1.20%	10	3.85%	3	1.49%
Individuals	**8**	**4.79%**	**12**	**4.62%**	**4**	**1.98%**
Academics	**2**	**1.20%**	**1**	**0.38%**	**2**	**0.99%**
Total	**167**	**100%**	**260**	**100%**	**202**	**100%**

Table 8 (continued)

Pearson χ2 for differences among periods (DP vs, ED1 and ED1 vs, ED2).
Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by interest group.

	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.537	0.251	0.727	0.386	0.267	0.545
Regulators		0.757	0.995	0.193	0.199	0.702
Accounting profession			0.795	0.153	0.234	0.799
Actuaries & Consultants				0.261	0.249	0.695
Users					0.767	0.334
Individuals						0.373

Table 9: Constituent participation on the three consultation periods by geographic origin

	DP		ED1		ED2	
Geographic origin	**Respondents**	**%**	**Respondents**	**%**	**Respondents**	**%**
Europe	**69**	**41.32%**	**100**	**38.46%**	**69**	**34.16%**
U.K.	32	19.16%	32	12.31%	22	10.89%
France	7	4.19%	10	3.85%	10	4.95%
Germany	4	2.40%	12	4.62%	6	2.97%
European organisations	8	4.79%	10	3.85%	7	3.47%
Other countries	18	10.78%	36	13.85%	24	11.88%
North America	**36**	**21.56%**	**58**	**22.31%**	**42**	**20.79%**
U.S.	23	13.77%	33	12.69%	27	13.37%
Canada	9	5.39%	21	8.08%	13	6.44%
North American organisations	1	0.60%	1	0.38%	0	0.00%
Other countries	3	1.80%	3	1.15%	2	0.99%
Asia	**15**	**8.98%**	**39**	**15.00%**	**38**	**18.81%**
Australia & New Zealand	**18**	**10.78%**	**28**	**10.77%**	**19**	**9.41%**
International	**17**	**10.18%**	**18**	**6.92%**	**17**	**8.42%**
Africa	**9**	**5.39%**	**13**	**5.00%**	**11**	**5.45%**
Latin and South America	**2**	**1.20%**	**4**	**1.54%**	**6**	**2.97%**
NA	**1**	**0.60%**	**0**	**0.00%**	**0**	**0.00%**
Total	**167**	**100%**	**260**	**100%**	**202**	**100%**

Table 9 (continued)

Pearson χ2 for differences among periods (DP vs, ED1 and ED1 vs, ED2).
Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by geographic origin.

	North America	Asia	Australia & New Zealand	International	Africa	Latin & South America
Europe	0.857	0.026	0.978	0.616	0.877	0.287
North America		0.120	0.968	0.561	0.940	0.390
Asia			0.143	0.075	0.374	0.818
Australia & New Zealand				0.644	0.908	0.359
International					0.851	0.436
Africa						0.566

3.5. Research questions

3.5.1. Positions of constituents on the accounting model

Before examining the three issues, we refer to the first problem that faced the IASB in setting IFRS 17 was to determine the accounting model for insurance contracts, i.e. single model vs. two models. The insurance accounting practices at the time distinguished between two types of contracts, i.e. non-life (short-term) and life (long-term) contracts (IASB, 2017c). Besides, one of the main divergences between the IASB and the FASB is the IASB proposed a single model for all insurance contracts (IASB, 2017a), while the FASB was clearly in favour of a separation between life and non-life contracts and as already mentioned finally issued two different models (FASB, 2015 and 2016). Section 3.3.1 gives more details about the differences between the IASB and FASB visions.

The U.S. interest groups could be interested in lobbying on the insurance contracts project because the FASB participated in the development of IFRS 17 until 2014. Furthermore, U.S. preparers could also be interested if they had subsidiaries in countries that use IFRS, since having a common language would make decision making and the preparation of financial statement easier. Chatham et al. (2010) argue that in general U.S. stakeholders express different position from European constituents, concerning the accounting treatment of proposed IFRS. Indeed, U.S. constituents can be expected to oppose proposals that are not consistent with the accounting treatment under U.S. GAAP. We expect that the position of U.S. interest groups is different from the position of other countries about the accounting model, more precisely, they preferred a dual model.

Accounting on insurance contracts is characterised by some complexity that needs a good expertise to understand how to measure the different types of contracts. The literature argues that in order to increase their audit fees, the accounting profession (mainly Big Four auditing firms) agrees more with standard setters measures when complex accounting rules are proposed, than preparers and users (Puro, 1984; Cortese et al., 2010; Durocher and Fortin, 2011).

To preserve their relationship with the IASB, through developing standards and promoting the convergence between national and global accounting standards, national and regional standard setters from regions/countries that follow IFRS are expected to be more in agreement with the

IASB proposals (Giner and Arce, 2014). Therefore, we formulate the following research question:

<u>RQ1</u>: Is there any difference between the views of constituents on one versus two models due to their country of origin?

3.5.2. Positions of constituents on the key issues

Our next research question concerns the positions of constituents on the three key issues that were discussed on section 3.3.2, i.e. measurement of risk and margin, recognition of profit and presentation of volatility. The measurement issue is covered through the geographic origin by observing how constituents select the option of separation between the risk and the margin or the option of a single composite margin. The performance issue is dealt by interest group through the analysis of the constituents' preference about the recognition of profit over the coverage period or at the initial recognition of the contract. The presentation issue is analysed among constituents of interest groups, mainly by the preparers, observing the behaviour of the life and non-life insurers about the presentation of the volatility through two options: in profit and loss account or in other comprehensive income (OCI).

Regarding the measurement issue, the IASB had a different vision from that of the FASB. In fact, the U.S standard setter opted for a single composite margin, while the IASB for a separation between the risk adjustment and the residual margin. The IASB proposed both approaches on ED1 in order to have the opinions of different stakeholders. Therefore, from the divergence of vision between the FASB and the IASB during this period (ED1), we expect opposite opinions between U.S constituents (who are expected to agree more with FASB approach) and the constituents from other geographical origin (Chatham et al., 2010).

Concerning the performance issue, on the DP, the IASB proposed that a company would use inputs consistent with current exit value to measure its insurance contracts which represent the amount that the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity, i.e. transfer of liabilities to a third party (IASB, 2010b). Exit value model is interpreted as fair value selling price at initial recognition; this gives rise to "day one profits". Such profits rely on the entity being able to realize the asset at fair value in the future, i.e., with the profit emerging thereafter over the life of the contract (Whittington, 2008; Horton et al., 2011). On ED1 (IASB, 2010a) and ED2 (IASB, 2013), the IASB replaced the exit value notion with an approach that considers the cash flows that arise as a company fulfils the contracts. The unearned profit would be then recognised in the profit and loss account over the insurance coverage period. Therefore, we expect that preparers will be more in agreement with the recognition of profit over the coverage period because the recognition of any gain at inception of the contracts makes profits or losses visible immediately and increase volatility in profit (Post et al., 2007).

In respect of the presentation issue, the proposed accounting changes on insurance contracts are mainly expected to increase volatility in earnings (Kosi and Reither 2014). In addition, companies selling long-term (life) contracts are more sensitive to interest rate assumptions (Post et al., 2007). In that way, we consider that it is important for life insurers to be able to distinguish the impact of long-term market returns from short-term market fluctuations such as changes in discount rate. This distinction is important for life insurers in order to reduce volatility in earnings, such volatility being contradictory to the long-term stability of insurance contracts. So, we expect that life insurers will lobby more in order that changes in insurance liabilities caused by discount rate (market rate) fluctuation will be presented on the other comprehensive income (OCI). We formulate three independent questions to cover this issue.

RQ2:

1- Are there differences in opinion about the measurement issue between U.S. constituents and others?
2- Are there differences in opinion about the performance criteria between constituents regardless their interest group?
3- Are there differences in opinion about the presentation of volatility, this is using profit and loss account or OCI, between different preparers due to their main activity?

3.5.3. Strategies of persuasion

The following research question is related with the persuasion strategy of constituents, and thus refers to the strength of the responses in the comment letters and the kind of arguments used by stakeholders to influence the IASB. As Brown (1982) notes, standard setters are influenced by the strength of the comment letters. In their analysis of lobbying practises during the standard setting process of IFRS 2 *Share-Based Payments* (IASB, 2004a), Giner and Arce (2012) find that the greater the respondents' interest in the content of the final standard, the stronger their responses are. As most questions introduced in the three consultation periods preceding the publication of IFRS 17 concern the standardisation issues (85%), (such as measurement and recognition), which could have a significant impact on the accounting numbers, we expect preparers might have tried to persuade the standard setter using stronger responses than those of any constituent of other interest group.

To that end we identify the arguments used by stakeholders in their comment letters to justify their positions on the questions asked by the IASB. Prior research distinguishes between economic consequences arguments and conceptual arguments (Tutticci et al., 1994; Stenka and Taylor 2010; Giner and Arce, 2012).

As preparers are directly impacted by the changes arising from the proposed rules on insurance contracts, we expect that preparers may rely more on economic consequences arguments. On the other hand, the accounting profession may hesitate to use economic-based arguments because these arguments would conflict with the image of professionalism and objectivity favoured. So, we suggest that accounting professions may choose to provide conceptually based responses (Stenka and Taylor, 2010). We posit two independent questions:

RQ3:

1- Did the various interest groups demonstrate different levels of strength in their responses?
2- Do different interest groups, mainly preparers and accounting profession, use different arguments to influence the IASB?

3.5.4. Influence of lobbying activity

The last part of our empirical study is centred on the influence of lobbying activity. Research examining influence on the standard setter presents contradictory findings. This literature analyses to what extent the constituents lobbying positions are reflected in the views of the standard setters, or in other words what is the responsiveness of standard setters to constituents' suggestions in their comment letters; this could be seen in the final standard as well as in the several EDs. Some researchers find cases of success in lobbying influence where certain stakeholders exhibit greater levels of influence over the standard setting process (e.g. Nobes, 1992; Kwok and Sharp, 2005; Cortese et al., 2010), but the results are not generalisable. They refer to different standard setters, the IASC or the IASB. While other studies reveal evidence of the low impact of lobbyists submissions on the standard setter, which is not influenced by one or many groups (Saemann, 1999; Weetman, 2001; Giner and Arce, 2012; Bamber and McMeeking, 2016; Hewa et al., 2018).

In our study, we expect more influence from stakeholders during a consultation period when the IASB made changes afterwards. Regarding the measurement issue more influence is expected during the ED1 period, when the IASB proposed both approaches (i.e. separate risk adjustment with a residual margin or a single composite margin). Concerning the performance issue, we expect more influence from the DP to the ED1, when the IASB changed its vision about the recognition of profit. Finally, about the presentation of volatility, the influence could be particularly observed from the ED1 to the ED2, when the IASB proposed the mandatory use of OCI, as well as from the ED2 to the IFRS 17, when a softer approach was approved by the IASB.

RQ4: Did the IASB's decision-making appear to be influenced by any constituent of different interest groups or from various geographical origins?

3.6. Methodology

As Linsley and Shrives (2006) state, content analysis is a method of codifying text into various categories and can be used where a great amount of qualitative information needs to be analysed. Holder et al. (2013) resume the work of Milne and Adler (1999) that describes the content analysis and states this method comprises two steps. The first step is to frame the definition of categorisation and the second step is to set a formulation about "wha*t*" and "how" the text is coded, measured, and classified. If these two steps can be clearly framed and applied consistently in the procedure of content analysis, a more reliable conclusion from the analysis can be ensured. In doing content analysis, a range of measurement units can be used in order to measure the strength of the responses, e.g. number of documents, number of sentences (Milne and Adler, 1999).

We adopt a single-case approach by analysing comment letters sent by stakeholders during the different consultation periods (DP, ED1 and ED2) of insurance contracts project. To minimise subjectivity in our analysis of the comment letters, the selection of the issues is based on the invitation to comment included in the DP, on the responses, and on our consideration of the accounting underpinnings of the focal issues.

To control for subjectivity, we use the Kappa statistic for inter-annotator agreement, as suggested by Cohen (1960). We randomly selected 60 of the comment letters that had already been thoroughly read and analysed by the author of the thesis, and an assistant researcher replicated the analysis, she identified the position of the respondents in each key issue, independently. There were no significant differences between the two annotators in the issues analysed: [separate risk adjustment with a residual margin = 0.850 (3x3), single composite margin = 0.929 (3x3), initial recognition of profit = 0.972 (3x3), recognition of profit over the coverage period = 0.964 (2x2), presentation of volatility in profit and loss account = 0.817 (3x3), presentation of volatility in OCI = 0.816 (3x3), use of arguments (conceptual vs. economic consequences) = 0.751 (4x4), insurance contracts model (IASB vs. FASB) = 0.656 (3x3) all significant at 1%]. After comparison, it could be stated a high accordance of identifying the responses between both researchers, so that subjectivity in the dataset is reduced.

RQ1 examines the constituent positions on the insurance accounting model. We identify the position of each respondent (agree, disagree or no opinion) on the accounting model (i.e. the IASB single accounting model for all insurance contracts or FASB accounting model that separate between life and non-life contracts). We use the Pearson χ^2 or Fisher's exact tests to compare responses among groups or regions.

To test RQ2 linked to the constituent positions on the key issues. There are two options for each of the three issues: single composite margin or separate risk adjustment with a residual margin for measurement issue; initial recognition of profit or over the coverage period for performance issue; and presentation of volatility in profit and loss account or in OCI for presentation issue. We identify the position of each respondent (option 1, option 2, both options or no opinion) on the key issues selected for our study. We use the Pearson χ^2 or Fisher's exact tests to compare responses among groups or regions.

RQ3 investigates the strategies of persuasion. First, to measure the strength of the responses we count the number of pages and number of words in each letter (Unerman, 2000), and use the Two-sample Wilcoxon rank-sum (Mann-Whitney) test of pages and words for testing the equality of means between groups. Second, to identify the arguments used by the stakeholders, we categorise the responses that use conceptual arguments, economic consequences or both types of arguments. The comment letters that did not use arguments are codified as without arguments.

To observe the influence of lobbying activity (RQ4), we analyse the suggestions of the interest groups in the letters to the DP, ED1 and ED2. After that we compare the propositions with the changes made by the IASB in the ED1, ED2 and IFRS 17, respectively. Following Kwok and Sharp (2005) and Giner and Arce (2012), we code each letter linked with the DP, ED1 and ED2 based on its agreement with the outcome of the IASB's succeeding document (ED1, ED2 and IFRS 17) on each of the three key issues. The letter is coded (+1) if there is an agreement between a document and its subsequent one, (-1) in the case of disagreement and (0) for no opinion. We use a binominal test to verify if the final position of the IASB is aligned to the comment letters. To assess the significance of the constituents' influence, Fisher's exact test and chi-square goodness-of-fit test are conducted.

3.7. Results

3.7.1. Positions of constituents on the accounting model

RQ1 addresses the constituent positions on the accounting model. This is the IASB single accounting model for all insurance contracts versus the FASB accounting model that separates between life and non-life contracts. The results of the analyses are presented in Table 10.

Table 10 Panel A shows the results by consultation period. We can see that constituents were more supportive of the IASB model, chiefly at the ED1 period. However, it is remarkable the large percentage of responses that do not have a view on that. The χ^2 test shows no differences between the three periods of consultation.

Table 10 Panel B summarise the constituent positions on the accounting model by geographic origin. We observe that North America (mainly through U.S. constituents) was clearly in favour of the FASB model about the separation between life and non-life contracts. And it was the only jurisdiction that had that view. Moreover, this is the jurisdiction in which the least percentage of undecided constituents was observed. The Property Casualty Insurers Association of America said: "*life contracts and non-life contracts are so fundamentally different we believe separate accounting models are necessary to properly reflect the economic realities of each type of insurance contract*" (CL82 of the DP). About the IASB single model, Liberty Mutual (U.S. preparer) expressed: "*we disagree with the proposed solution (the IASB single model). It is the Company's opinion that the current U.S. GAAP* *accounting model used by our Non-life and life insurance companies is a functioning, well developed set of widely accepted*" (CL146 of the ED2). On the contrary, International constituents and stakeholders from Australia and New Zealand, as well as from Europe (mainly U.K constituents) were in favour of the IASB single model for all insurance contracts. The Association of Chartered Certified Accountants (U.K. accounting profession) said: "*We certainly prefer the full measurement approach be permitted for all types of contracts*" (CL171 of the ED1). The χ^2 test shows significant differences between North America and the rest of the regions (e.g. North America vs. Europe, $p = 0.000$).

The findings of the constituent positions on the accounting model by geographic origin are consistent with the predictions of Chatham et al. (2010). Indeed, U.S. constituents behaved differently from the constituents of other geographic origins, among them European stakeholders, who expressed more agreement with the IASB single model for all insurance contracts. So, the U.S. and European constituents expressed different positions regarding the accounting treatment of the proposed IFRS 17, and not surprisingly they were aligned with their respective standard setter.

Table 10 Panel C resumes the constituent positions on the accounting model by interest group. The results show that preparers were the only group more in agreement with the FASB model than with the IASB one. This suggests that most of constituents that were in favour of the separation between life and non-life contracts were the U.S. preparers. About the rest of the interest groups, regulators, actuaries and users were totally in favour of the IASB single insurance accounting model, while the accounting profession views were evenly distributed between the two models proposed. Interestingly the five academics did not express a view on that. The χ^2 test shows significant differences between preparers and the rest of constituents from other interest groups (e.g. preparers vs. regulators, $p = 0.000$).

The findings of the constituent positions on the accounting model by interest group are consistent with Giner and Arce (2012), they also show that there was an agreement of regulators (mainly accounting standard setters) with the IASB model. However, our results are in opposition to Puro (1984), Cortese et al. (2010), Durocher and Fortin (2011), because users were more in agreement with the IASB accounting model as the only three that give a view on this aspect preferred the IASB model, but within the accounting profession there was difference of opinions between the 12 that provided an answer about it.

Table 10 Panel D shows the results by type of contract. The findings indicate that the largest support of the FASB model came from preparers who are selling non-life contracts. The χ^2 test shows significant differences between life and non-life preparers (p = 0.004). And only multi-line preparers were more inclined towards the IASB model.

Table 10: Constituent positions on the accounting model.

***Panel A**: By consultation period.*

Consultation period	No opinion	%	FASB model	%	IASB model	%	Total	%
DP (2007)	126	75.45%	20	11.98%	21	12.57%	**167**	100%
ED1 (2010)	180	69.23%	28	10.77%	52	20.00%	**260**	100%
ED2 (2013)	155	76.73%	17	8.42%	30	14.85%	**202**	100%
Total	**461**	73%	**65**	10.33%	**103**	16.38%	**629**	**100%**

FASB Model: Two accounting standards for insurance contracts, i.e. one for short-term (non-life) and other for long-term (life) contracts.
IASB Model: a single standard for all insurance contracts.

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by consultation period.

	ED1 (2010)	ED2 (2013)
DP (2007)	0.138	0.468
ED1 (2010)		0.199

Table 10 (continued)

***Panel B**: By geographic origin.*

Geographic origin	No opinion	%	FASB model	%	IASB model	%	Total	%
North America	75	55.15%	53	38.97%	8	5.88%	136	100%
Europe	185	77.73%	2	0.84%	51	21.43%	238	100%
Asia	78	84.78%	5	5.43%	9	9.78%	92	100%
Australia & New Zealand	48	73.85%	2	3.08%	15	23.08%	65	100%
International	35	67.31%	3	5.77%	14	26.92%	52	100%
Africa	28	84.85%	0	0.00%	5	15.15%	33	100%
Latin & South America	11	91.67%	0	0.00%	1	8.33%	12	100%
Not Provided	1	100.00%	0	0.00%	0	0.00%	1	100%
Total	**461**	73.29%	**65**	10.33%	**103**	16.38%	**629**	**100%**

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by geographic origin.

	Europe	Asia	Australia & New Zealand	International
North America	0.000	0.000	0.000	0.000
Europe		0.003	0.350	0.027
Asia			0.066	0.025
Australia & New Zealand				0.658

Table 10 (continued)

***Panel C**: By interest group.*

Interest group	No opinion	%	FASB model	%	IASB model	%	Total	%
Preparers	220	67.90%	58	17.90%	46	14.20%	324	100%
Regulators	77	71.96%	1	0.93%	29	27.10%	107	100%
Accounting profession	69	85.19%	6	7.41%	6	7.41%	81	100%
Actuaries & Consultants	50	79.37%	0	0.00%	13	20.63%	63	100%
Users	22	88.00%	0	0.00%	3	12.00%	25	100%
Individuals	18	75.00%	0	0.00%	6	25.00%	24	100%
Academics	5	100.00%	0	0.00%	0	0.00%	5	100%
Total	**461**	73.29%	**65**	10.33%	**103**	16.38%	**629**	**100%**

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by interest group.

	Regulators	Accounting profession	Actuaries & Consultants
Preparers	0.000	0.008	0.001
Regulators		0.000	0.460
Accounting profession			0.009

Table 10 (continued)

***Panel D**: By preparer type of contract (Life vs. Non-life)*

Preparer type of contract	No opinion	%	FASB model	%	IASB model	%	Total	%
Life	94	75.81%	19	15.32%	11	8.87%	124	100%
Non-Life	45	55.56%	28	34.57%	8	9.88%	81	100%
Multi-line	28	47.46%	11	18.64%	20	33.90%	59	100%
Total	**167**	63.26%	**58**	21.97%	**39**	14.77%	**264**	**100%**

This analysis was done only on preparers that offer insurance contracts, i.e. all companies and associations proposing life, non-life or multi-line contracts. The sample include all preparers of insurance area, i.e. insurers, reinsurers, mutual and multisectoral, that represent 246 respondents. In addition to 15 preparers of financial sector and 3 preparers of another sector. Thus, the total is 264 preparers.

Probabilities of Pearson $\chi 2$ or Fisher's exact test for pairwise differences by preparer type of contact (Life vs. Non-life)

	Non-Life	Multi-line
Life	0.004	0.000
Non-Life		0.001

3.7.2. Positions of constituents on the key issues

RQ2 investigates the constituent positions on the three key issues selected for our study, i.e. measurement, performance and presentation. The findings are presented in Tables 11 to 14.

Table 11 summarises the number of key issues (i.e. 0, 1, 2, or 3 issues) addressed by the constituents of the different interest groups. The results indicate that 17% of respondents answered to one issue, 35% responded to two issues and 26% commented all three issues. Stakeholders expressed more opinions on the performance issue, following by the presentation (volatility) and finally the measurement (non-tabulated). The χ^2 test shows that regulators and actuaries followed the same strategy on commenting one issue as well as commenting 3 issues (p = 0.695).

Table 12 displays the results of the constituent positions on both approaches of the measurement issue that we have distinguished (i.e. separate risk adjustment with a residual margin or a single composite margin). The percentage of "no opinions" on measurement issue is 57%, which is the highest in comparison with the other issues selected.

Table 12 Panel A compares the constituent positions on the measurement issue among the consultation periods. The results indicate that interest groups expressed more positions on the ED1 period when the IASB sought the stakeholder's views on the best approach for determining the margin. This led to a lower percentage of "no opinions" in ED1 (31%) than DP (69%) and ED2 (80%). Furthermore, most of those that responded ED1 were more in favour of a separation between the risk adjustment and the residual margin (44%) rather than a single composite margin (15%). In addition, we observe that in ED1, 10% of the respondents were in favour of using both approaches. The χ^2 tests between consultation periods show significant differences between DP and ED1 (p = 0.000) and between ED1 and ED2 (p = 0.000).

Table 12 Panel B summarises the constituent positions on the measurement issue by geographic origin. We observe that constituents prefer the option of separation between the risk adjustment and the residual margin (29%) rather than the option of a single composite margin (9%). Some constituents (mostly international) prefer both approaches (5%). The results show that North Americans behaved differently from the constituents of other geographic origins. Indeed, North Americans were clearly in favour of the FASB approach, i.e. single composite margin, for instance American Council of Life Insurers (ACLI) expressed that: "*The majority view of the ACLI members is that the composite margin approach better reflects the nature of the business and that the measurement of any asset and liability should be based on the terms of the contract with policyholders*" (CL2 of the ED1). While constituents from other regions chose the IASB approach, i.e., separate risk adjustment with a residual margin. The Institute for the Accountancy Profession (Sweden) said: "*We support the proposed separate recognition of two different margins and not the recognition of a single composite margin. The insurer requires a risk margin as compensation from the policyholder for relieving the policyholder of insurance risk due to the inherent uncertainties of the insured event to occur or not*" (CL112 of the ED1). The χ^2 tests show a significant difference (p = 0.000) between North America (mostly U.S. constituents) and Europe (mostly U.K. constituents).

The results are in accordance with Chatham et al. (2010) regarding the divergence between U.S. stakeholders and constituents of other geographic origin.

Table 11: Number of key issues addressed by interest group (0, 1, 2 or all 3 issues)

	Preparers	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics	Total	%
No issue	85	11	6	10	9	13	5	139	22.10%
1 issue	56	15	18	9	2	5	0	105	16.69%
2 issues	110	48	22	24	12	4	0	220	34.98%
3 issues	73	33	35	20	2	2	0	165	26.23%
Total	**324**	**107**	**81**	**63**	**25**	**24**	**5**	**629**	**100%**

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences between groups

	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.002	0.000	0.194	0.132	0.015	0.004
Regulators		0.046	0.695	0.004	0.000	0.000
Accounting profession			0.111	0.000	0.000	0.000
Actuaries & Consultants				0.039	0.001	0.000
Users					0.112	0.077
Individuals						0.297

Table 12: Constituent positions on the measurement issue

***Panel A**: The position of each constituent on the **measurement** issue by consultation period.*

Consultation period	No op.	%	Separate	%	Single	%	Both	%	Total	%
DP (2007)	116	69.46%	36	21.56%	14	8.38%	1	0.60%	**167**	100%
ED1 (2010)	80	30.77%	114	43.85%	38	14.62%	28	10.77%	**260**	100%
ED2 (2013)	161	79.70%	31	15.35%	7	3.47%	3	1.49%	**202**	100%
Total	**357**	56.76%	**181**	28.78%	**59**	9.38%	**32**	5.09%	**629**	**100%**

Separate: Separate risk adjustment with a residual margin (IASB vision).
Single: Single composite margin (FASB vision).

*Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by consultation period on the **measurement** issue.*

	ED1 (2010)	ED2 (2013)
DP (2007)	0.000	0.051
ED1 (2010)		0.000

Table 12 (continued)

***Panel B**: The position of each constituent on the **measurement** issue by geographic origin.*

Geographic origin	No op.	%	Separate	%	Single	%	Both	%	Total	%
North America	84	61.76%	13	9.56%	31	22.79%	8	5.88%	**136**	100%
Europe	132	55.46%	91	38.24%	9	3.78%	6	2.52%	**238**	100%
Asia	54	58.70%	21	22.83%	11	11.96%	6	6.52%	**92**	100%
Australia & New Zealand	33	50.77%	27	41.54%	4	6.15%	1	1.54%	**65**	100%
International	26	50.00%	16	30.77%	1	1.92%	9	17.31%	**52**	100%
Africa	19	57.58%	10	30.30%	3	9.09%	1	3.03%	**33**	100%
Latin & South America	8	66.67%	3	25.00%	0	0.00%	1	8.33%	**12**	100%
Not Provided	1	100.00%	0	0.00%	0	0.00%	0	0.00%	**1**	100%
Total	**357**	56.76%	**181**	28.78%	**59**	9.38%	**32**	5.09%	**629**	**100%**

Separate: Separate risk adjustment with a residual margin (IASB vision).
Single: Single composite margin (FASB vision).

*Probabilities of Pearson $\chi 2$ or Fisher's exact test for pairwise differences by geographic origin on the **measurement** issue.*

	Europe	Asia	Australia & New Zealand	International	Africa	Latin & South America
North America	0.000	0.018	0.000	0.000	0.010	0.150
Europe		0.002	0.745	0.000	0.496	0.454
Asia			0.041	0.029	0.739	0.655
Australia & New Zealand				0.015	0.699	0.292
International					0.115	0.717
Africa						0.603

Table 13 displays the results of the constituent positions on both approaches of the performance issue (i.e. initial recognition of profit or over the coverage period). The percentage of “no opinions” on performance issue is 36%, which is the lowest among the issues under study.

Table 13 Panel A compares the constituent positions on the performance issue among the consultation periods. On the DP period, i.e. when the IASB proposed the initial recognition of profit approach, we observe that 30% of interest groups agreed with this option. However, during that period, 22% of stakeholders expressed their preference for another approach to deal with performance, which is the recognition of profit over the coverage period. Furthermore, on that period, 12% of interest groups selected both approaches. Then, on the ED1 period, when the IASB proposed the option of recognition of profit over the coverage period, most stakeholders who expressed position on performance issue were in favour of that option (59%), and few of them maintained the DP positions which is initial recognition of profit (4%). The ED2 period confirms the change because a large part of interest groups preferred the recognition of profit over the coverage period to the initial recognition of profit. The χ^2 tests show a significant difference between the DP and the ED1 (p = 0.000), and between the DP and ED2 (p = 0.000).

Table 13 Panel B summarises the constituent positions on the performance issue by interest group. We note that constituents were more favourable to the recognition of profit over the coverage period, indeed, half of respondents to the three consultation periods preferred this approach, mainly regulators (55%), preparers (52%) and the accounting profession (47%). For instance, the Institute of Chartered Accountants of Pakistan stated: "*It is not prudent to measure profits on contracts before the service is rendered (this being rendered by the cover being provided over the contract period)*" (CL167 of the ED1). On the other hand, 9% of stakeholders selected the option of initial recognition of profit, essentially the accounting profession (19%), regulators (18%), and actuaries and consultants (13%), while only 5% of preparers chose that approach. For example, QBE Insurance Group, a preparer from Australia said: "*We support the recognition of day one profits and believe that it is consistent with the aims of the exit value model and is conceptually valid*" (CL4 of the DP).

The above results show that preparers were against the exit value model which allows companies to recognise any gain initially. In fact, this could be interpreted by a preference of preparers for the recognition of the unearned profit over the coverage period in profit and loss.

The χ^2 tests show a significant difference between preparers and regulators (p = 0.000), between preparers and accounting profession (p = 0.000), and between preparers and actuaries and consultants (p = 0.001).

The results are in accordance with Post et al. (2007) regarding the preparers' preference for the recognition of profit over the coverage period (over the life of the contract), rather than the initial recognition of profit which could increase volatility in profit.

The third key issue is presented on Table 14. It includes the results of the constituent positions on both approaches of the presentation issue (i.e. volatility in profit and loss account or in OCI). The percentage of "no opinions" on presentation issue is 43%.

Table 14 Panel A compares the constituent positions on the presentation issue among the consultation periods. We see that interest groups expressed more clearly their views at the ED2 period (only 17% did not provide their views), when the IASB proposed the mandatory presentation of volatility in OCI, rather than in profit and loss account. Indeed, the percentage of "no opinions" decreased considerably from the DP (63%) to the ED2 (17%). Therefore, on the ED2 period, the results show that stakeholders were clearly in favour of using both approaches (48%). This could be explained by the opposition of stakeholders to the mandatory use of OCI and their agreement with the softer approach (i.e. to choose between both options of the presentation of volatility). The χ^2 tests show a significant difference between the three consultation periods (p = 0.000).

Table 14 Panel B compares the constituent positions on the presentation issue by interest group. The results indicate 22% of stakeholders preferred using both options of the presentation of volatility, mainly regulators (34%), and actuaries and consultants (33%). For instance, the Dutch Accounting Standards Board (DASB) stated: "*the mandatory use of OCI for changes in the discount rate may create new accounting mismatches. Therefore, in our opinion there should be an option to use OCI or profit or loss*" (CL17 of the ED2). Concerning the rest of interest groups who expressed positions, 20% and 15% of them selected only one approach for the presentation of volatility, i.e. in profit and loss account or in OCI, respectively. For examples, Ernst & Young said: "*the effect of changes in discount rates on their insurance liabilities in profit or loss, rather than to require the use of OCI for insurance liabilities*" (CL 167 of the ED2), while Financial Supervisory Service, a regulator from South Korea stated: "*we believe that the changes in insurance liabilities caused by* *discount rate (market rate) fluctuation should be recognized as other comprehensive income*" (CL39 of the ED1).

Table 14 Panel C compares the constituent positions on the presentation issue by preparer type of contract. We see that preparers selling non-life contracts were in favour of the presentation of volatility in profit and loss account, e.g. Insurance Australia Group (IAG) expressed that: "*The recognition of the effect of changes in discount rates in profit or loss has been widely understood and accepted by users of the accounts*" (CL33 of the ED2)., while preparers selling life contracts were in favour of the presentation of volatility in OCI, e.g. Ping An Insurance (Group) Company of China said: "*We agree with the proposal that part of the changes in the discount is recognized in other comprehensive income to reduce the volatility of profits*" (CL39 of the ED2). This could be explained by the long-term nature of the contracts proposed by life companies, which expose them to a huge volatility in profit. Indeed, life companies are tempted to reduce the volatility in profit and loss by recognising the changes from market fluctuations (e.g. changes in discount rates) in OCI. In addition, we observe that most of those preparers that sell multi-line contracts (i.e. both life and non-life contracts) selected both approaches of the presentation of volatility. The χ^2 test shows a significant difference between life and non-life preparers on the presentation of volatility in profit and loss ($p = 0.000$), but also between the other groups.

Our findings about the behaviour of life and non-life prepares on the presentation of volatility are in accordance with previous works (Post et al., 2007; Kosi and Reither, 2014).

Table 13: Constituent positions on the performance issue

Panel A*: The position of each constituent on the* ***performance*** *issue by consultation period.*

Consultation period	No op.	%	Initial	%	Coverage	%	Both	%	Total	%
DP (2007)	59	35.33%	50	29.94%	37	22.16%	21	12.57%	**167**	100%
ED1 (2010)	87	33.46%	10	3.85%	153	58.85%	10	3.85%	**260**	100%
ED2 (2013)	81	40.10%	0	0.00%	116	57.43%	5	2.48%	**202**	100%
Total	**227**	36.09%	**60**	9.54%	**306**	48.65%	**36**	5.72%	**629**	**100%**

Initial: Recognition of profit at the initial recognition of the contract.
Coverage: Recognition of profit over the coverage period.

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by consultation period on the ***performance*** *issue.*

	ED1 (2010)	ED2 (2013)
DP (2007)	0.000	0.000
ED1 (2010)		0.020

Table 13 (continued)

***Panel B**: The position of each constituent on the **performance** issue by **interest group**.*

Interest group	No op.	%	Initial	%	Coverage	%	Both	%	Total	%
Preparers	123	37.96%	16	4.94%	169	52.16%	16	4.94%	**324**	100%
Regulators	29	27.10%	19	17.76%	59	55.14%	0	0.00%	**107**	100%
Accounting profession	22	27.16%	15	18.52%	38	46.91%	6	7.41%	**81**	100%
Actuaries & Consultants	19	30.16%	8	12.70%	26	41.27%	10	15.87%	**63**	100%
Users	12	48.00%	2	8.00%	9	36.00%	2	8.00%	**25**	100%
Individuals	17	70.83%	0	0.00%	5	20.83%	2	8.33%	**24**	100%
Academics	5	100.00%	0	0.00%	0	0.00%	0	0.00%	**5**	100%
Total	**227**	36.09%	**60**	9.54%	**306**	48.65%	**36**	5.72%	**629**	**100%**

Initial: Recognition of profit at the initial recognition of the contract.
Coverage: Recognition of profit over the coverage period.

*Probabilities of Pearson $\chi 2$ or Fisher's exact test for pairwise differences by interest group on the **performance** issue.*

	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.000	0.000	0.001	0.451	0.007	0.047
Regulators		0.036	0.000	0.003	0.000	0.002
Accounting profession			0.334	0.219	0.001	0.009
Actuaries & Consultants				0.407	0.005	0.019
Users					0.263	0.205
Individuals						0.382

Table 14: Constituent positions on the presentation issue

***Panel A**: The position of each constituent on the **presentation** issue by consultation period.*

Consultation period	No op.	%	P&L	%	OCI	%	Both	%	Total	%
DP (2007)	105	62.87%	42	25.15%	6	3.59%	14	8.38%	**167**	100%
ED1 (2010)	130	50.00%	52	20.00%	53	20.38%	25	9.62%	**260**	100%
ED2 (2013)	35	17.33%	33	16.34%	37	18.32%	97	48.02%	**202**	100%
Total	**270**	42.93%	**127**	20.19%	**96**	15.26%	**136**	21.62%	**629**	**100%**

P&L: Presentation of volatility in profit and loss account.
OCI: Presentation of volatility in other comprehensive income.

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by consultation period on the **presentation** issue.

	ED1 (2010)	ED2 (2013)
DP (2007)	0.000	0.000
ED1 (2010)		0.000

Table 14 (continued)

Panel B: *The position of each constituent on the* ***presentation*** *issue by interest group.*

Interest group	No op.	%	P&L	%	OCI	%	Both	%	Total	%
Preparers	145	44.75%	62	19.14%	56	17.28%	61	18.83%	**324**	100%
Regulators	38	35.51%	17	15.89%	16	14.95%	36	33.64%	**107**	100%
Accounting profession	26	32.10%	31	38.27%	10	12.35%	14	17.28%	**81**	100%
Actuaries & Consultants	22	34.92%	10	15.87%	10	15.87%	21	33.33%	**63**	100%
Users	14	56.00%	4	16.00%	4	16.00%	3	12.00%	**25**	100%
Individuals	20	83.33%	3	12.50%	0	0.00%	1	4.17%	**24**	100%
Academics	5	100.00%	0	0.00%	0	0.00%	0	0.00%	**5**	100%
Total	**270**	42.93%	**127**	20.19%	**96**	15.26%	**136**	21.62%	**629**	**100%**

P&L: Presentation of volatility in profit and loss account.
OCI: Presentation of volatility in other comprehensive income.

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by interest group on the ***presentation*** *issue.*

	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.017	0.003	0.079	0.711	0.002	0.109
Regulators		0.003	0.999	0.146	0.000	0.038
Accounting profession			0.015	0.098	0.000	0.024
Actuaries & Consultants				0.177	0.000	0.042
Users					0.103	0.324
Individuals						0.617

Table 14 (continued)

***Panel C**: The position of each constituent on the **presentation** issue by preparer type of contract (life vs. non-life).*

Preparer type of contract	No op.	%	P&L	%	OCI	%	Both	%	Total	%
Life	61	49.19%	13	10.48%	28	22.58%	22	17.74%	**124**	100%
Non-Life	30	37.04%	30	37.04%	6	7.41%	15	18.52%	**81**	100%
Multi-line	15	25.42%	12	20.34%	14	23.73%	18	30.51%	**59**	100%
Total	**106**	40.15%	**55**	20.83%	**48**	18.18%	**55**	20.83%	**264**	**100%**

P&L: Presentation of volatility in profit and loss account.
OCI: Presentation of volatility in other comprehensive income.

*Probabilities of Pearson $\chi 2$ or Fisher's exact test for pairwise differences by preparer type of contract on the **presentation** issue.*

	Non-Life	Multi-line
Life	0.000	0.010
Non-Life		0.005

3.7.3. Strategies of persuasion

RQ3 addresses the strategies of persuasion. First, we measure the strength of the responses, then, we observe the different arguments used by the stakeholders all over the comment letters in order to justify their positions. We focus on two kind of arguments: economic consequences arguments and conceptual arguments (Tutticci et al., 1994).

In measuring the strength of the responses, we count the number of pages and number of words in each comment letter (Unerman, 2000). No matter the metric we use, Table 15 indicates that actuaries, accounting profession and regulators sent the longest letters, followed by preparers, whereas users and individuals sent the shortest ones. The Mann-Whitney U test shows significant differences between preparers and the rest of the constituents as regards pages. Furthermore, the Mann-Whitney U tests on pages and words shows no significant differences between actuaries, accounting profession and regulators. Our results on the length of letters are in accordance with the findings of Giner and Arce (2012) concerning preparers and the accounting profession. However, our prediction that preparers should provide the longest responses, as they were the most impacted by IFRS 17 was not confirmed in our analysis.

Table 16 displays the results of the constituent arguments. We note that stakeholders employed more conceptual arguments (242) than economic consequences arguments (125). Besides, we identified a large number of no arguments (142) and both arguments (120), mainly in the preparers group. Preparers used arguments much more frequently than any constituent of other interest group did, but they employed more arguments related to economic consequences. On the other hand, regulators and accounting profession relied more on conceptual arguments. The findings are consistent with the results of Stenka and Taylor, (2010), and Giner and Arce (2012).

Table 15: Strength of the responses

Number of pages and words in the responses

Interest group	Pages		Words	
	Mean	Std. dev.	Mean	Std. dev.
Preparers	12.00	10.70	5211.07	4883.83
Regulators	14.26	11.30	5807.93	4640.78
Accounting profession	14.89	12.17	6314.37	5719.57
Actuaries & Consultants	15.95	13.03	6865.65	6217.85
Users	7.40	5.08	3135.12	2469.90
Individuals	5.42	5.81	2075.00	2114.55
Academics	11.00	21.25	3885.00	7336.96

Table 15 (continued)

*Two-sample Wilcoxon rank-sum (Mann-Whitney) test of **Pages***
Probability of Mann-Whitney U test for pairwise differences between groups

Pages	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.020	0.017	0.009	0.045	0.000	0.046
Regulators		0.697	0.428	0.002	0.000	0.025
Accounting profession			0.877	0.001	0.000	0.035
Actuaries & Consultants				0.001	0.000	0.049
Users					0.048	0.139
Individuals						0.445

*Two-sample Wilcoxon rank-sum (Mann-Whitney) test of **Words***
Probability of Mann-Whitney U test for pairwise differences between groups

Words	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.083	0.066	0.042	0.046	0.000	0.060
Regulators		0.746	0.426	0.005	0.000	0.027
Accounting profession			0.806	0.005	0.000	0.054
Actuaries & Consultants				0.002	0.000	0.038
Users					0.034	0.156
Individuals						0.453

Table 16: Arguments used by the constituents

	Preparers	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics	Total
Economic cons	115	1	4	5	0	0	0	125
Conceptual	26	80	69	42	15	10	0	242
Both	98	14	1	6	1	0	0	120
Without arguments	85	12	7	10	9	14	5	142
Total	**324**	**107**	**81**	**63**	**25**	**24**	**5**	**629**

Probabilities of Pearson χ2 or Fisher's exact test for pairwise differences by interest group.

	Regulators	Accounting profession	Actuaries & Consultants	Users	Individuals	Academics
Preparers	0.000	0.000	0.000	0.000	0.000	0.004
Regulators		0.008	0.073	0.017	0.000	0.000
Accounting profession			0.034	0.005	0.000	0.000
Actuaries & Consultants				0.104	0.001	0.000
Users					0.216	0.032
Individuals						0.075

3.7.4. Influence of lobbying activity

To answer RQ4 that deals with the influence of lobbying activity, we perform binomial tests to assess whether the IASB aligned itself with the majority of respondents who had explicitly put forward the changes about the three key issues under study. We focus on four key changes made by the IASB as they arise in ED1, ED2, and the final standard IFRS 17. In this way, we analyse whether such changes are in line with the positions of respondents in the DP, ED1, and ED2, respectively. Key change 1 is related with the performance issue, when the IASB changed its proposal from the initial recognition of profit (DP period) to the recognition of profit over the coverage period (ED1 period). Key change 2 concerns the measurement issue, when in ED2 period the IASB validated only one approach to determine the margin (i.e. separation between the risk adjustment and the residual margin), and removed that of single composite margin, proposed during the ED1 period. Key change 3 is linked with the decision of the IASB for a mandatory presentation of the volatility in OCI (ED2 period), while before it was presented in profit and loss account (ED1 period). Key change 4 is also related with the presentation issue, when in the final IFRS 17 the IASB decided to abandon the mandatory use of OCI in favour of a softer approach (i.e. the option to choose between profit and loss account or OCI).

Table 17, consisting of four panels, refers to binomial tests about the potential influence exerted by constituents of different interest groups and from various geographic origins on the IASB, i.e. agreement (+1), disagreement (-1) and no opinion (0), for each of the four key changes. To assess the significance of the constituents' influence, Fisher's exact test and chi-square goodness-of-fit test are conducted. These tests factor the proportion of each constituent's representation relative to the total number of comment letters into the expected value calculation.

Table 17 Panel A summarises the results of key change 1 about the constituent opinion in DP and the outcome in ED1 by interest group and by geographic origin, regarding the performance issue. Binomial tests show that the number of times it is coded -1 (i.e., representing disagreement) exceeded the number of times it is coded +1 (i.e., representing agreement). Indeed, we observe that the IASB changed the basic proposal (i.e. initial recognition of profit) and proposed another option, i.e. recognition of profit over the coverage period. This change was unexpected because the IASB was in line with the minority of respondents (37) comparing with those who did not agree with the IASB (50). Nevertheless, preparers showed a high representation (59%) among those who likely influenced the IASB. However, according to the significance score of 0.135, it was not evident that any interest group had exerted significant influence on the IASB to introduce the recognition of profit over the coverage period. Furthermore, the Fisher's exact test by geographical origin shows a significance score of 0.117, suggesting no significant influence on the IASB due to the origin of the comment letters.

Table 17 Panel B reports results for key change 2 about the constituent opinion in ED1 and the outcome in ED2 by interest group and by geographic origin, regarding the measurement issue. Binomial tests show that the number of times it is coded +1 (114) is significantly higher that the number of times it is coded -1 (38). It appears that the IASB aligned itself with the preferences of the majority of the constituents of different interest groups and from various geographical origins. As shown in the "agreement with the change", preparers represented 45% of the constituents whose inputs were included in the ED1 period, followed by regulators (19%) and the accounting profession (17%). The significance score of 0.936 shows that no significant influence was exerted by any constituent from the different interest groups on the IASB, in confirming the separation between the risk adjustment and the residual margin as the main measurement approach to determine the margin. However, the chi-square goodness-of-fit test significance score of 0.016 ($p < 0.05$) demonstrates that significant influence was exerted by constituents from various geographical origins on the IASB to adopt the approach of separation between the risk adjustment and the residual margin (i.e. the IASB approach). Concerning those who disagreed with the IASB, they were mainly composed from North American constituents (60%), who were in favour of the FASB approach (i.e., single composite margin).

Table 17 Panel C recapitulates the results of key change 3 about the opinion of constituents in ED1 and the outcome in ED2 by interest group and by geographic origin, concerning the presentation issue. Binomial tests show that the number of times it is coded +1 (53) exceeds very slightly the number of times it is coded -1 (52). Consequently, the IASB followed the constituents who were in favour of the mandatory use of OCI for the presentation of volatility rather than those who were in favour of using the profit and loss account. In "agreement with the change", preparers held a majority of the representation (64%) followed by accounting profession (17%), and actuaries and consultants (11%). As per Fisher’s exact test score of 0.394 (statistically insignificant), no significant influence was exerted on the IASB. Among the regions that influenced the IASB, it is Europe which most agreed (51%) with the change (i.e., the mandatory use of OCI), with notably a strong support from European preparers. Fisher’s exact test score of 0.238 shows that there was no difference in influence due to the geographical origin.

Table 17 Panel D summarises the results of the key change 4 about the constituent opinion in ED2 and the outcome in IFRS 17 by interest group and by geographic origin, regarding the presentation issue. Binomial tests evidence that the number of participants expressing explicit agreement (i.e., representing influence) exceeded the number of participants who explicitly disagreed (i.e., representing no influence). The results demonstrate that the IASB aligned itself with the position of the majority, who argued the softer approach for the presentation of volatility (i.e. the option to choose between profit and loss account or OCI). Nevertheless, Fisher’s exact tests results shows that influence of constituents by interest groups (score of 0.274) and by geographical origins (score of 0.093), were not significant.

To resume our results on the influence of the lobbying activity, we can say that from the four key changes made, the IASB aligned itself with the proposals of the majority of stakeholders on three of them, related with measurement or presentation issues. These changes were observed from ED1 to ED2 or from ED2 to IFRS 17 (i.e., when the main issues of the standard are proposed, and consequently, when stakeholders are tending to exercise more influence on the IASB). As regards the key change related with performance issue, the IASB was in line with the minority (mainly preparers), but this influence was not significant. In addition, this key change (i.e., from the initial recognition of profit to the recognition of profit over the coverage period) was during the DP period, which proposed preliminary views, and thus when less lobbying activity was exerted by stakeholders.

Our results of the influence of lobbying activity within the due process of IFRS 17 are in accordance with the literature that demonstrate the low impact of lobbyists submissions on the standard setter (Saemann, 1999; Weetman, 2001; Giner and Arce, 2012; Bamber and McMeeking, 2016; Hewa et al., 2018).

Table 17: Binominal tests on key changes (Influence of lobbying activity)

Panel A: *Key change 1 from DP to ED1 about performance issue.*

Key change 1	**Total**	**(-1)**	**%**	**0**	**%**	**(+1)**	**%**	**Significance**
By interest group								0.135
Preparers	79	13	26.00%	44	55.00%	22	59.46%	
Regulators	29	18	36.00%	5	6.25%	6	16.22%	
Accounting profession	26	14	28.00%	8	10.00%	4	10.81%	
Actuaries & Consultants	17	4	8.00%	9	11.25%	4	10.81%	
Users	6	1	2.00%	4	5.00%	1	2.70%	
Individuals	8	0	0.00%	8	10.00%	0	0.00%	
Academics	2	0	0.00%	2	2.50%	0	0.00%	
Total	**167**	**50**		**80**		**37**		
By geographical origin								0.117
North America	36	9	18.00%	14	17.50%	13	35.14%	
Europe	69	17	34.00%	36	45.00%	16	43.24%	
Asia	15	7	14.00%	7	8.75%	1	2.70%	
Australia & New Zealand	18	5	10.00%	8	10.00%	5	13.51%	
International	17	8	16.00%	9	11.25%	0	0.00%	
Africa	9	4	8.00%	5	6.25%	0	0.00%	
Latin and South America	2	0	0.00%	0	0.00%	2	5.41%	
Not provided	1	0	0.00%	1	1.25%	0	0.00%	
Total	**167**	**50**		**80**		**37**		

(+1): agreeing with change; (**0**)**:** Neutral; **(-1):** disagreeing with change

Table 17 (continued)

Panel B: *Key change 2 from ED1 to ED2 about measurement issue*

Key change 2	**Total**	**(-1)**	**%**	**0**	**%**	**(+1)**	**%**	**Significance**
By interest group								0.936
Preparers	141	22	57.89%	68	62.96%	51	44.74%	
Regulators	40	7	18.42%	11	10.19%	22	19.30%	
Accounting profession	28	3	7.89%	6	5.56%	19	16.67%	
Actuaries & Consultants	24	2	5.26%	8	7.41%	14	12.28%	
Users	14	1	2.63%	9	8.33%	4	3.51%	
Individuals	12	3	7.89%	5	4.63%	4	3.51%	
Academics	1	0	0.00%	1	0.93%	0	0.00%	
Total	**260**	**38**		**108**		**114**		
By geographical origin								0.016*
North America	58	23	60.53%	25	23.15%	10	8.77%	
Europe	100	1	2.63%	38	35.19%	61	53.51%	
Asia	39	10	26.32%	17	15.74%	12	10.53%	
Australia & New Zealand	28	3	7.89%	10	9.26%	15	13.16%	
International	18	0	0.00%	12	11.11%	6	5.26%	
Africa	13	1	2.63%	3	2.78%	9	7.89%	
Latin and South America	4	0	0.00%	3	2.78%	1	0.88%	
Total	**260**	**38**		**108**		**114**		

(+1): agreeing with change; (**0**)**:** Neutral; **(-1):** disagreeing with change

Table 17 (continued)

Panel C: *Key change 3 from ED1 to ED2 about presentation issue*

Key change 3	**Total**	**(-1)**	**%**	**0**	**%**	**(+1)**	**%**	**Significance**
By interest group								0.394
Preparers	141	22	42.31%	85	54.84%	34	64.15%	
Regulators	40	7	13.46%	24	15.48%	9	16.98%	
Accounting profession	28	11	21.15%	14	9.03%	3	5.66%	
Actuaries & Consultants	24	7	13.46%	11	7.10%	6	11.32%	
Users	14	3	5.77%	10	6.45%	1	1.89%	
Individuals	12	2	3.85%	10	6.45%	0	0.00%	
Academics	1	0	0.00%	1	0.65%	0	0.00%	
Total	**260**	**52**		**155**		**53**		
By geographical origin								0.238
North America	58	10	19.23%	35	22.58%	13	24.53%	
Europe	100	15	28.85%	58	37.42%	27	50.94%	
Asia	39	9	17.31%	21	13.55%	9	16.98%	
Australia & New Zealand	28	10	19.23%	16	10.32%	2	3.77%	
International	18	3	5.77%	14	9.03%	1	1.89%	
Africa	13	5	9.62%	8	5.16%	0	0.00%	
Latin and South America	4	0	0.00%	3	1.94%	1	1.89%	
Total	**260**	**52**		**155**		**53**		

(+1): agreeing with change; (**0**)**:** Neutral; **(-1):** disagreeing with change

Table 17 (continued)

Panel D: *Key change 4 from ED2 to IFRS 17 about presentation issue*

Key change 4	Total	(-1)	%	0	%	(+1)	%	Significance
By interest group								0.274
Preparers	104	36	51.43%	23	65.71%	45	46.39%	
Regulators	38	9	12.86%	3	8.57%	26	26.80%	
Accounting profession	27	18	25.71%	1	2.86%	8	8.25%	
Actuaries & Consultants	22	5	7.14%	2	5.71%	15	15.46%	
Users	5	2	2.86%	1	2.86%	2	2.06%	
Individuals	4	0	0.00%	3	8.57%	1	1.03%	
Academics	2	0	0.00%	2	5.71%	0	0.00%	
Total	**202**	**70**		**35**		**97**		
By geographical origin								0.093
North America	42	5	7.14%	10	28.57%	27	27.84%	
Europe	69	23	32.86%	12	34.29%	34	35.05%	
Asia	38	23	32.86%	5	14.29%	10	10.31%	
Australia & New Zealand	19	7	10.00%	1	2.86%	11	11.34%	
International	17	4	5.71%	3	8.57%	10	10.31%	
Africa	11	7	10.00%	2	5.71%	2	2.06%	
Latin and South America	6	1	1.43%	2	5.71%	3	3.09%	
Total	**202**	**70**		**35**		**97**		

(+1): agreeing with change; (**0**): Neutral; **(-1):** disagreeing with change

3.8. The implementation concerns of IFRS 17

Before concluding this thesis, we think it is necessary to address the current situation of the implementation of IFRS17. In September 2018, EFRAG sent a letter to the IASB where concerns about implementation issues had been identified. Indeed, in the process of preparing a draft endorsement advice on IFRS 17, EFRAG conducted important outreach activities with different European constituents (mainly with insurance companies and users). These constituents raised concerns that were reviewed by the EFRAG Board. Consequently, EFRAG proposed 6 issues that merit further consideration by the IASB. These issues are linked with the topics of acquisition costs, contractual service margin amortisation, reinsurance contracts held, transition, annual cohort, and balance sheet presentation (EFRAG, 2018). In addition, three European supervisory authorities, i.e. the EBA, EIOPA and ESMA have jointly written a letter (in October 2018) to EFRAG to express concerns on the endorsement process for IFRS 17 (ESA, 2018).

At the same time, the IASB identified the main concerns and implementation challenges that had been raised by stakeholders during their IFRS 17 implementation processes (IASB, 2018). Consequently, in April 2019, the IASB decided to initiate the balloting process for an exposure draft of proposed amendments to IFRS 17 (IASB, 2019a). Then, the IASB published a new exposure draft (ED3) *Amendments to IFRS 17* on June 2019 (IASB, 2019b). The ED3 will propose amendments to IFRS 17 in the following areas, i.e. effective date of application, loans that transfer insurance risk, acquisition cash flows for renewals, profit allocation for some contracts, reinsurance contracts held, balance sheet presentation, transition, and level of aggregation. Among the proposed amendments, the IASB suggested to defer the date of initial application of IFRS 17 by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. The IASB will consider comments it receives on the ED3 before 25 September 2019 and will decide whether to proceed with the proposed amendments to IFRS 17. The Board plans to publish any resulting amendments to IFRS 17 in mid-2020.

Although the new proposed amendments are not linked with the issues selected for our study, stakeholders continue to express some concerns regarding the implementation of the insurance contracts standard. Therefore, we can definitively state that IFRS 17 falls into the category of standards such as IFRS 9 *Financial Instruments* (IASB, 2014b) or IFRS 16 *Leases* (IASB, 2016), that the IASB has a lot of difficulty getting stakeholders to adopt.

CONCLUSION (final reflections and future research paths)

The IASB constitutes a unique case among the transnational non-governmental organisations, not only by its private nature, but also by its sophisticated consultation procedures (i.e. the due process). The main objective of the IASB is to develop standards, IFRS, that be accepted and implemented worldwide. As a global accounting standard setter, the role of legitimacy is vital for the IASB. The thesis is divided in three chapters, here we present the summary of all them as well as the conclusions. At the end of this section future research paths will be discussed.

In chapter one, we have examined how the IASB built its legitimacy (input and output legitimacy) as well as how this legitimacy was maintained during and after the financial crisis (2007-2008). Relying on the legitimacy framework of Tamm Hallström and Boström (2010), we note the IASB built its input legitimacy thanks to the support of several important international organisations and regulatory bodies such as the G20, the World Bank, the International Monetary Fund, the Basel Committee, the IOSCO, and the IFAC, as well as the engagement of stakeholders from different regions, that integrated the global vision of accounting standards, such as the EU. Regarding the output legitimacy of the IASB, it was mainly obtained thanks to the pronouncement of the EU to adopt the IFRS, this decision caused the successful globalisation of the IASB standards.

During the 2008 financial crisis, the IASB and its standards received much political criticisms that addressed fundamental issues such as the procyclicality of IFRS. This prompted the IFRS Foundation to react by strengthening considerably the IASB network. Indeed the IFRS Foundation established new bodies to have more coordination with stakeholders, such as Emerging Economies Group (EEG) to deal with rising powers e.g. Brazil, India, South Africa and China; and the ASAF to connect with new regional accounting standard setting organisations (e.g. the AOSSG and the GLASS). The IFRS Foundation also took 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). Furthermore, the survey of the IFRS Foundation which follows regularly the worldwide jurisdiction progress towards IFRS shows that the greater part of countries have a global vision of accounting standards. Indeed, until now, 87% of those profiles that are completed (144 jurisdictions) require IFRS for all or most domestic publicly accountable entities, i.e. for listed companies and financial institutions (IFRS Foundation, 2018b).

The main aim of chapter two has been to examine the political and institutional pressures exerted on accounting standard setting structures from the EU by introducing some new initiatives in the area of financial reporting. To achieve our objective, institutional and political analyses have been used to look at the incentives of the EC and the EP through the investigation of different EU documents related to the EC's evaluation of IAS Regulation (2014). Furthermore, we have considered the Maystadt's reforms (2013) who proposed the strengthening of EFRAG as well as the funding programme of the EU in order to have more European influence on the IASB work. In addition, we addressed some reactions from a number of MEPs who have been extremely critical about IFRS these last years.

From the institutional and political analyses, we note the EC evaluation of IAS Regulation was a comprehensive policy examination without including technical review of the standards. In this issue Nobes (2015, p.161) wonders whether the "EU has learnt to love IFRS". Besides, the role of the EP is still critical toward the EC and the IASB, in fact the EP has gone until proposing the transformation of EFRAG and IFRS Foundation into public institutions, some of its concerns can be understood notably when it asked the EC to clarify the notion of European public good. Regarding the recent structural reforms of EFRAG which stemmed from the Maystadt reforms, they 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.

From chapter one and two, we conclude that the EU and the IASB are testing different ways to reinforce their positions. On one hand the EU is making efforts to recover years of international presence lost for the benefit of other global actors (i.e. the IASB). The EU has made a big step forward to have more influence on the international standard setter, largely thanks to its funding programme. Indeed, the decision of the EU to renew its financial contribution to IFRS Foundation through the Regulation No 258/2014, for the period 2014-2020, has turned Europe to become one of the largest contributors to the IFRS Foundation and could use the funding as an instrument to exert more pressure on the IASB. Nevertheless, some improvements are needed to reduce the divergence between the EU institutions and Members States. Cairns (2015) proposes to focus on common positions rather than on the differences. On the other hand, and with the objective of maintaining its legitimacy, mainly after the 2008 financial crisis, the IASB is strengthening considerably its network. For the future, organisations such 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.

In chapter three we have investigated empirically the lobbying behaviour of stakeholders within the IASB due process. We have selected the Insurance Contracts standard "IFRS 17" as a case of study. We adopt the rational choice model of Sutton (1984) and rely on the work of Giner and Arce (2012). As a methodology, we use the content analysis of 601 different comment letters submitted by 629 respondents to the three consultation periods, that the IASB set before the publication of the final standard IFRS 17. In this empirical part we have observed the lobbying activity of constituents of different interest groups and from various geographical origins to know the constituent positions on the insurance accounting model. We try to know their positions on each of the three key issues selected for our study (measurement, performance, and presentation) and to identify the underlying conceptual and economic consequences arguments used by the stakeholders. Besides we also investigate the influence of the lobbying activity to assess if the lobbying positions of stakeholders on the key issues selected are reflected in a final standard.

From this chapter we conclude, the IASB due process on IFRS 17 attracted many constituents of different interest groups and from various geographical origins, which bodes well for the future of the procedural legitimacy of the IASB. Although constituents from North America (mainly U.S. respondents) participated less than constituents from Europe, they tried to lobby on the IASB. U.S. stakeholders behaved differently from the remaining constituents of other geographic origins. In fact, U.S. constituents were in favour of propositions related with the FASB vision (mainly as regards the insurance accounting model and the measurement issue), while others were in favour of the IASB vision. However, most of the time, the IASB aligned itself with the preferences of the majority.

From the development of this doctoral thesis, several are the contributions that we can extract as a whole. First, we contribute to the understanding of the legitimacy issues in the international financial reporting by focusing on the global accounting standard setter (the IASB). Second, from the political and institutional analyses made in chapter 2, we contribute to the understanding of the pressures exerted on the IASB from global actors, mainly the EU as well as to the divergence between the EU member states (EC and EP). Finally, from the evidence obtained in the empirical study, we contribute to the understanding of lobbying during the due process of the IASB by selected the Insurance Contracts standard (IFRS 17) as a case of study.

Finally, there are several lines of research that are opened in relation to the present doctoral thesis. In the first place, there is a need to improve the knowledge about financial reporting in Europe. Recently, in 2018, the EU launched a new initiative through a consultation: "Fitness check on the EU framework for public reporting by companies", where some important questions have been asked concerning the future of IAS Regulation and IFRS in Europe (is it still appropriate that the IAS Regulation prevents the EC from modifying the content of IFRS? is the EU endorsement process appropriate to ensure that IFRS do not pose an obstacle for long-term investments?). The EU received more than 300 contributions that can be analysed in the future. Second, the implementation processes of the insurance contracts standard may lead to new institutional pressures, particularly in the EU. Indeed, the letter sent by the European Supervisory Authorities, i.e. EBA, EIOPA and ESMA, to the EFRAG about the endorsement of IFRS 17 as well as the letter sent by EFRAG to the IASB about some issues identified in the procedure of implementation, validate that concerns still exists. EFRAG is waiting for the IASB to consider these concerns, the endorsement process for IFRS 17 is temporarily put on hold. Recently, the IASB has initiated a procedure in order to publish a new exposure draft, where new amendments will be proposed to the different stakeholders. The truth is that, until its effective adoption in 2021 (or 2022), further research in relation to this issue would help the interest groups to understand the likely future changes in accounting regulation regarding IFRS 17, which is still a highly relevant topic.

CONCLUSIÓN (reflexiones finales y futuras líneas de investigación)

El IASB es un caso único entre las organizaciones transnacionales no gubernamentales, no solo por su carácter privado, sino también por sus sofisticados procedimientos de consulta (es decir, el *due process*). El principal objetivo del IASB es desarrollar normas, las NIIF, que sean aceptadas y adoptadas en todo el mundo. Como elaborador de normas globales, la legitimidad es vital para el IASB. La tesis se divide en tres capítulos, aquí presentamos el resumen de todos ellos y las conclusiones principales. Al final de esta sección, se discutan las futuras vías de investigación.

En el capítulo uno, hemos examinado cómo el IASB consiguió su legitimidad (legitimidad de entrada y salida) y cómo se mantuvo esta legitimidad durante y después de la crisis financiera (2007-2008). Basándonos en el marco de legitimidad de Tamm Hallström y Boström (2010), observamos que el IASB construyó su legitimidad de entrada gracias al apoyo de varias organizaciones internacionales y organismos reguladores relevantes (G20, World Bank, International Monetary Fund, Basel Committee, IOSCO y IFAC), así como por el compromiso de las partes interesadas de diferentes jurisdicciones, que compartían la visión global de las normas contables, como es el caso de la UE. Con respecto a la legitimidad de salida del IASB, se ha obtenido principalmente gracias al pronunciamiento de la UE de adoptar las NIIF, esta decisión ha provocado la globalización exitosa de las normas del IASB.

Durante la crisis financiera iniciada en 2008, el IASB y sus normas recibieron muchas críticas, fundamentalmente de carácter político, que abordaban cuestiones fundamentales como la prociclicalidad de las NIIF. Esto llevó a la IFRS Foundation a reaccionar fortaleciendo considerablemente la red del IASB. De hecho, la IFRS Foundation estableció nuevos organismos para tener una mayor coordinación con las partes interesadas, como el EEG para tratar con las potencias emergentes (por ejemplo. Brasil, India, Sudáfrica y China), y el ASAF para conectarse con las nuevas organizaciones regionales de establecimiento de normas de contabilidad (por ejemplo, el AOSSG y el GLASS). La IFRS Foundation también dio pasos importantes para reforzar su relación con los reguladores de los mercados de valores mediante la firma de protocolos de cooperación con la IOSCO, en septiembre de 2013 (IFRS, 2013) y con la ESMA, en julio de 2014 (IFRS, 2014). Además, la encuesta de la IFRS Foundation que con regularidad sigue el progreso en el mundo hacia la adopción de las NIIF muestra que la mayor parte de los países aceptan una visión global de las normas contables.

De hecho, hasta ahora, el 87% de los perfiles que se han completado (144 jurisdicciones) requieren las NIIF para todas o la mayoría de las entidades del propio país con responsabilidad pública, es decir, para las empresas que cotizan en bolsa y las instituciones financieras (IFRS Foundation, 2018b).

El objetivo principal del capítulo dos ha sido examinar las presiones políticas e institucionales ejercidas sobre las estructuras de establecimiento de las normas contables por parte de la UE, introduciendo algunas nuevas iniciativas en el área de la información financiera. Para lograr nuestro objetivo, se han utilizado diferentes documentos de la UE relacionados con la evaluación de la CE de la Regulación IAS (2014), y se ha realizado un análisis institucional y político para analizar los incentivos de la Comisión Europea y el Parlamento Europeo. Además, hemos considerado las reformas propuestas por el Sr. Maystadt (2013) que pretendían el fortalecimiento del EFRAG, así como el programa de financiamiento de la UE para tener más influencia en la actividad del IASB. Además, abordamos la reacción de varios eurodiputados que han sido extremadamente críticos con las NIIF en los últimos años.

De los análisis institucionales y políticos, observamos que la evaluación de la CE de la Regulación IAS fue un examen político que no incluyó una revisión técnica de las normas. En este punto, Nobes (2015, p.161) se pregunta si "la UE ha aprendido a amar las NIIF". Además, el PE sigue siendo crítico con la CE y el IASB, de hecho, ha llegado hasta proponer la transformación de EFRAG y la IFRS Foundation en instituciones públicas; algunas de sus inquietudes pueden entenderse sabiendo que pidió a la CE aclarar la noción de bien público europeo. En cuanto a las recientes reformas estructurales de EFRAG que se derivaron de las reformas propuestas en el informe Maystadt (2013), son más políticas que técnicas, y esto podría seriamente comprometer las discusiones técnicas entre el IASB y EFRAG TEG, que está llamado a desempeñar un segundo papel en la nueva arquitectura del organismo.

Del capítulo uno y dos, llegamos a la conclusión de que la UE y el IASB están probando diferentes maneras de reforzar sus posiciones. Por un lado, la UE está haciendo esfuerzos para recuperar los años de presencia internacional perdidos en beneficio de otros actores globales (es decir, el IASB). La UE ha dado un gran paso adelante para tener más influencia en el elaborador de normas internacionales, en gran parte gracias a su programa de financiación. De hecho, la decisión de la UE de renovar su contribución financiera a la IFRS Foundation a través del Reglamento N.º 258/2014, para el período 2014-2020, ha convertido a Europa en uno de los mayores contribuyentes a la IFRS Foundation y podría utilizar la financiación como un instrumento para ejercer más presión sobre el IASB. Sin embargo, se necesitan algunas mejoras para reducir la divergencia entre las instituciones de la UE y los Estados miembros. Cairns (2015) propone centrarse en posiciones comunes en lugar de en las diferencias. Por otro lado, y con el objetivo de mantener su legitimidad, principalmente después de la crisis financiera de 2008, el IASB está fortaleciendo considerablemente su red. Para el futuro, organizaciones como EFRAG, ESMA, BCE y el foro de ASAF pueden desempeñar un rol clave para facilitar el logro del objetivo de voz única europea y reducir la divergencia mundial en la regulación de la información financiera.

En el capítulo tres, hemos investigado empíricamente el *lobbying* de las partes interesadas dentro del *due process* del IASB. Hemos seleccionado la norma de los contratos de seguro NIIF 17 como un caso de estudio. Adoptamos el modelo de elección racional de Sutton (1984) y nos basamos en el trabajo de Giner y Arce (2012). Como metodología, utilizamos el análisis de contenido de 601 cartas de comentarios diferentes enviadas por 629 encuestados a los tres períodos de consulta, que el IASB estableció antes de la publicación de la norma final NIIF 17. En esta parte empírica hemos observado la actividad de *lobbying* de los participantes de diferentes grupos de interés y de diversos orígenes geográficos para conocer sus posiciones sobre el modelo de contabilidad de seguros. Analizamos tres temas clave en nuestro estudio (medición, rendimiento y presentación), e identificamos los argumentos subyacentes (conceptuales y consecuencias económicas) utilizados por los grupos de interés. Además, investigamos la influencia de la actividad del *lobbying* para evaluar si las posiciones de *lobbying* de los constituyentes en los temas clave seleccionados se reflejan en la norma final.

En relación con este capítulo, concluimos que el *due process* del IASB en la NIIF 17 atrajo a muchos participantes de diferentes grupos de interés y de diversos orígenes geográficos, lo que es un buen augurio para el futuro de la legitimidad de procedimiento del IASB. Aunque los de América del Norte (principalmente los que responden de los Estados Unidos) participaron menos que los de Europa, intentaron ejercer presión sobre el IASB. Las partes interesadas de los Estados Unidos se comportaron de manera diferente a las de otros orígenes geográficos. De hecho, los de Estados Unidos estaban a favor de las proposiciones relacionadas con la visión de FASB (principalmente en lo que respecta al modelo de contabilidad de seguros y el tema de medición), mientras que los demás estaban a favor de la visión de IASB. Sin embargo, en general, el IASB se alineó con las preferencias de la mayoría.

Del desarrollo de esta tesis doctoral, varias son las contribuciones que podemos extraer en su conjunto. Primero, contribuimos a la comprensión de los problemas de legitimidad en la información financiera internacional al centrarnos en el elaborador de normas de contabilidad global: el IASB. En segundo lugar, a partir de los análisis políticos e institucionales realizados en el segundo capítulo, contribuimos a la comprensión de las presiones ejercidas sobre el IASB por parte de actores globales, principalmente de la UE, así como a la divergencia entre los Estados miembros de la UE, la CE y el PE. Finalmente, a partir de la evidencia obtenida en el estudio empírico, contribuimos a la comprensión del *lobbying* durante el *due process* del IASB mediante la selección de la norma sobre contratos de seguro (NIIF 17) como un caso de estudio.

Finalmente, hay varias líneas de investigación que se abren en relación con la tesis doctoral actual. En primer lugar, es necesario mejorar el conocimiento sobre la legitimidad de la información financiera en Europa. En 2018 la UE lanzó una nueva iniciativa a través de una consulta: "*Fitness check on the EU framework for public reporting by companies*", donde se han formulado algunas preguntas importantes sobre el futuro de la Regulación IAS y las NIIF en Europa. ¿Sigue siendo apropiado que la Regulación IAS impida que la CE modifique el contenido de las NIIF? ¿Es adecuado el proceso de aprobación de la UE para garantizar que las NIIF no sean un obstáculo para las inversiones a largo plazo?). La UE recibió más de 300 comentarios de respuesta que pueden analizarse en el futuro. En segundo lugar, los procesos de implementación de la norma de contratos de seguro pueden llevar a nuevas presiones institucionales, particularmente desde la UE. De hecho, la carta enviada por las Autoridades Europeas de Supervisión (es decir, EBA, EIOPA y ESMA) al EFRAG sobre la aprobación de la NIIF 17, así como la carta enviada por el EFRAG al IASB sobre algunas cuestiones identificadas en el procedimiento de implementación, evidencian que las inquietudes todavía existen. El EFRAG está esperando que el IASB considere estas inquietudes, por ello el proceso de aprobación de la NIIF 17 se ha suspendido temporalmente. Recientemente, el IASB ha iniciado un procedimiento para publicar un nuevo borrador de norma, donde se propondrán nuevas enmiendas para discusión y comentarios. La verdad es que, hasta su adopción efectiva en 2021 (o 2022), una investigación adicional en relación con este tema ayudaría a las partes interesadas a entender los posibles cambios futuros en la regulación contable con respecto a la NIIF 17, lo que sin duda sigue siendo un tema muy relevante y de máxima actualidad.

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APPENDICES

Appendix A: Documents used in the political analysis (chapter 2)

Documents	**Objective**
Maystadt reforms (2013)	Final report (2013)
The EC evaluation of IAS Regulation (2014-2015)	The evaluation Final report (2015) International Conference organised in Riga (Latvia 2015)
Studies of academics for the EP	Bischof and Daske (2015) Botzem (2015)
Exchange of letters between two MEPs and Commissioner Hill	Letter 1 (29-01-2015), Letter 2 (23-02-2015) Letter 3 (19-03-2015) Letter 4 (28-04-2015) Letter 5 (16-07-2015) Letter 6 (04-09-2015)
Funding Programme	Regulation (EU) 258/2014
Official documents of other international institutions	IFRS Foundation, IASB, EFRAG, IOSCO, ESMA, ASAF

Appendix B: The coding system of comment letters

1- Positions of stakeholders on the three issues:

Issue	Issue option	Coding	Specific question
Measurement (Determination of the Margin)	- Separation: risk adjustment + residual margin (option 1) or - Single composite margin (option 2)	- option 1 - option 2 - option 3: both - no opinion	DP: Q4 ED1: Q6a + Q13 ED2: No specific question
Performance (Recognition of profit)	- At the initial recognition of the contract (option 1) or - Over the coverage period (option 2)	- option 1 - option 2 - option 3: both - no opinion	DP: Q2c ED1: Q6 ED2: Q1
Presentation (Volatility)	- Profit and loss account (option 1) or - Other comprehensive income (OCI) (option 2)	- option 1 - option 2 - option 3: both - no opinion	DP: Q2 + Q20 ED1: Q3c ED2: Q4

2- Arguments used by interest groups:

Argument	Coding
Without argument	0
Economic consequences argument	1
Conceptual argument	2
Both arguments	3

3- Life and non-life contracts

Separate life from non-life	Coding
No opinion	0
Agreement with the separation (FASB model)	1
Disagreement with the separation (i.e. agreement with the IASB single model)	2

Appendix C: List of comment letters

1- Summary of comment letters and respondents

	Comment letters	**Respondents**
One respondent	586	586
Two respondents	8	16
Three respondents	3	9
Four respondents	2	8
Five respondents	2	10
Total	**601**	**629**

2- Comment letters to the DP (2007)

CL	**Stakeholder**
1	Manufacturers Life Insurance Company
2	Towers Perrin
3	Assuris
4	QBE Insurance Group
5	No public
6	The Institute of Chartered Accountants in Australia (ICAA)
7	Financial Services Accountants Association (FSAA)
8	PHIAC
8	Australian Health Insurance Association
9	William M Wilt
10	Grant Thornton International
11	London School of Economics
12	Japanese Institute of Certified Public Accountants
13	Accountants and Actuaries Liaison Committee (AALC)
14	Canadian Institute of Actuaries
15	Malaysian Accounting Standards Board (MASB)
16	CIPFA
17	Canadian Life and Health Insurance Association
18	CIGNA
19	Australian automobile clubs

20	General Insurance Association of Japan
21	Investment and Life Assurance Group (ILAG)
22	Accounting Standards Board (ASB)
23	CPA Australia
24	Catlin Group Limited
25	London Investment Banking Association
26	Fairfax Financial Holdings Limited
27	Fitch Ratings
28	Short-term Insurance Project Group of the SAICA
29	Medical Schemes Project Group of the SAICA
30	ASSA
30	SAICA
31	Accounting Practices Committee (APC) of SAICA
32	Reinsurance Group of America
33	Basel Committee on Banking Supervision
34	Northwestern Mutual Life Insurance Company
35	Talbot Underwriting Ltd
36	Principal Financial Group
37	Mrs Shamita Dutta Gupta, PhD
38	Daniel F. Case
39	Czech Society of Actuaries
40	Life Insurance Association of Japan (LIAJ)
41	European Federation of Financial Analysts Societies (EFFAS)
42	Jeremy Pearcy
43	Johan van Zyl Smit
44	AMP Ltd
45	Santam Ltd
46	ABSA Life Ltd
47	Norwegian Accounting Standards Board
48	Institute of Chartered Accountants in Ireland (ICAI)
49	Chesnara PLC
50	Bank of Ireland Life
51	Sanlam Group
52	SwissHoldings

53	KPMG
54	German Actuarial Association (DAV)
55	Committee of European Banking Supervisors (CEBS)
56	Sun Life Financial
57	Merrill Lynch
58	The Chartered Institute of Management Accountants (CIMA)
59	American Council of Life Insurers (ACLI)
60	British Bankers' Association (BBA)
61	American Insurance Association
62	American International Group (AIG)
63	National Association of Mutual Insurance Companies (NAMIC)
64	No public
65	Alan Zimmermann
66	The Travelers Companies Inc
67	The Association of Financial Guaranty Insurers (AFGI)
68	Standard & Poor's
69	Meiji Yasuda Life Insurance Company
70	Institute of Actuaries of Japan (IAJ)
71	Accounting Standards Board of Japan (ASBJ)
72	FirstRand Group
73	Brazilian Accounting Pronouncements Committee (CPC)
74	Austrian Actuarial Association
75	Association of Certified Chartered Accountants
76	The Hartford
77	American Academy of Actuaries
78	The Institute of Actuaries of Korea
79	Reinsurance Association of America
80	ISDA
81	Godfrey Wanyoike, ARCSA
82	The Property Casualty Insurers Association of America (PCI)
83	Insurance Council of Australia
84	Institut des actuaires
85	Austrian Financial Reporting and Auditing Committee (AFRAC)
86	Swedish Society of Actuaries

87	Chaucer Holdings PLC
88	UNESPA
89	U.K.Actuarial Profession
90	Insurance Accounting Task Force (IATF) of (ACSB)
91	ACTEO
91	AFEP
91	MEDEF
92	PricewaterhouseCoopers
93	Insurance Bureau of Canada
94	Institute of Chartered Accountants of Scotland
95	Endurance Specialty Holdings Ltd
96	Matthew Rodhouse
97	International Actuarial Association (IAA)
98	Group of 100
99	Lucida PLC
100	Financial Security Assurance Holdings Ltd (FSA)
101	Assuralia
102	Group of North American Insurance Enterprises (GNAIE)
103	Quoted Companies Alliance
104	Deloitte Touche Tohmatsu
105	International Underwriting Association of London (IUA)
106	Foreningen af Statsautoriserede Revisorer
107	British American Tobacco
108	Aviva PLC
109	Australian Accounting Standards Board
110	HSBC Holdings PLC
111	Institute of Actuaries of Australia
112	Federation Française des Societes d'Assurances (FFSA)
113	Hong Kong Institute of Certified Public Accountants
114	AcSEC and American Institute of Certified Public Accountants (AICPA)
115	IFRSRC of the Korea Accounting Standards Board (KASB)
116	Mazars
117	Association Internationale des Societes d'Assurance Mutuelle (AISAM)
118	Danish Insurance Association (Forsikring & Pension)

119	Dutch Accounting Standards Board (DASB)
120	Federation des Experts Comptables Europeens (FEE)
121	The Swedish Financial Reporting Board
122	Ernst & Young
123	Legal and General Group Plc
124	Lloyd's
125	BDO International
126	Global life insurers
126	Nippon Life Insurance Company
126	Dai-ichi Life Insurance Company
126	Sumitomo Life Insurance Company
127	European Insurance CFO Forum
128	Prudential plc
129	Association of British Insurers (ABI)
130	Swiss Life/ Rentenanstalt
131	The Swedish Enterprise Accounting Group (SEAG)
132	Conseil National de la Comptabilite (CNC)
133	Foreningen Auktoriserade Revisorer (FAR)
134	FRSB of the New Zealand Institute of Chartered Accountants
135	New Zealand Society of Actuaries (NZSA)
136	AMI Insurance Ltd
137	Earthquake Commission (EQC)
138	Insurance Council of New Zealand (ICNZ)
139	The Chubb Corporation
140	International Credit Insurance & Surety Association (ICISA)
141	German Accounting Standards Board (DRSC-GASB)
142	Institut Der Wirtschaftsprüfer (IDW)
143	Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)
144	Royal & Sun Alliance
145	Institute of Chartered Accountants in England & Wales (ICAEW)
146	Robert Hiscox
147	Board for Actuarial Standards
148	International Association of Insurance Supervisors (IAIS)
149	The Hiscox Group

150	London Market (Specialty Business) Interest Group
151	IOSCO SC 1
152	European Banking Federation
153	Allianz
154	Australian Prudential Regulation Authority (APRA)
155	Hundred Group of Finance Directors
156	Office of the Superintendent of Financial Insitiutions Canada
157	BNP Paribas
158	Organismo Italiano di Contabilita (OIC)
159	The IFRS Monitoring Panel in Thailand
160	Mexican Financial Reporting Standards Board (CENIF)
161	EFRAG
162	Accounting Standards Council (ASC)

3- Comment letters to the ED1 (2010)

CL	Name
1	Group of North American Insurance Enterprises (GNAIE)
2	American Council of Life Insurers
3	Plan-B Consulting Ltd.
4	No public
5	Discovery
6	Chris Barnard
7	John Smith
8	No public
9	Insurance Australia Group (IAG)
10	Australian Health Insurance Association
11	Manish Iyer & Co., Chartered Accountants
12	Insurance Council of New Zealand (ICNZ)
13	Patrick Cowan
14	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
15	Health Funds Association of New Zealand (HFANZ)
16	Ping an Insurance (Group) Company of China Ltd.
17	Financial Executives International (FEI)
18	The Hong Kong Association of Banks
19	Dutch Accounting Standards Board (DASB)
20	Eureko B.V.
21	Canadian Institute of Actuaries
22	Zorgverzekeraars Nederland (Dutch association of health insurers)
23	International Federation of Health Plans (IFHP)
24	Institute of Chartered Accountants of Scotland
25	Gordon Sharp
26	Aflac
27	Suncorp-Metway Ltd
28	Maurizio Lualdi
29	Bupa
30	Institute and Faculty of Actuaries
31	ISDA
32	Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

33	Association of Financial Mutuals
34	Assuris
35	Insurance Regulatory and Development Authority
36	Macquarie Group
37	The Life Insurance Association of the Republic of China (LIAROC)
38	Institute of Actuaries of Korea
39	Financial Supervisory Service
40	Federation of Accounting Professions
41	Swiss Life/ Rentenanstalt
42	Australian Prudential Regulation Authority
43	Royal Automobile Club of Victoria (RACV) Ltd
44	Swedish Bankers' Association
45	Chesnara PLC
46	European Insurance CFO Forum
47	Grant Thornton International
48	Council for Standards of Accounting, Auditing, Corporate & Institutional Governance
49	New England Management Associates
50	Deka Investment
51	German Actuarial Association (DAV)
52	Asia Capital Reinsurance Group (ACR)
53	French Banking Federation (FBF)
54	No public
55	Institut Der Wirtschaftsprüfer (IDW)
56	Morgan Stanley
57	Fairfax Financial Holdings Limited
58	Conference for Advanced Life Underwriting
59	Insurance Bureau of Canada
60	AIA Group Ltd
61	Lloyds Banking Group plc
62	Institute of Actuaries of Japan
63	National Federation of Workers and Consumers Insurance Cooperatives (ZENROSAI)
64	Federation Française des Societes d'Assurances (FFSA)
65	Short-term Insurance Project Group of SAICA
66	Medical Schemes Project Group of the SAICA

67	Assuralia
68	The Actuarial Institute of Chinese Taipei (AICT)
69	Meiji Yasuda Life Insurance Company
70	HUK COBURG
71	Commonwealth Bank of Australia
72	Accountants and Actuaries Liaison Committee (AALC)
73	New Zealand Society of Actuaries
74	Capitas Consulting Corporation
75	QBE Insurance Group
76	Japanese Bankers Association
77	Financial Services Council (FSC)
78	TOWER
79	General Insurance Association of Japan
80	Institute of Actuaries of Australia
81	Southern Cross Health Society
82	Accounting Standards Board of Japan
83	Genworth Financial
84	Life Insurance Association of Japan (LIAJ)
85	Mrs Natsumu Tsujino
86	Israel Accounting Standards Board
87	Korea Accounting Standards Board
88	Hong Kong Institute of Certified Public Accountants
89	The Swedish Enterprise Accounting Group (SEAG)
90	Mr Christopher Wing
90	Mr Jonathan Dearing
91	European Banking Federation
92	Accounting Standards Board (ASB)
93	TOWER Australia Group Limited
94	PricewaterhouseCoopers
95	Barclays
96	Towers Watson
97	ASSA
97	SAICA
98	Principal Financial Group

99	Domestic & General Group Holdings Limited
100	Unum Group
101	Christopher O'Brien
102	Legal and General Group Plc
103	Great Eastern Life Assurance Co Ltd
104	Board for Actuarial Standards
105	Finanstilsynet (Danish Financial Supervisory Authority)
106	Australia and New Zealand Banking Group (ANZ)
107	Danish Insurance Association (Forsikring & Pension)
108	Deutsche Bank
109	Norwegian Accounting Standards Board
110	Alan Zimmermann
111	Lloyd's
112	The Institute for the Accountancy Profession (FAR)
113	Reinsurance Group of America
114	Canadian Life and Health Insurance Association
115	International Association of Insurance Supervisors (IAIS)
116	Actuarial Society of Hong Kong
117	Committee of European Banking Supervisors (CEBS)
118	Actuarial Association of Austria
119	Asociacion de Aseguradores de Chile A.G.
120	Hannover Re
120	Mapfre Re
120	Munich Re
120	Swiss Re
121	Swiss Association of Actuaries
122	International Credit Insurance & Surety Association (ICISA)
123	UNESPA
124	Banco Bilbao Vizcaya Argentaria (BBVA)
125	AOSSG
126	Western Provident Association (WPA)
127	ING Group
128	Manulife Financial Corporation
129	Liberty Mutual Group

130	American Insurance Association
131	Massachusetts Mutual Life Insurance Company (MassMutual)
132	Aetna
132	CIGNA
132	Humana
132	UnitedHealth
132	WellPoint
133	Canadian Insurance Analysts
134	WorkSafeBC
135	Superintendencia de Valores y Seguros (SVS)
136	American International Group (AIG)
137	Allstate
138	ACE Limited
139	Sun Life Financial
140	European Federation of Financial Analysts Societies (EFFAS)
141	UBS
142	American Academy of Actuaries
143	State Farm
144	The Hartford
145	Lawyers' Professional Indemnity Company (LAWPRO)
146	International Actuarial Association (IAA)
147	Ernst & Young
148	PartnerRe Ltd.
149	KPMG IFRG Limited
150	The Property Casualty Insurers Association of America (PCI)
151	ACTEO
151	AFEP
151	MEDEF
152	Institut des actuaires
153	Canadian Bankers Association
154	Great-West Lifeco
155	AMF
156	Office of the Superintendent of Financial Insitiutions Canada
157	Northwestern Mutual Life Insurance Company

158	Dirección General de Seguros y Fondos de Pensiones
159	HSBC Holdings PLC
160	Endurance Specialty Holdings Ltd
161	London Market (Specialty Business) Interest Group
162	American Institute of Certified Public Accountants (AICPA)
163	FM Global Insurance Company
164	New York Life Insurance Company
165	Insurance Corporation of British Columbia (ICBC)
166	Canadian Accounting Standards Board
167	Institute of Chartered Accountants of Pakistan
168	AMP Ltd
169	CNA Financial Corporation
170	Austrian Financial Reporting and Auditing Committee (AFRAC)
171	Association of Chartered Certified Accountants
172	Deloitte Touche Tohmatsu Limited
173	MetLife Inc
174	Joint Accounting Bodies in Australia
175	Corporate Reporting Users' Forum (CRUF)
176	National Association of Mutual Insurance Companies (NAMIC)
177	Swiss Insurance Association (SIA)
178	Association of British Insurers (ABI)
179	Institute of Actuaries of India
180	Australian Unity Health Ltd
181	Jeff Hubbard
182	South African Insurance Association (SAIA)
183	Instituto dos Auditores Independentes do Brasil (IBRACON)
184	Accident Compensation Corporation
185	National Australia Bank (NAB)
186	Zentraler Kreditausschuss (ZKA)
187	Lucida PLC
188	British Bankers' Association (BBA)
189	Santam Ltd
190	Foreningen af Statsautoriserede Revisorer
191	Institute of Chartered Accountants of Zimbabwe

192	Stock Exchange of Hong Kong
193	German Insurance Association
194	Investment and Life Assurance Group (ILAG)
195	Sanlam Group
196	Zimbabwe Accounting Practices Board
197	Association for Financial Markets in Europe (AFME)
198	RSA Insurance Group plc
199	XL Group
200	Societe de l'assurance automobile du Quebec (SAAQ)
201	Institute of Chartered Accountants in England and Wales (ICAEW)
202	Spanish Banking Association (AEB)
203	Prudential plc
204	Vhi Healthcare
205	Prudential Financial Inc
206	Federation des Experts Comptables Europeens (FEE)
207	Swedish Insurance Federation
208	Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE)
209	Basel Committee on Banking Supervision
210	Wesleyan Assurance Society
211	China Insurance Regulatory Commission
212	Malaysian Accounting Standards Board
213	German Accounting Standards Board
214	Royal Bank of Scotland Group plc
215	Hiscox
216	BDO International
217	The Chubb Corporation
218	Saudi Organization for Certified Public Accountants
219	The Travelers Companies Inc
220	Ahmed Al-Shenaiber
221	Instituto de Censores Jurados de Cuentas de Espana (ICJCE)
222	BNP Paribas
223	Committee of European Securities Regulators (CESR)
224	User Advisory Council of Canadian Accounting Standards Board
225	Khalid Khowaiter

226	Australian Accounting Standards Board (AASB)
226	New Zealand Financial Reporting Standards Board (FRSB)
227	The Japanese Institute of Certified Public Accountants (JICPA)
228	China Accounting Standards Committee
229	Czech Society of Actuaries
230	Credit Suisse Group
231	Organismo Italiano di Contabilita (OIC)
232	CFA Society of the U.K.
233	Allianz
234	Richard Macve
235	International Underwriting Association of London (IUA)
236	Chartered Accountants Ireland
237	Mr A Prof
238	Group of 100
239	IOSCO SC 1
240	Standard & Poor's
241	Accounting Standards Council (ASC)
241	Institution of Certified Public Accountants of Singapore
242	AXA
243	EFRAG
244	Nationwide Insurance
245	The Swedish Financial Reporting Board
246	Mazars
247	Desjardins Group
248	BPCE
249	Autorité des normes comptables (ANC)
250	Mexican Financial Reporting Standards Board (CENIF)

4- Comment letters to the ED2 (2013)

CL	Name
1	Sandler O'Neill + Partners
2	CPA Australia
3	Federation des Experts Comptables Europeens (FEE)
4	Gordon Sharp
5	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
6	The Swedish Enterprise Accounting Group (SEAG)
7	Smiths Group
8	No public
9	The APEC Business Advisory Council (ABAC)
10	London School of Economics
11	The Institute of Chartered Accountants
12	International Association of Insurance Supervisors (IAIS)
13	Swiss Insurance Association (SIA)
14	Swedish Bankers' Association
15	Federation of Accounting Professions
16	The Institute for the Accountancy Profession (FAR)
17	Dutch Accounting Standards Board (DASB)
18	Suncorp Group
19	Accounting Standards Committee of Germany (ASCG)
20	Israel Accounting Standards Board
21	International Credit Insurance & Surety Association (ICISA)
22	Swiss Association of Actuaries
23	Commonwealth Bank of Australia
24	German Insurance Association
25	The Hong Kong Association of Banks
26	Old Mutual Group
27	Institut Der Wirtschaftsprüfer (IDW)
28	Assuralia
29	Alan Zimmermann
30	Zambia Institute of Chartered Accountants (ZICA)
31	International Auditing and Assurance Standards Board (IAASB)
32	Macquarie University

33	Insurance Australia Group (IAG)
34	Fubon Life Insurance Company
35	International Actuarial Association (IAA)
36	Canadian Institute of Actuaries
37	The Life Insurance Association of the Republic of China (LIAROC)
38	National Federation of Workers and Consumers Insurance Cooperatives (ZENROSAI)
39	Ping an Insurance (Group) Company of China Ltd.
40	German Actuarial Association (DAV)
41	SCOR
42	Institute of Chartered Accountants of Pakistan
43	Lloyd's
44	Folksam
45	European Insurance and Occupational Pensions Authority (EIOPA)
46	Amlin
47	Insurance Bureau of Canada
48	Grant Thornton International
49	Institute of Actuaries of Korea
50	Office of the Superintendent of Financial Insitiutions Canada
51	Association of Bermuda Insurers & Reinsurers (ABIR)
52	Unum Group
53	Sun Life Financial
54	American Academy of Actuaries
55	National Association of Mutual Insurance Companies (NAMIC)
56	No public
57	New Zealand Accounting Standards Board of The External Reporting Board (XRB)
58	The Property Casualty Insurers Association of America (PCI)
59	China Accounting Standards Committee
60	Australia and New Zealand Banking Group (ANZ)
61	Institute of Chartered Accountants Australia
62	QBE Insurance Group
63	Life Insurance Association of Japan (LIAJ)
64	Financial Supervisory Service
65	AMP Ltd
66	Institute of Actuaries of Australia

67	National Australia Bank (NAB)
68	Towers Watson
69	Insurance Council of Australia
70	AG Insurance
71	China Life Insurance Company
72	Institute of Actuaries of Japan
73	Actuarial Society of Hong Kong
74	Shin Kong Life Insurance
75	The Actuarial Institute of Chinese Taipei (AICT)
76	Accounting Practices Committee (APC) of SAICA
77	Korea Accounting Standards Board
78	Association of Financial Mutuals
79	Credit Suisse Group
80	The Japanese Institute of Certified Public Accountants (JICPA)
81	China Life Insurance (Group) Company
82	PricewaterhouseCoopers
83	Korean Institute of Certified Public Accountants
84	Association of Chartered Certified Accountants
85	Financial Reporting Council (FRC)
86	Nan Shan Life Insurance Company
87	Lloyds Banking Group plc
88	Crédit Agricole SA Group
89	General Insurance Association of Japan
90	Medical Schemes Project Group of the SAICA
91	Short-term Insurance Project Group of the SAICA
92	ASSA
92	SAICA
93	AIA Group Ltd
94	Actuarial Association of Austria
95	Hub Global Insurance Group
96	Insurance Regulatory and Development Authority
97	Malaysian Accounting Standards Board
98	Massachusetts Mutual Life Insurance Company (MassMutual)
99	American International Group (AIG)

100	China Life Insurance Company Limited
101	Mercuries Life Insurance Company
102	Cathay Life Insurance Company
103	Danish Insurance Association (Forsikring & Pension)
104	Institute of Certified Public Accountants of Kenya
105	Dirección General de Seguros y Fondos de Pensiones
106	Legal and General Group Plc
107	LV= Liverpool Victoria
108	Allianz
109	Discovery
110	Institute of Chartered Accountants of India
111	Association of British Insurers (ABI)
112	Austrian Financial Reporting and Auditing Committee (AFRAC)
113	Finanstilsynet (Danish Financial Supervisory Authority)
114	International Underwriting Association of London (IUA)
115	Chartered Accountants Ireland
116	No public
117	Canadian Bankers Association
118	Federation of Finnish Financial Services (FFFS)
119	HSBC Holdings PLC
120	European Insurance CFO Forum
121	European Banking Authority (EBA)
122	Great-West Lifeco
123	London Market General Insurance Forum
124	KPMG IFRG Limited
125	Institute and Faculty of Actuaries
126	Insurance Sweden
127	Investment and Life Assurance Group (ILAG)
128	Principal Financial Group
129	Indonesian Financial Accounting Standard Board (DSAK)
130	Liberty Holdings Limited
131	Swedish Society of Actuaries
132	Santam Ltd
133	Canadian Life and Health Insurance Association

134	CNP Assurances
135	Deloitte Touche Tohmatsu Limited
136	Prudential plc
137	Standard & Poor's
138	Genworth Financial
139	CNA Financial Corporation
140	American Council of Life Insurers
141	Brazilian Insurance Confederation (CNseg)
142	Brazilian Accounting Pronouncements Committee (CPC)
143	Superintendência de Seguros Privados (SUSEP)
144	Aetna
144	CIGNA
144	Humana
144	UnitedHealth
144	WellPoint
145	Fermat Capital Management, LLC
146	Liberty Mutual Group
147	ACE Limited
148	No public
149	PartnerRe Ltd.
150	Autorité des marchés financiers
151	European Federation of Financial Analysts Societies (EFFAS)
152	Allstate
153	Manulife Financial Corporation
154	GLASS
155	MetLife Inc
156	State Farm
157	Intact Financial Corporation
158	Ford Motor Company
159	New Zealand Society of Actuaries
160	Insurance Corporation of British Columbia (ICBC)
161	Optimum Reassurance
162	The Travelers Companies Inc
163	Institute of Actuaries of India

164	AOSSG
165	Norwegian Accounting Standards Board
166	Talbot Underwriting Ltd
167	Ernst & Young
168	International Cooperative and Mutual Insurance Federation (ICMIF)
169	Protective Life Corporation
170	EFRAG
171	Taiwan Life insurance company
172	American Institute of Certified Public Accountants (AICPA)
173	Barclays
174	BNP Paribas
175	Australian Accounting Standards Board (AASB)
176	Polish Accounting Standards Committee (PASC)
177	European Securities and Markets Authority (ESMA)
178	Accounting Standards Council (ASC)
178	Institution of Certified Public Accountants of Singapore
179	Accounting Standards Board of Japan
180	Canadian Accounting Standards Board
181	Australian Prudential Regulation Authority
182	Munich Re
183	The Swedish Financial Reporting Board
184	ACTEO
184	AFEP
184	MEDEF
185	Group of 100
186	RSA Insurance Group plc
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188	Institut des actuaires
189	Frédéric Sart
190	Mazars
191	Mexican Financial Reporting Standards Board (CENIF)
192	Autorité des normes comptables (ANC)
193	Institute of Chartered Accountants in England and Wales (ICAEW)
194	Hong Kong Institute of Certified Public Accountants

195	Federation Française des Societes d'Assurances (FFSA)
196	Accountants and Actuaries Liaison Committee (AALC)
197	U.S. Property Casualty Coalition
198	Denise Juvenal