A Critical Look at the IASB

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1 Introduction

Tony Lowe and I were contemporaries as professors of accounting in the UK, and our educational backgrounds also overlapped: we both trained as English chartered accountants and took undergraduate degrees in accounting at the LSE. However, our subsequent experience and intellectual preoccupations diverged. I followed the conventional (for an LSE graduate) path of regarding economics as the conceptual basis of accounting, whereas Tony was concerned with its wider organisational and social context. Of course, these are not mutually exclusive approaches, and anyone involved in policy making (as I have been) comes to understand the relevance of the broad perspective offered by critical thinkers such as Tony.

The author is grateful to Geoff Meeks, Steve Zeff and the Editors for constructive suggestions on an earlier draft. The author bears responsibility for any remaining deficiencies.

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J. Haslam, P. Sikka (eds.), *Pioneers of Critical Accounting*,
DOI 10.1057/978-1-137-54212-0_10

This paper is a tribute to Tony, and his colleagues in the "Sheffield School"which he founded, because it considers the development of the International Accounting Standards Board (IASB) as an adaptive institution, responding to social and economic pressures and changing its policies accordingly. It does not attempt analysis in terms of critical theory, which would be beyond my competence, but it does hopefully demonstrate the importance of political and social influences, which I experienced at first hand, as member of the IASB from 2001 to 2006.

2 Origins: The IASC

The IASB had its origins in the International Accounting Standards Committee (IASC), which was founded in 1973 and superseded by the IASB in 2001. The IASC was a private sector body, created by members of the accounting profession and supported by professional bodies and securities regulators in many countries. Its history has been recorded authoritatively by Camfferman and Zeff (2006).

The IASC was a response to the increasing globalisation of capital markets, which created a need for comparability between financial reports prepared in different countries but addressed to the same capital markets, and the parallel expansion in the number of global companies, each of which might be listed on several national stock exchanges and have subsidiaries registered in a variety of countries. Thus, there was a demand for a common language of accounting, which would ease the problems of cross-border communication. The beneficiaries of such a development would be participants in the capital markets (improved comparability reducing information processing costs) and preparers of accounts (comparability reducing the costs and risks of preparing group accounts of transnational holding companies), so that it is not surprising that the supporters of the IASC were professional accountants and security market regulators.

In its early years, the IASC attempted to narrow the variety of international practice by issuing standards that, in its view, represented the best of available current practice but allowed alternative treatments where these were well-established. Later, particularly after 1987, it adopted a

more pro-active policy, attempting to lead rather than follow existing practice and to narrow the range of permitted methods. It was aided in this by its conceptual framework, issued in 1989. In the early years, the IASC standards drew on national standards, and these were most strongly developed in the English-speaking ('Anglo-Saxon') world, where the importance of stock markets and the consequent need for transparent financial reporting were the greatest. Moreover, the conceptual framework of the IASC drew heavily on that of the USA's Financial Accounting Standards Board (FASB) and the technical experts who developed the IASC standards tended to be from the Anglo-Saxon countries, which were the best resourced. This was demonstrated by the emergence of the 'G4+1' group, which produced an impressive volume of technical research to support the IASC's work in the 1990's. The G4 were the UK, the USA, Canada, Australia and New Zealand (a late addition, which confused the title) and the 1 was the IASC itself: all of the national members were from English-speaking countries. As the twentieth century came to a close, the IASC, with its large committee and thin technical resources, faced increasing difficulties in attempting to lead, rather than follow, the world in setting standards for such complex areas as financial instruments. It became obvious that a new structure was needed, and the IASB replaced the IASC in 2001.

3 The IASB in 2001

The IASB had a Board of twelve full-time and two half- time members, chosen primarily for technical competence, although there was also a concern to have a world-wide geographical balance and a balance between preparers and users of accounts. It was supported by a much larger technical staff than the IASC and had a much higher income than its predecessor, derived mainly from preparers and users of accounts. Fund-raising, appointments and overall supervision of the process were in the hands of the trustees of the IASC Foundation. Thus, the structure resembled that of the USA's FASB.[1] The organisation, like the IASC, was based in London, perhaps confirming the Anglo-Saxon image.

Table 1 IASB Members, 2001, by country of residence

USA	5
UK	2
Australia, Canada, South Africa	3
'Anglo-Saxon' sub-total	10
France, Germany, Switzerland	3
Japan	1
'The Rest'	4
Total	14

The initial membership (Table 1) also confirmed an apparent Anglo-Saxon dominance. Ten of the 14 members were from Anglo-Saxon countries. However, it should be emphasised that the members (unlike those of the IASC) were not regarded as delegates for their home countries. Rather, they were appointed as technical experts whose task was to derive standards that were in accordance with the IASB's objectives and consistent with its conceptual framework. Seven members were assigned as liaison members for specific countries (Australia, Canada, France, Germany, Japan, the UK and the USA), but the purpose of that relationship was to promote dialogue between the IASB and other particularly active standard setters rather than to provide those standard setters with an advocate on the Board. Nevertheless, the background of the members would necessarily influence their views on accounting standards, and the thinking of the Board was likely to be dominated by the perspective of advanced capitalist countries, if not 'Anglo-Saxons'.[2] Three initial tasks were identified by the IASB: the 'improvements project', the creation of a 'stable platform' for European Union (EU) adoption of international standards, and convergence with FASB standards to enable the USA Securities and Exchange Commission to consider the recognition of international standards on USA capital markets. Each of these tasks made heavy demands on the IASB's time, sometimes in conflicting ways.

4 Pressures and Alliances, 2001–2006

The *improvements* project was concerned with considering, and where appropriate implementing, an extensive list of proposed improvements to the existing IASC standards,[3] which had been suggested by IOSCO,

national standard setters and other regulators and constituents. It focused on details, such as the restriction of optional treatments, which could be dealt with by amending existing standards rather than developing entirely new ones.[4] The IASB's worthy intention was to respond to its constituents, but the process of 'patching' existing standards rather than developing new ones proved to be arduous and time consuming. The project was completed later than originally intended, in December 2003, but still in time to allow EU adopters to have a 'stable platform' in 2005.

The *EU adoption of IASB standards* had seemed to be an unexpected benefit to the IASB when, in 2000, the European Commission announced its policy to adopt the standards from 2005 for EU listed companies. However, the benefit also carried costs. One cost was the need to provide a 'stable platform' of standards for EU companies that were new adopters of IFRS. This constrained the ability of the IASB to introduce new standards around this time. A greater cost was that when the EU published its regulation to enforce IFRS adoption, it introduced an elaborate endorsement process. Adoption of IFRS was not to be automatic, and each standard had to be endorsed as being suitable for the needs of the EU, the final decision being at the political, rather than technical, level. This proved in practice to be a real obstacle to the adoption of IFRS in the case of IAS 39 (Financial Instruments) whose hedge accounting provisions were unpopular with banks, particularly French banks. As a result, there was political lobbying (even involving the President of France) against certain provisions that disallowed 'macro hedging',[5] and these provisions were 'carved out' (i.e. omitted) from the version of IAS 39 that was approved in 2004 for application in the EU. An IASB amendment to IAS 39, the 'fair value option', was also controversial in Europe. It sought to extend the use of fair value measurement by permitting (but not requiring) its use for certain financial instruments. This was opposed by the European Central Bank (ECB), as a regulator of the EU banking system, on prudential grounds. In this case, the IASB tightened the requirements for the use of the option and this satisfied the ECB, thus avoiding another long-term 'carve-out' of the standard.[6] These controversies provided the IASB, and its trustees, with a clear message that the trust and co-operation of constituents had to be earned rather than demanded.

The IAS 39 issues were symptomatic of a wider unease in the EU over the transition to IFRS. Many businesses, in particular, were uneasy about the way their traditional methods of reporting to investors were being changed. For example, there was a strong current of opposition to the IASB's tentative proposals to focus the income statement on comprehensive income (including all gains and losses of the period) rather than some more limited concept such as operating profit. This discontent was probably increased by the perception that the IASB was dominated by an 'Anglo-Saxon' culture that was alien to continental European traditions. Such perceptions were encouraged by the IASB's *convergence programme* with the USA's FASB.

The USA had the largest capital market in the world, and access to it was attractive to many of the IASB's constituents, including those in Europe. Overseas companies listing on US stock exchanges were required by the SEC to reconcile their accounts to US GAAP (the standards required by FASB). The attractiveness and convenience of using international accounting standards would obviously be increased if those standards were accepted in the USA without the need for reconciliation to US GAAP. A report by the SEC issued before the creation of the IASB (SEC 2000) had contemplated this possibility, but had also made clear that this would require convergence of FASB and international standards. The IASB initiated such a process in 2002, in the Norwalk Agreement with FASB. This pledged the two boards to work together on future projects, including regular joint meetings of the two boards and joint staffing of the technical work. This proved to be a burdensome commitment in terms of board and staff time, although it did eventually (in 2007) lead to the SEC withdrawing the reconciliation requirement for overseas companies using IFRS. Moreover, it constrained the IASB's scope for choice over agenda and solutions, reinforcing the views of critics, particularly in Europe, that the IASB was dominated by Anglo-Saxon thinking, as exemplified by the FASB.

The apparent privileged status given to the FASB was reinforced in 2005 by the abandonment of the special liaison relationship for the six other leading standard setters. This was accompanied by an extended programme of looser but more inclusive liaison worldwide with standard setters and their constituents. This weakened the impression that there

was a privileged 'inner circle' with special access to the IASB's processes, but it left the USA, as represented by the FASB, in a uniquely privileged position.

The rest of the world, other than the USA, the EU and the former 'liaison' countries, was, of course, extremely important because it represented the IASB's future recruiting ground for the use of its standards. Such countries had a voice in the IASB's deliberations, through submission of comments as part of the 'due process' for developing standards, and also through the IASB Advisory Council, but these were passive rather than active roles in standard-setting. Amongst these were developing countries which were particularly supportive of developing a simplified international standard for smaller entities (the SME standard). It is a reflection of their growing influence and the support that they received from the IASC Foundation Trustees, that, despite the IASB's initial resistance to the idea, the SME project was eventually put on the agenda and a standard appeared in 2009.

5 Standards Development and the Emergence of the Fair Value View: 2001–2006

As we have seen, the IASB was constrained in its early work by a number of factors. The strongest influence on its output was the agreement to work closely with the FASB, which had a greater number of support staff than the IASB and also had considerable momentum from its work in progress. This was perhaps most obvious in the Business Combinations project, in which the FASB had progressed much further than the IASB at the time of the Norwalk Agreement, so that the IASB became a follower rather than a leader. The result was a standard (IFRS3, 2004) which appeared to follow many prior decisions of the FASB. Notable examples were the banning of merger ('pooling of interests') accounting and the amortisation of goodwill (replaced by impairment testing). These were seen as controversial changes in many countries, notably in the EU and Japan. Another area in which the IASB drew heavily on prior technical

work by the FASB was Share Based Payment (IFRS2, 2004). This was a triumph for the IASB in the sense that it was the first standard in the world to require the expensing of stock options, which had been vehemently opposed by business leaders. However, it drew heavily on the prior work of FASB in developing a draft standard for the USA.

The work in progress of the IASB during this period also reflected the influence of FASB thinking. This was particularly apparent in the work towards creating a new joint conceptual framework for the FASB and the IASB. The new version of the framework proposed to elevate decision usefulness to investors as the sole objective of financial statements, removing the traditional stewardship objective and it was proposed to substitute representational faithfulness for reliability as a fundamental property of good accounting information. As a consequence of these changes, prudence was deleted from the framework: formerly, this had been in the IASB's framework as a reasonable exercise of caution in measurement, arising from the stewardship relationship.[7] These proposals appeared to align better with the US approach to financial reports as being directed primarily to the investor in the market (decision usefulness) rather than the more traditional approach (favoured widely in Europe and Japan) that they were addressed primarily to existing shareholders (stewardship) as part of the accountability of management.[8]

Within contemporary proposals for new standards, there were specific issues that seemed to arise from the market orientation of the IASB/FASB approach. 'Day 1' profits, for example, were an issue in the revenue recognition, insurance and provisions projects. 'Day 1' profits are recognised at the inception of a project when the obligations under it are valued at fair value and are offset against revenue arising from the contract. This contrasts with the traditional approach to profit recognition, which records the initial obligation under a contract as being equal to the consideration received, recognising profit only when the obligation is discharged either by the passage of time or by the fulfilment of specific obligations (Lennard 2002). Fair value was also an issue in relation to assets, notably financial instruments, where certain categories (instruments available for sale and held for trading, and all derivatives) were required by IAS39 to be recorded at fair value. This was later extended by the controversial fair value option.

Because fair value was a pervasive theme in the more controversial aspects of the IASB's work (supported by the FASB) at this time, the broad stance of the IASB/FASB has been characterised as the *Fair Value View* (FVV). The FVV is elaborated and illustrated by reference to various IASB standards and proposals, as of 2006, in Whittington (2008). Essentially, the FVV is based upon the assumption that reporting to financial markets for the purposes of investor decisions (basically, valuation of the firm's securities) is the guiding purpose of financial reports. It is assumed that this process is carried out ideally in the context of perfect and complete markets, so that market prices can be observed directly for all assets and obligations, or readily inferred from the prices of similar assets and obligations. Thus, *fair* value, defined as a current market selling price, offers a faithful representation of the present value of the benefits (or obligations) associated with any item in the accounts. This is the world of 'deep and liquid markets' which featured in many of the discussions of FASB and the IASB. It is also closer to the world of the USA, or to the self-image of the USA's financial regulators, as exemplified, for example, in the SEC's apparent belief that US markets were the most efficient[9] and best regulated in the world; hence, IFRS accounts had to be reconciled with US GAAP, rather than the reverse, in order to achieve the highest quality. Elsewhere in the world, in many countries there was less reliance on the stock markets for finance and for corporate governance, a greater concern for stewardship (with its focus on past transactions and events) and less belief in the completeness and efficiency of markets. Such countries did not therefore accept the FVV as their overall framework for financial reporting, or US GAAP as the most appropriate system of accounting for their purposes, and this was the basic source of their discontent with IASB/FASB views on many issues.

The FVV was attractive to 'technical' standard setters, such as the majority of the IASB and the FASB because it offered a clear logical framework from which solutions to particular accounting problems could be deduced: the answer being invariably to measure all items at fair value. Hence, it was important to revise the conceptual framework in such a way that it was compatible with the FVV, for example, by replacing the criterion of reliability (which fair value might fail to meet, in the absence of deep and liquid markets) with that of faithful representation (which

might be expected to be met by fair values, representing the current state of affairs, rather than historical cost, representing a past state of affairs). The *alternative* to the FVV was much less clear in its detailed implications (Whittington 2008) but essentially it recognised that accounting data are part of a wider information set (including, for example, macro-economic data and forecasts) that are used for a variety of purposes (including share valuation and stewardship but also a wider range of economic and social evaluations). Thus, accounting data are inputs into the models of individual users (which will differ from one another) and provide useful *information* for this purpose, rather than precise *measurement* of decision variables such as the value of a firm's equity. The measurement of such variables is the prerogative of the user rather than the preparer of accounts: hence, for example, financial analysts are responsible for the valuation of shares and use accounts as one source of information in the process. Hence, the standard-setter's role is to identify the information needs of different users and to make the difficult choice of prioritising those needs, having regard to cost constraints. This approach also requires a conceptual framework to guide the standard setter in making this difficult judgment, but the framework is unlikely to offer unique deductive solutions to accounting problems.

6 Retreat from the Fair Value View, 2007–2015

The Fair Value View appears to have reached its zenith around 2006, the year in which the present author retired from the IASB, so that subsequent events are discussed from the perspective of an external observer with no privileged access to the IASB's deliberations.

The retreat from the FVV was gradual and, at first, almost imperceptible. Neither was it complete, and the changes were not all in the same direction. As late as 2011, the standard on fair value measurement (IFRS 13) was issued. This mimicked an earlier (2006) FASB standard, which had defined fair value for the first time as the *price* for which an asset could be *sold* (or a liability extinguished), whereas it had previously been

defined as the *amount* for which an asset could be *exchanged*. Hence, the new definition made clear for the first time in IASB standards that fair value referred to *exit* rather than *entry* values (such as replacement cost) and that *transaction costs* (such as the costs of the sale transaction) should be ignored. This is, of course, consistent with the FVV that fair value should reflect the market's informed view of the present value of the economic benefits attached to an asset (or the economic obligations attached to a liability). However, the IASB emphasised, in issuing the standard, that this was not intended to extend the use of fair value but rather to clarify its meaning when it was used. Moreover, it reviewed the use of fair value in existing standards to ensure that the new definition was consistent with the intention of those standards: something which it had been reluctant to do when the adoption of the new definition was first discussed, in 2006.

Despite deviations from the general pattern, such as IFRS 13, the period from 2007 to the present (2015) saw significant retreats from the FVV, which in 2006 had seemed likely to become more pervasive. In the conceptual framework project, the IASB has retreated from its previous ambition to identify a single ideal measurement objective such as fair value. Its current position (as in the 2015 exposure draft) is that the measurement method should reflect how a specific item is used by the reporting entity, and that the measures used should include cost measures (including historic cost) as well as fair values.[10] The conceptual framework review has also reinstated *stewardship* as an objective of financial reports with equal status to that of decision usefulness. With regard to particular standards, the IASB has abandoned its plan to replace IAS 37 (on provisions and contingent liabilities) with a universal standard on liabilities which would apply fair value measurement. Consistent with this, its new revenue recognition standard (IFRS 15, 2014) does not advocate the measurement of contractual obligations at fair value. Rather, it avoids recording 'day 1' profits, which would be recognised under fair value, by recording the initial obligation as equal to the contractual obligation, reducing this subsequently by reference to the delivery of specific contractual obligations rather than the declining fair value of the obligations. A similar approach, avoiding 'day 1' profits, is being

adopted in the insurance accounting project, which has not yet led to the issue of a new standard. The financial instruments standard, IAS 39, is in the process of being replaced by a revised standard, IFRS 9. The new standard retains the use of fair value for measuring certain specific financial instruments but does not significantly extend the use of fair value to all or most financial instruments, as was once feared. Moreover, the use of a mixed measurement model for financial instruments is consistent with the latest view of measurement adopted in the conceptual framework project: fair value is used for financial instruments in appropriate circumstances, notably when they are held for disposal so that their selling price is highly relevant.

7 Causes of the Retreat

The IASB's change in direction since 2006, away from the FVV, shows that it has adapted to its environment. The principal factors that drove and enabled this adaptation were as follows:

- *External pressures* on the IASB.
- *Changes in the membership* of the IASB.
- *Changes in the structure of the Foundation* which oversees the IASB.
- *The need to retain and recruit new countries* as users of IFRS.

The last of these is the most fundamental: IFRS are adopted voluntarily by national regulators, so the success of the IASB enterprise depends ultimately in gaining their approval. The changes in the structure of the Foundation and the membership of the Board represent the Trustees' response to this challenge. The first factor, the IASB's own response to external pressures, reflects the constitution of the IASB, notably its 'due process' for developing new standards, which require it to be transparent about its deliberations and expose them for comment by constituents. We shall consider the contribution of each factor in turn.

8 External Pressures on the IASB, 2007–2014

The IASB received inputs from its constituents in a variety of ways, including comment letters on 'due process' documents, discussions with advisory bodies and working groups, and direct contact with regulatory bodies that approved its standards for national adoption.

The closest of the latter type of arrangement was the collaboration with the FASB, mentioned earlier, which was directed towards gaining SEC approval for IFRS accounts to be accepted for listing on US exchanges. This was reinforced later (2006) by the Memorandum of Understanding with the FASB, which committed both parties to accelerating the convergence programme, and in 2007 the SEC duly approved IFRS for overseas registrants. The SEC also consulted on allowing IFRS to be used by US companies, but it became apparent that this was unlikely to happen. Moreover, it became apparent to both boards that working together was time consuming and that the work of convergence became more difficult when it addressed issues such as deferred tax which were deeply embedded in national institutions and established practices. Joint work on convergence continued and new standards appeared as part of the convergence process, but by late 2014, the IASB Deputy Chair (Mackintosh 2014) was anticipating that the programme would end with the issue of the new standard on leasing (expected in 2015). The declining importance of the FASB collaboration enabled the IASB to work independently on the revision of the conceptual framework, including the retreat from some aspects of the FVV.

Another strong influence was that of the EU. This was important throughout the IASB's history but grew stronger as the EU increased the severity of its approval process for endorsing individual IFRS by adding submission to a committee of the European Parliament (November 2006). This followed the controversies over IAS 39, discussed earlier, and subsequently it allowed the European Parliament, in response to the financial crisis, to force further changes to IAS 39 that relaxed the conditions for switching from fair value to historical cost (2008, discussed in Andre et al. 2009). Whatever the merits of such interventions, they provided a strong incentive for the IASB to accommodate views that were acceptable in the EU, and these were generally different from the FVV.

The Financial Crisis, which started late in 2007, posed a more general challenge to the FVV. The illiquidity of financial markets which precipitated the failures in the banks seemed to contradict the idea of 'deep and liquid markets' that underlay the FVV, so that the use of fair value was questioned even in the USA. Some even suggested that the crisis was caused by fair value accounting (Plantin et. al. 2008), although the empirical evidence for this is unconvincing (Barth and Landsman 2010; Amel- Zadeh and Meeks 2013). However, extreme illiquidity suggested that fair value (defined as a selling price) did not reflect value when assets could not be sold, and the IASB set up a Financial Crisis Advisory Group (2008–2014) which advised it particularly on the treatment of financial instruments. This helped to shape the new IFRS 9, which is currently replacing IAS 39. This maintains the use of mixed measurement methods and limits the use of fair value to particularly appropriate circumstances, whereas the pioneers who developed IAS 39 as 'an interim standard' most likely hoped that its replacement would be based on full fair value.

Apart from these high profile pressures from powerful bodies, the effect of the IASB's due process should not be under-rated. Constituents often complained that the IASB did not listen to them, but that was really a complaint that their own particular views were not adopted. Given the variety of views on most subjects, it would have been impossible to accept them all, so disappointment by some was inevitable. There is evidence that comment letters and other forms of consultation did affect the IASB's decisions,[11] and as the constituency became progressively more diverse, through wider geographical adoption of IFRS, the voices that were heard by the IASB became less dominated by the 'Anglo-Saxon' world. At the same time, the members of the IASB were becoming more diverse and therefore more likely to have a natural understanding of the representations of diverse constituencies.

9 Changes in IASB Board Membership

The appointments of the original IASB Board members were for different time periods, in order to generate a steady replacement process, rather than a potentially disruptive situation in which most of the Board

Table 2 Members in January 2015, by IASB geographical classification

Region	Members
North America	3
Europe	4
Asia-Oceania	5
South America, Africa	2
Total	14

Notes
Europe includes one UK
Asia Oceania includes two Australasians
Africa is South Africa (one member)
Source: Pacter 2015, p. 21

members left together, with a consequent loss of experience. As of January 2006, the membership of the Board was virtually unchanged from that at inception (Table 1). Two casual vacancies had arisen due to individual circumstances and the replacements were 'like for like' in terms of geographical origin and professional background. Later, the planned retirement process started to have effect, and by July 2011 none of the original board members remained in office. During this period (2006–2011), the Trustees adopted a policy of wider geographical spread and less emphasis on technical expertise in selecting members. New members provided a stronger representation of the user perspective, starting with the appointment of a former securities market regulator, Philippe Danjou, in 2006, and a leading equity analyst, Stephen Cooper, in 2007. This policy culminated in 2011 with the appointment of a new Chairman who was an economist by professional background, a former finance minister, and a non native English speaker.

The composition of the Board in 2014 appears in Table 2.

This shows that the number of 'Anglo-Saxon' members reduced from 10 out of 14 in 2001 (and 2006) to 7[12] out of 14 in 2015. Although the numbers involved may not seem large, this constituted a significant shift in the balance from the 'Anglo-Saxons' to the rest of the world, the latter having lost a majority position. Moreover, the 'Anglo-Saxons were in fact a diverse group, the UK, for example, being a member of the EU, so that classifying them as a bloc is an over-simplification. However, the numbers do indicate a broadening of the background of board members and offer a partial explanation of the Board's increased willingness to depart from the FVV during the period between 2006 and 2015.

10 Changes in the IASC Foundation Constitution

The changing membership of the IASB reflected a more general change in the organisation of which the IASB was a part. The original constitution of the IASC Foundation had anticipated the need for adaptive change by incorporating a requirement for quinquennial reviews. The first of these, which concluded in 2005, gave the Trustees the right to comment on the IASB agenda, increased the number of trustees (broadening the geographical coverage in the process) and added accounting for emerging economies and small and medium enterprises to the IASB's objectives, thus potentially requiring the IASB to adopt projects that were of relatively greater interest to economies and constituents who tended to be ignored by a 'technical' standard-setting board focused on the needs of stock market investors. The requirements for a balance in the technical experience of board members were relaxed, and the liaison standard setter role was abolished, thus potentially relaxing the influence of the most advanced economies, particularly the Anglo-Saxons. The IASB's voting majority for issuing standards was increased from a simple majority (8/14) to 9/14. Combined with the changes in membership, this meant that the total Anglo-Saxon vote was no longer sufficient to pass a standard, even if the 'Anglo-Saxons' could be persuaded to vote unanimously in the same direction. The overall effect of these changes was to widen the accountability of the IASB, reducing the 'technical expert' orientation of Board members, strengthening oversight of the Board's work, including agenda development, and reducing the apparent domination of the 'Anglo-Saxon' countries, or, more generally, the advanced economies.

A further review of the IASC Foundation constitution took place in 2008–2010, as a result of which the name of the organisation was changed to the IFRS Foundation. A more substantive outcome of the review was extension of the process of improving consultation and monitoring of the IASB and the Foundation, in order to assure its ever-widening constituency that it was operating in a transparent and responsive manner, in accordance with its stated objectives. Specific changes resulting from this review included the establishment of the IFRS Foundation Monitoring Board (2009) to monitor the work of the Trustees, including the power

to appoint Trustees. The members of the Monitoring Board were, in turn, to be appointed by public market regulators, which provided legitimacy for the organisation. A triennial public consultation on the IASB agenda was introduced, and an Accounting Standards Advisory Forum was established in order to provide a vehicle for communication between the IASB and national standard setters. The Trustees subsequently made major revisions to the Due Process Handbook (2013). Thus, the consultation process became more formal and transparent, and the IASB's members more accountable to the constituency of participants in the various consultation processes.

11 Recruitment and Retention of Countries Recognising IFRS

The IASB has no legal or legislative powers to require adoption or enforcement of its standards. For that it relies on voluntary adoption by national and international legislators and regulators, whose support is essential for IFRS to succeed. This is why the Monitoring Board, nominated by market regulators, is so important, as a means of establishing communication and trust between the creators of IFRS and those who adopt and enforce them.

In terms of adoption of IFRS, the IASB (including the full range of institutions within the Foundation) has been remarkably successful. By 2015, of 138 jurisdictions surveyed by Pacter (2015), 114 required IFRS for domestic publicly accountable entities reporting to capital markets. This included the countries of the EU, which, despite the controversies surrounding IAS 39, had successfully adopted and implemented IFRS with the exception of the 'carve-out' on hedge accounting, which affected less than two dozen banks, out of a total of more than 8,000 entities. The notable exception is the USA, where US GAAP is still required, but even there IFRS has been accepted for foreign registrants on US exchanges, and the SEC has contemplated the possibility of allowing domestic entities to choose IFRS, although there has been little sign that it is yet ready for such a change. Elsewhere in the world, more countries continue to adopt or recognise IFRS, including many developing countries seeking

financing from bodies such as the World Bank, which prefer accountability to be in an accounting language, such as IFRS, that has international credibility. This explains why the IASB and its Foundation have broadened their geographical outreach.

In order to cope with this expanding and changing constituency, the IASB has, as we have seen, adapted incrementally but significantly, because its standards need to be compatible with the cultures and environments of the jurisdictions that use them. However, the IASB would not have been successful in widening the adoption of its standards if the demand for international standards had not existed and perhaps increased. This arises from the increasing globalisation of capital markets and the need of national jurisdictions to develop credibility to gain access to those markets. It is notable, for example, that one of the outcomes of the second triennial review was the creation of an Emerging Economies Group (2011). It is also notable that, during the period 2001–2015, the 'Anglo-Saxon' economies have declined in relative importance, due to the rapid growth of emerging economies, notably China, which has provided an IASB board member since 2007. Thus, developments in the IASB have mirrored developments in the world economy.

12 The Price and the Dangers

The process of reaching out to a wider constituency creates difficulties. Institutionally, it is possible to have wider consultation and representation, but in setting standards, a wider constituency means that a wider range of views has to be considered, whilst at the same time maintaining the consistency and coherence of the standards. Thus the price of widening the constituency might be to dilute the quality of the standards. At worst, the standards might be changed for the specific purpose of placating a particular interest group rather than because it was perceived as an improvement in the standard. The power of lobbying by interest groups is well documented at the level of national sta ndard-setting, and these forces are multiplied in the case of an international standard-setter (Zeff 2002).

Such pressures are at their greatest when a particular jurisdiction is being persuaded to join or to remain in the IFRS community. There have been seven obvious cases where the IASB has responded to these situations. The first was the threatened EU carve-out of the fair value option in a proposed amendment to IAS 39, at the behest of the ECB, to which the IASB responded successfully, as described earlier. A second was the modification of the treatment of redeemable equity instruments, which was done to accommodate co-operative entities, particularly in New Zealand (IASB, 2008). A third was the exemption of government entities from the definition of related parties (IAS 24, revised 2009), which was designed to accommodate the needs of China, where government participation in business is pervasive. A fourth, also designed to meet the specific needs of China, was the revision of the application of 'deemed cost' in IFRS1 (Camfferman and Zeff 2015, p. 530). The fifth was the concession on transferring financial instruments from fair value to amortised cost, which, as described earlier, was made under pressure from the European Parliament (amendment to IAS 39, 2008). The sixth was a transitional exemption (IFRS 14, 2014) and new project on accounting for regulatory deferral accounts (a concept previously unknown to IFRS) which was undertaken to ease the difficulties of certain regulated Canadian firms at the time of Canadian first-time adoption of IFRS. The seventh was the separation of 'bearer' plants from produce in the revision of IAS 41 (June 2014), which was a concession to Malaysia.

Each of these amendments had a practical rationale, but it is disputable whether some of them could be regarded as consistent with existing standards and whether any inconsistency indicated that the existing standards should be changed. This draws attention to the danger that standard-setting could become dominated by narrow self-interest rather than principle, whereas the IASB hopes to develop principles-based accounting which will serve the greater good of the broad constituency.

This in turn raises the question of how these principles are to be determined. The IASB's approach, which it is currently pursuing, is to develop a *conceptual framework*, defining the objectives, properties and other fundamental assumptions that it will make in setting standards. The framework is developed through due process and therefore represents an accepted and transparent set of principles. Under the FVV, the framework would

lead directly to a specific method of measurement (FV) and recognition criteria consistent with that ('recognise anything that has a fair value to the entity'). Under the alternative view, the framework will set out the desirable properties and objectives of financial reports but its principles will be less prescriptive, leaving more room for the judgement of the IASB in setting specific standards. For this reason, it is important that IASB members are supported by a due process that ensures both transparency in the decision-making process and acceptance by the constituency.

13 Conclusion

The historical record shows that the IASB has, in its first fifteen years, successfully pursued its mission and progressively adapted to its changing environment. As its international constituency has broadened, so has international participation in the IASB organisation and its consultative processes. From being potentially dominated by 'Anglo-Saxon' influences at its inception, the IASB is now (2015) more representative of and accountable to the world which it serves.

The danger of the change from a 'technical' body to a body that interacts at all stages with its constituency is that it may become more 'political' in the worst sense, i.e. yielding to the influence of powerful interest groups rather than achieving a consensus by transparent and rational debate. We have identified two safeguards against this: First, for the IASB in setting standards, an effective conceptual framework; Second, for the IASB organisation as a whole, a transparent system of oversight and due process. Work on these two projects is an ongoing concern of the IASB and the IFRS Foundation respectively.

Notes

1. This was no accident. The structure had been advocated strongly by Lynn Turner, Chief Accountant of the influential SEC, on the ground that it would enhance the credibility of the IASB in international capital markets (Camfferman and Zeff 2007, pp. 480–1).

2. The IASB's early resistance to developing a standard for Small and Medium Entities (SME's) was an instance of apparent indifference to the particuar needs of developing economies, but, consistent with the theme of this paper, the IASB did change its views in the light of representations from its constituency, and its 'SME' standard was issued in 2009.
3. The existing IASC standards were adopted by the IASB at its first meeting, in 2001. These continued to be referred to as International Accounting Standards (IAS), whereas new standards issued by the IASB are referred to as International Financial Reporting Standards (IFRS).
4. Thus, the concept of an 'improvement' was a limited one, confined to amending existing standards by increasing their clarity and removing unnecessary alternative treatments, with the overall objective of achieving greater transparency and comparability in accounts. The introduction of new accounting treatments would have required a completely new standard, passing through full due process, rather than the 'improvement' process.
5. That is, hedging of a whole portfolio in aggregate. IAS 39 was based on hedging individual securities rather than portfolios.
6. Whittington (2005) provides an account of these events from the perspective of an IASB member, written at the time when they occurred.
7. Both prudence and stewardship have been revived as concepts in the current conceptual framework proposals (IASB, 2015). This illustrates the increased responsiveness of the IASB to its constituencies, which is discussed later in this paper.
8. This is discussed further in Whittington (2008). There is obvious overlap between decision usefulness and stewardship, insofar as stewardship also is concerned with economic decisions, but there are important differences of emphasis. Decision usefulness when applied to investors and lenders typically emphasises the valuation of the entity in terms of predicting future cash flows. This ignores the interactive aspects of stewardship, as in corporate governance, where the shareholder is seen as a proprietor to whom the management of the entity is accountable for its past actions and who, by responding to such information (e.g. by appointing and rewarding senior

management) can influence future activities and cash flows, rather than passively predicting them. In this context, historic information can provide important feedback for stewardship, whereas the passive investor will be concerned with such information only if it assists in predicting future returns.

9. Here we use the term 'efficient' in the sense of informational efficiency, as in the Efficient Markets Hypothesis (Beaver 1981, Chapter 6). This is widely assumed to exist, in the semi-strong form, where the market price reflects all publicly available information.
10. Curiously, the IASB has chosen not to revisit the parallel problem of capital maintenance, which was at the heart of the 'inflation accounting' (more properly 'price change accounting') debates of the nineteen seventies and eighties (Tweedie and Whittington 1984, Chapter 12). This may reflect a desire to avoid reviving the controversies of the past.
11. For example, Giner and Arce (2014) study the role of lobbying by national standard setters in the due process for the development of IFRS 2, Share-Based Payments.
12. North America 3, plus 2 Australasians and one each from UK and South Africa.