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## Stakeholder and jurisdictional influence over IFRS 10's development

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The International Financial Reporting Standards are voluntarily adopted by 167 countries, including countries in Africa, Australasia, Europe and South America. To maintain its legitimacy, the International Accounting Standards Board (IASB) must not be viewed as being unduly influenced by one group or jurisdiction. If the IASB's procedural legitimacy is compromised, it threatens their cognitive legitimacy and the global adoption of IFRS.

Currently, most papers investigating the legitimacy of the IASB's due process employ simplified assessment tools. This paper investigates the relative influence of stakeholders and jurisdictions over the IASB's standard setting, using the method designed by Bamber and McMeeking (2016). This method does not treat all requests for changes equally, strengthening the validity and quality of the findings. In addition, this paper answers the call from Bamber and McMeeking (2016) to corroborate or refute their findings that not all stakeholders exerted equal influence and that comments from the UK are less influential than those from the US.

Using a content analysis, this paper investigates the relative influence of jurisdictions and stakeholders on IFRS 10's development. The paper finds that, although no single stakeholder has a much greater influence over the IASB than others, there is some evidence of bias in a jurisdictional space in favour of the US and the UK with regard to the development of IFRS 10.

**Keywords:** IASB; IFRS 10; Legitimacy; Standard-setting; Content analysis; Due process

### 1. Introduction

Despite the current emphasis placed on non-financial reporting, formal financial reporting in the form of audited financial statements remains key to efficient capital market function. Financial reporting addresses information asymmetry, providing investors and creditors with detailed financial information to ensure financial markets operate as they should (Roychowdhury & Srinivasan, 2019). The information may also be useful to a wide variety of other stakeholders (International Accounting Standards Board [IASB], 2018a). With over 160 countries voluntarily<sup>1</sup> adopting International Financial Reporting Standards (IFRS), it is globally one of the most important accounting frameworks. Because of this importance, it is necessary that their standard setting processes be monitored closely.

The IASB is the accounting standard-setting body incorporated by the IFRS Foundation. This not-for-profit organisation aims to “develop high quality, understandable,

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enforceable and globally accepted accounting standards”<sup>2</sup> (IFRS Foundation, 2023, p. 1). The public benefit of IFRS is that it improves transparency, accountability and the efficiency of financial markets. Key to achieving the IFRS Foundation’s goal is fostering trust in their standards (IFRS Foundation, 2023).

An important component required to maintain the IFRS’ legitimacy is the implementation of processes and oversight which make users of IFRS believe the standards are not only of high quality but are not biased in favour of any one stakeholder group or jurisdiction (Bamber & McMeeking, 2016; IFRS Foundation, 2016; Larson & Kenny, 2011; Malsch & Gendron, 2011). To this end, one control in place is the requirement to engage IFRS constituents in a consultative process and make this process transparent to all. In addition, the Trustees of the IFRS Foundation have a Due Process Oversight Committee which is responsible for monitoring the IASB’s due process compliance (IFRS Foundation, 2016). Academics also have a role to play as another periodic and independent monitoring mechanism.

Some research investigates the IASB’s funding mechanisms to determine whether there is a high risk of undue influence from prominent funders (Larson & Kenny, 2011). Other research analyses the consultative process itself. After an Exposure Draft (ED) of a new standard is released, the IASB requests comments via comment letters (CLs). Researchers analyse the requests for changes and how many are processed to determine whether there is evidence of relative bias towards one or more stakeholders or jurisdictions. Early papers of this nature treated all requests for change equally. This is not ideal, as requests for grammatical changes cannot be treated the same as requests for significant technical changes (Bamber & McMeeking, 2016; Giner & Arce, 2012). Bamber and McMeeking (2016) developed a improved method which categorised the requests for changes based on their significance to provide insights that are more valuable.

This paper adopts the Bamber and McMeeking (2016) method to analyse the CLs in response to ED 10: Consolidated Financial Statements (ED 10). ED 10 is chosen as the focus of this study, because of its universal applicability to all industries and countries. It is also especially important for public markets, where groups are widespread. In addition, “regulation on the concept of control provides rich patterns of lobbying behaviour because of its controversial nature and its significance to financial reporting” (Stenka & Taylor, 2010, p. 109).

This paper answers the call of Bamber and McMeeking (2016) to corroborate or refute their findings that not all stakeholders exerted equal influence and that comments from the UK were less favourably received than those from the US. This paper investigates allegations which suggest that the IASB standard-setting due process is influenced more by specific stakeholders and jurisdictions than others, in this way threatening the IASB’s legitimacy (Sacho & Oberholster, 2008; Watts & Zimmerman, 1978; Zeff, 2002, 2012).

There is a shortage of research investigating the involvement and influence of users of financial statements in the standard-setting process (Georgiou, 2010). By including users as a separate stakeholder, the results of this paper indirectly add to this body of literature. In addition, this study indirectly researches the consequences of various jurisdictional respondents and the treatment by the IASB (Camfferman & Zeff, 2018).

This paper considers the UK and Europe as separate jurisdictions. This division is consistent with Bamber and McMeeking (2016) and is appropriate given the Anglo-Saxon influence on UK accounting and the continental (Callao et al., 2009; Nobes, 2011) and post-communist systems of accounting in Europe (Nistor & Deaconu, 2016). Thirty-two comment letters were received from the UK versus 39 responses from countries in Europe, further justifying the separation.

The remainder of the paper is structured as follows. Section 2 explores the relevant literature on standard-setting and legitimacy theory and Section 3 presents the method and data. Section 4 analyses and discusses the results of the analysis, and the conclusion is outlined in Section 5.

## 2. Literature review

The IASB has achieved a state of legitimacy, as reflected by the wide voluntary adoption of these standards (Larson, 2007). A major aspect of the IASB's legitimacy stems from the technical rigour and "correctness" of their accounting standards. This is achieved through their extensive due process (Durocher & Fortin, 2011; Giner & Arce, 2012; IFRS Foundation, 2018a). This paper uses legitimacy theory as a framework to analyse the IASB's due process.

### 2.1. Legitimacy theory

Legitimacy theory has previously been used in the fields of financial reporting (van Zijl et al., 2017), IFRS adoption (De Luca & Prather-Kinsey, 2018), sustainability reporting (Herbert & Graham, 2022) and financial performance (Mans-Kemp & van der Lugt, 2020). Legitimacy theory is a suitable theoretical framework for this research. Suchman (1995, p. 574) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." There are three categories of legitimacy: pragmatic, moral and cognitive legitimacy (Suchman, 1995).

De Luca and Prather-Kinsey (2018) discuss legitimacy theory from the perspective of transnational standard setters, like the IASB, and note that legitimacy theory includes input, throughput and output legitimacy. These consider legitimacy theory from related dimensions and are subsets of the pragmatic, moral and cognitive foundations. Input legitimacy focuses on the qualifications and expertise of the IASB to develop accounting standards which promote efficient capital markets. Throughput legitimacy is concerned with whether the standard-setting process incorporates rational discourse and the thoughts of constituents. Output legitimacy considers compliance with the standards issued by the IASB. This paper presents a broader view and focuses on the pragmatic, cognitive and moral legitimacy of the IASB.

Pragmatic legitimacy consists of influence legitimacy and dispositional legitimacy. Adhering to stakeholder needs and using stakeholders' views creates influence legitimacy (Suchman, 1995). Influence legitimacy is maintained through the IASB's standard-setting due processes (De Villiers & Maroun, 2017), as these processes are perceived to take stakeholders' views into account when setting standards. An entity which shares the interests of stakeholders and has a commendable character displays dispositional legitimacy (Suchman, 1995). Dispositional legitimacy results from the common goal of issuing high-quality globally adopted accounting standards to facilitate efficient markets by means of easily comparable financial statements. When there is strong participation by stakeholders in the standard-setting process, there is evidence of high-quality standards (Giner & Arce, 2012). Dispositional legitimacy is also included in the standard-setting process.

This study focuses on whether certain stakeholders/jurisdictions exert more influence over the standard-setting process of the IASB than do others. As a result, the moral legitimacy of the IASB is relevant. Moral legitimacy includes procedural legitimacy (Suchman, 1995). Procedural legitimacy deals with the belief that an entity producing socially

expected results must also use socially accepted methods to achieve those results (Suchman, 1995). This implies that for society to continue accepting the IASB's standards, the IASB needs to ensure that, in developing accounting standards, they follow an accepted process. Cognitive legitimacy incorporates the pragmatic and moral legitimacy of the IASB and considers the unchallengeable nature of the IASB's decisions or the fact that there is no perceived alternative to the IASB (Bamber & McMeeking, 2016).

## **2.2. *The standard-setting due process***

The focus of this paper is the acceptance rates of comments made by stakeholder groups and jurisdictions on the Exposure Draft (ED) of the consolidation standard: ED 10. The acceptance rates and consideration of comments received from different stakeholders and jurisdictions provide some insight into the execution of the IASB's due process. While the documented process relates to procedural legitimacy, the execution of and adherence to those processes are just as important as, if not more important, than maintaining their pragmatic and moral legitimacy.

The IASB's due process is an open process, with all meetings held in public and generally available via webcast (Beller, 2020). This transparency facilitates a form of informal monitoring by all interested parties who can submit complaints to the IFRS Foundation, should they feel there has been a weakness in the process.

To develop a standard, the IASB follows a specific process designed to reduce the risk of biased, inappropriate and impractical standards (IFRS Foundation, 2018c). There is a separation of duties between the IFRS Foundation Trustees and the IASB. The trustees are concerned with funding and the IASB is not. This separation reduces the risk that the IASB will be unduly influenced by wealthy stakeholders/jurisdictions to maintain funding (IFRS Foundation, 2018c).

The standard-setting process begins with research programmes designed to: identify potential financial reporting problems, identify the significance of the problems (magnitude, affected parties and line items), determine whether there is a significant divergence in practice and gain an understanding of how the financial reporting landscape is evolving. Once a problem is identified, a Discussion Paper (DP) request for information or research paper may be issued. Not all research programmes result in a DP (IFRS Foundation, 2018b).

Once the IASB evaluates the research, together with comments on the DP, changes to an existing standard or a new standard are developed. These proposals are then made available in an ED for public comment (IFRS Foundation, 2018b). Comments received are considered based on the quality of the comments and not on who the submitter of the comments is (Hoogervorst & Prada, 2015). Ultimately, a new standard is issued, or a current standard is amended.

After the issue of a new IFRS, there are post-implementation reviews (IFRS Foundation, 2018b). These reviews help understand any possible unintended consequences of the new IFRS and strengthen the due process going forward through this cumulative knowledge-building process.

## **2.3. *Influence of specific stakeholders and jurisdictions***

### *Stakeholder overview*

Some studies claim that certain stakeholders do not often involve themselves in the standard-setting process (Botzem & Quack, 2009; Durocher & Gendron, 2011; Ryan et al.,

2000; Weetman et al., 1996). The lack of comments submitted can affect the acceptance rate of comments submitted. This can lead people to imply that such stakeholders have a relatively lower amount of influence in the standard-setting process but through no fault of the IASB (Weetman et al., 1996). However, many large companies and audit firms have highly skilled technical departments dedicated to IFRS. These departments may submit a CL, but it would be representative of the entire organisation or even industry.

Some studies concentrate only on one group of stakeholders at a time (Ang et al., 2000; Hill et al., 2002; Larson, 1997; Ndubizu et al., 1993). Other studies consider political interaction and the reaction of standard setters to comments by stakeholders (Chee Chiu Kwok & Sharp, 2005; Hope & Gray, 1982; Jupe, 2000; Pong & Whittington, 1996; Weetman, 2001). Further studies focus on the incentive and features of the stakeholders taking part in lobbying (Ang et al., 2000; Georgiou, 2005; Larson, 1997; MacArthur, 1988; Watts & Zimmerman, 1978). Prior studies also dealt with stakeholder involvement and lobbying in relation to IFRS (Georgiou, 2010; Hansen, 2011; Jorissen et al., 2012; Larson, 2007). There are few researchers who examine the standard-setting process of the IASB itself (Bradbury & Harrison, 2015).

### *Stakeholder differentiation*

Prior research differentiates among stakeholders because they are likely to have different incentives or motivations when making comments about accounting standards (Watts & Zimmerman, 1979). For instance, users may want more detailed disclosures while preparers may deem such disclosures unnecessarily expensive and resist providing them (Chee Chiu Kwok & Sharp, 2005). Regulatory and Professional Bodies (RPBs) are likely to require information which will allow them to protect investor interests, such as increasing the transparency of estimates and judgements. In addition, regulators and auditors may want standards which are easier to implement and apply, reducing their own risk of misstatement.

RPBs are an important stakeholder group because the IASB has no authority to implement its standards in any country and depends on the respective national regulators to recommend and enforce IFRS compliance (Chee Chiu Kwok & Sharp, 2005). Consequently, non-authoritative standard-setting bodies, such as the IASB, must maintain a high standard with regard to being objective, unbiased and technically correct to be accepted by RPBs (Martinez-Diaz, 2005). A balance must be achieved to ensure RPBs are satisfied with the standards while not being seen as being unduly biased towards them, even though the adoption of IFRS relies heavily on them (Giner & Arce, 2012; Stenka & Taylor, 2010).

It is argued that while the due process is transparent, only those stakeholders with significant monetary and intellectual resources can take part in the process and this allows them to protect their interests to the detriment of other stakeholders (Burlaud & Colasse, 2011; Giner & Arce, 2012; Sacho & Oberholster, 2008; Stenka & Taylor, 2010). There is an expectation that the IASB will reject self-interested comments. If such arguments are adopted, there is a risk that IFRS would be rejected by prejudiced stakeholders. If significant, this can threaten the procedural and moral legitimacy of the IASB (Giner & Arce, 2012; Hoogervorst & Prada, 2015; Watts & Zimmerman, 1978).

### *Key stakeholder groups*

Young (2006) highlights that contemporary accounting standard-setters have a view as to what they want the financial statement user to look like. Young (2006) questions the validity of this practice and lists several important consequences which may arise. Linked to

accountants' views of users, Georgiou (2018) points out that they do not trust fair values as anticipated by standard-setters as users are concerned about accounting numbers which aid them in assessing how the entity has performed, rather than accounting numbers which deliver market valuations of individual assets and liabilities. With little research dedicated to analysing users in detail, what we do know is that standard-setters should proceed with caution when making assumptions about what users want. To this end, the IASB's due process requires consultation via CL to EDs to encourage all stakeholders to participate in the standard-setting. In addition, IASB members conduct outreach initiatives to gather further insights from under-represented stakeholders and jurisdictions to protect the integrity of their standards (IFRS Foundation, 2016).

The divide between standard-setters and users exists because standard-setters seem to ignore user needs (Young, 2006) and are mistaken about how users practise accounting information (O'Brien, 2009). Furthermore, users appear uninterested in the outcomes of the standard-setting processes (Durocher et al., 2007; Durocher & Gendron, 2011). This divide does not result in open disagreement or lobbying from users. The disagreement between standard-setters and users does not lead to lobbying because accounting assessment is certain to be branded with harsh views (Georgiou, 2018).

Preparers and accounting firms have more interest in and exercise more lobbying power in the standard-setting process (Georgiou, 2018). Stakeholders expect accounting firms to have a high acceptance rate of their comments, considering their relative power (Bamber & McMeeking, 2016; Georgiou, 2018). If significant, the influence and pragmatic legitimacy of the IASB is impaired (Larson & Kenny, 2011).

#### *Cultural and social considerations of stakeholders and jurisdictions*

This research makes use of different stakeholders and jurisdictions with varying cultural norms and modes of business. Because of this, they are likely to favour different accounting prescriptions (Gray, 1988). Accounting is a social construct which must be interpreted by accountants working under different legal systems who have differing levels of education, experience and exposure to transactions (McKinnon, 1984). Additionally, the prior literature evaluates in detail the impact of using translated versions of IFRS (Holthoff et al., 2015; Huerta et al., 2013). These factors affect how different accountants interpret IFRS (Tsoukas & Hatch, 2001). Consequently, the location and personality of accountants further complicate the process of developing accounting standards and achieving wide acceptance (Prather-Kinsey et al., 2018).

For example, countries which follow civil versus common law systems are likely to view accounting standard-setting differently because of the regulatory environment they are used to. Illustratively, the US has often been stereotyped as being litigious (Donelson et al., 2012). Common consequences include a regulatory environment characterised by rules and detailed, prescriptive guidance. This is aimed at reducing the risk of misinterpreting regulations and standards which will lead to penalties. Linked to this, US GAAP is often accused of being rules-based because of its overwhelming volume and the extent of authoritative guidance provided (Benston et al., 2006; Schipper, 2003). The IASB, with its commitment to a principles-based framework, is required to balance its response to comments which seek to drive a rules-based change (Psaros, 2007).

Because of the IASB's due process and voluntary adoptive nature, these factors also impact the social acceptance of its prescriptions and may encourage the IASB to include more accounting choice in its standards to please more stakeholders and jurisdictions, possibly lowering the comparability (and quality) of its standards and displaying



observable bias (Chatham et al., 2010). This may reduce the cognitive legitimacy of the IASB over time if there is a perceived decrease in quality. This also reflects the tension between keeping many different stakeholders and jurisdictions satisfied (allowing choices) and maintaining quality to uphold cognitive legitimacy.

#### *Political involvement of stakeholders and jurisdictions*

Sacho and Oberholster (2008) highlight the political involvement of jurisdictions in the IASB. The IASB allows such involvement and influence to prevent powerful parties from circumventing accounting requirements they find difficult. Based on the prior literature, there is reason to believe that different stakeholders and jurisdictions may have different motivations, needs and comments about EDs. It is also possible that some stakeholders and jurisdictions may have more resources available to them and can use these to garner more influence over the IASB's standard-setting process. This could detrimentally impact the sustainability of the IASB as, if the IASB seems to favour one stakeholder or jurisdiction over another, disenfranchised stakeholders and jurisdictions are likely to be less accepting of IFRS (Ramanna & Sletten, 2009). The convergence project with the US Financial Accounting Standards Board (FASB) may result in the perception that the US has more influence than others. This risk appears to be low as convergence with the FASB is not substantially achieved with respect to IFRS 10, reflecting the IASB's reliability (Pacter, 2013).

Bamber and McMeeking (2016) found that it is more likely for the IASB to discuss comments received from the US than comments from the United Kingdom (UK). It is also believed that the United States (US) and the UK have, in the past, influenced practice and research in financial accounting (Ryan et al., 2002). It is likely that the US relatively influenced the standard-setting due process of IFRS 10 more than did the UK, for reasons that might be biased. Durocher and Gendron (2011) state that it has been said by standard-setters that their standard-setting process is designed to ensure comparability. It is likely that there is no evidence that a certain jurisdiction (relatively) unduly influenced the standard-setting process in the development of IFRS 10, but that comparability had an influence. Pelger (2016) supports this idea.

#### *Prior research findings for jurisdictions and the research gap*

Prior research aims to help understand the difficulty of lobbying within the UK accounting standard-setting process. This prior research used content analysis to analyse CLs to four EDs. Prather-Kinsey et al. (2022) used content analysis to suggest improvements in the global comparability of IFRS. These are also related to the concept of control used to standardise the choice of consolidation in the UK (Stenka & Taylor, 2010). This prior literature confirms that the concept of control is an uneasy area of instruction and the emphasis of such a study is not on whether certain stakeholders/jurisdictions are more influential than others in the consolidation standard. As a result, this paper addresses this gap but acknowledges the contribution of prior research.

With the issue of IFRS 5 by the IASB, it is noted that this is akin to the main requirements of Statement of Financial Accounting Standard (SFAS) 144: Accounting for the Impairment or Disposal of Long-Lived Assets. In addition, IFRS 8: Operating Segments is a replication of the US Standard SFAS 131: Disclosures about Segments of an Enterprise and Related Information (Sacho & Oberholster, 2008). Moreover, the IFRS have a basis of conclusion as well as implementation guidance, which is the same format followed by the SFASs (Sacho & Oberholster, 2008). The US is, arguably, the first major economy with



well-developed capital markets, public accountability and regulations (accounting and legislation). Crawford et al. (2014) state that in IFRS 8 they saw an attempt by the EU to challenge the power of the IASB.

Sacho and Oberholster (2008) further state that developing countries which implement IFRS may find it difficult because the IASB normally does not take these countries into account when developing a standard. This statement emphasises the reason for this study because it is a concern if the comments made by developing countries are dismissed because the IASB is biased and is influenced by the type of stakeholder making a comment rather than the nature or characteristics of the comment. Such conduct would indicate an impairment of the influence and pragmatic legitimacy of the IASB (Larson & Kenny, 2011).

### *Conclusion*

In summary, this section explored the legitimacy of the IASB and the legitimacy theory. The IASB's due process for standard-setting is discussed and the significance of the development of IFRS 10 is highlighted. Relevant technical provisions, the influence of stakeholders and jurisdictions and the funding of the IASB are discussed. The approach of the IASB to CLs from various stakeholders and jurisdictions is informed by its moral and pragmatic legitimacy, facilitated through its due process, linking sections 2.1, 2.2 and 2.3. The next section expands on the methods applied and the data analysis.

## **3. Method and data**

The paper conducted a qualitative content analysis using Bamber & McMeeking's (2016) method.

### **3.1. Data collection**

ED 10 was published on 18 December 2008. A content analysis was used to analyse the public CLs on ED 10 (Source 1), minutes of the IASB Board meetings (Source 2), notes from technical working group meetings (Source 3) and the final IFRS 10 issued in May 2011 (Source 4). All data are publicly available on the IFRS Foundation's website. The population of this research is 148 IFRS 10 public comment letters, 38 minutes of IASB Board meetings and 69 notes from technical working group meetings. The research considers: Comment letters received by the deadline of 20 March 2009, along with the minutes of meetings and the notes from technical meetings until 12 May 2011, the date of IFRS 10's publication.

Content analysis is appropriate as it allows the researchers to identify and code suggestions for changes to ED 10 and whether those changes were discussed and then accepted or rejected using information which is not uniformly formatted (Creswell, 2009).

Each comment letter was read on a line-by-line basis to identify each request for a change. Then these were classified into one of two nominal categories: *outcome-oriented* or *other*. This paper was only concerned with outcome-oriented comments. The *other* category did not allow the researcher to measure relative influence on the standard-setting due process (Bamber & McMeeking, 2016).

Outcome-oriented comments are those which request changes to be made to ED 10. As the IASB was influenced by both the characteristics and importance of comments made by stakeholders/jurisdictions, outcome-oriented comments were analysed using the ordinal scale in Table 1 (Bamber & McMeeking, 2016).

Table 2 is the coding instrument which recorded the type of changes proposed by each comment submitted in a CL, the stakeholder classification, jurisdiction in which the stakeholder is located and whether the proposed changes were accepted or rejected. Two illustrative examples of the coding are included.

### 3.2. Data analysis

This study questioned whether some stakeholders and jurisdictions were more influential than others in the standard-setting process. The researchers measured relative influence by comparing the comments accepted or rejected by a stakeholder group/jurisdiction to the total comments made (Bamber & McMeeking, 2016; Chee Chiu Kwok & Sharp, 2005; Giner & Arce, 2012; McLeay et al., 2000).

To answer the research objective, the following hypotheses were developed:

- H1: There is a statistical difference between the proportion of proposals accepted/rejected from any stakeholder group.
- H2: There is a statistical difference between the proportion of proposals accepted/rejected, across minor, moderate and major proposals from any stakeholder group.
- H3: There is a statistical difference between the proportion of proposals accepted/rejected and discussed/disregarded from any stakeholder group.
- H4: There is a statistical difference between the proportion of proposals accepted/rejected from any jurisdiction.
- H5: There is a statistical difference between the proportion of proposals accepted/rejected, across minor, moderate and major proposals from any jurisdiction.
- H6: There is a statistical difference between the proportion of proposals accepted/rejected and discussed/disregarded from any jurisdiction.

The Pearson's chi-square test, consistent with prior studies (Carvalho et al, 2015; Chee Chiu Kwok & Sharp, 2005; Giner & Arce, 2012; Saemann, 1999; Vivian & Maroun, 2018) and Spearman's Rho were then run to identify associations and correlations among the variables. To evaluate whether there were any statistical differences between the proportion of proposals accepted or rejected from each stakeholder and jurisdiction group, a Kruskal-Wallis test was conducted. The Jonckheere-Terpstra test was used as a rank-based nonparametric test to determine if there is a statistically significant trend between the groups (Bamber & McMeeking, 2016). To control for the possibility of a type 1 error, the tests were run using a 5% and 1% level of significance.

### 3.3. Validity and reliability

Most of the research conducted on the influence stakeholders or jurisdictions have over the standard-setting due process has used public CLs to measure the levels of their influence (Bamber & McMeeking, 2016; Chee Chiu Kwok & Sharp, 2005; Jorissen et al., 2012; Tutticci et al., 1994; Yen et al., 2007). The population used in this study is consistent with similar studies, adding to the validity.

Content analysis requires interpretation, which may have incorporated researcher bias (Bamber & McMeeking, 2016). The researchers reduced this threat by making use of a consistency process. Five CLs were independently coded and then compared to ensure that the coding methodology was applied consistently. The researchers discussed the suitability of the coding system and its capacity to capture and explore the issues associated

Table 1. A classification system for the relative strength of responses (Bamber &amp; McMeeking, 2016, p. 66).

Nature and weighting	Description	Example(s) (paragraph references relate to the text from the Exposure Draft)
<b>Minor: 1</b>	Comments which did not alter the meaning of the requirement.	<ul style="list-style-type: none"> <li>• Calls for spelling or grammar changes which did not significantly change the meaning of the requirement. For example, in CL 5 there was a request to retain the basic information in paragraphs 30-31 in the body of the ED and move paragraphs 32–38 to Appendix B Application guidance, which was an essential part of the planned standard.</li> </ul>
<b>Moderate: 2</b>	Comments which proposed reasonable changes to either meaning or interpretation.	<ul style="list-style-type: none"> <li>• Calls for spelling or grammar changes which did change the meaning of the requirement in a significant way. For example, CL 23 stated that the ED should be worded with care to ensure that only options that should be considered in evaluating the control of an entity are, in fact, considered.</li> <li>• Called for more guidance on the application. For example, CL 1 stated that the ED anticipated a test where the reporting entity proved that it was obliged to act in the “best interests” of the other parties. It was uncertain how the “best interests” of the other parties were determined.</li> <li>• Called for clarification/classification of terms. For example, CL 2 requested clarity about the word ‘cease’ used in the ED.</li> </ul>
<b>Major: 3</b>	Comments which requested important changes. Called for changes to how something was applied (either increasing its power or decreasing it).	<ul style="list-style-type: none"> <li>• Called for spelling or grammar changes which changed the meaning of the requirement significantly. For example, CL 2 requested that B5 of the ED be amended and read ‘... may indicate involvement with an entity ...’ i.e., the outcome should be reliant on all the facts and the circumstances.</li> <li>• Called for more requirements. For example, CL 143 requested that there be a scope exemption for investment companies in the new standard on consolidation.</li> <li>• Called for requirements to be deleted. For example, CL 19 stated that a quantifiable assessment of returns was not appropriate in measuring control but that more guidance was required about practical consequences.</li> </ul>

Table 2. Extract from the final level summary of the manual coding process (Bamber & McMeeking, 2016, p. 71).

Row headings	Paragraph number (ED 10)	Scope of requirement (s)	Section/ Requirement	Accepted/ rejected changes	Minor (1), moderate (2), or major change (3)?	Jurisdiction which proposed the change?	Stakeholder who proposed the change?	Were these changes discussed at an IASB board meeting/ working group?
<b>Detail of coding</b>	The paragraph number in ED 10.	What the requirement was about.	The specific section of the requirement	Accepted/ rejected	1/2/3 (ordinal)	1/2 (placeholder no ranking)	1/2 (placeholder no ranking)	Yes/No
<b>Illustrative example 1</b>	B3; B7; B11	Voting rights held as an agent – assessing control-power without most of the voting rights	Guidance	Accepted	2	1	1	No
<b>Illustrative example 2</b>	4	Control definition	Definition clarification	Rejected	2	2	1	Yes

with legitimacy (Bamber & McMeeking, 2016). The researchers also re-coded a sample of the same CLs on two different occasions to ensure that the coding was being performed consistently.

#### 4. Analysis and discussion of results

Uncharacteristically, when compared to Bamber and McMeeking (2016), users submitted the most CLs (77) while preparers submitted the least (4). Preparers' low submission rate may be because these stakeholders use their respective professional accounting bodies to channel their comments to the IASB. This view is supported by the fact that professional bodies submitted the second highest number of CLs (32). Only 7% of all change requests were for major changes and most of these were rejected (82%). This may be because the ED has already gone through many processes. Major changes appear not to be requested because there are new problems. Major changes would be requested because there are problems the IASB has considered but not concluded in the manner specific stakeholders would have liked.

##### 4.1. Stakeholders

Table 3 presents the total number of CLs submitted, the total number of requested changes broken down into minor, moderate and major change requests and how many of the requested changes are discussed by the IASB.

Further, it is also important to consider whether there is an association, correlation and statistical difference among the acceptance/rejection rates and the stakeholder groups (Table 4).

On the one hand, preparers are outliers because the absolute value of accepted requested changes is much lower than those of other stakeholders. On the other hand, users are outliers because the number of accepted requested changes is much higher than those of other stakeholders. This must be understood in terms of the volume of submissions made and, on average, there do not appear to be major differences in acceptance rates (62% for accounting firms and preparers, 61% for regulators and 63% for professional bodies and users). This is supported by the statistical analysis: there is a weak association ( $\chi^2 = -0.004$ ,  $p > 0.1$ ) and weak correlation (Spearman's  $\rho = -0.003$ ,  $p > 0.1$ ) between the proposals accepted and the type of stakeholder.

The results are confirmed by the fact that the difference in the acceptance rates is not statistically significant (Kruskal-Wallis = 1.058,  $p > 0.01$ ). The null hypothesis of Hypothesis 1 is not rejected, as the type of stakeholder who submits a requested change does not appear to affect the IASB's decision to accept or reject the requested change, contrary to the findings of Bamber and McMeeking (2016) and Georgiou (2010).

There exists a tension between user and preparer lobbying for accounting changes. In this study, the lack of participation by preparers does not appear to result in users attempting to increase the standing of their opinions and influence the IASB's standard-setting process indirectly (Weetman et al., 1996). A perceived lack of involvement by preparers in the process is also consistent with the findings of Bamber and McMeeking (2016), who argue that preparers might respond less because of the increase in the number of submissions by regulators and professional bodies who are likely to comment on their behalf. This phenomenon can also be explained by preparers who submit one submission, even though there may be multiple people involved in its drafting, whereas users would submit individually. Like the findings of Bamber and McMeeking (2016), regulators

Table 3: Accepted/rejected responses per stakeholder group.\*

Stakeholder	Number of comment letters	Number of proposed changes which were accepted or rejected by category of change								Grand total	Number of proposed changes discussed by IASB/working groups	
		Accepted				Rejected					Yes/%	No/%
		Minor	Moderate	Major	Accepted total/%	Minor	Moderate	Major	Rejected total/%			
Preparer	4	1	33	0	<b>34/62%</b>	0	20	1	<b>21/38%</b>	<b>55</b>	20/ 36%	35/ 64%
Accounting firm	7	6	66	0	<b>72/62%</b>	5	35	5	<b>45/38%</b>	<b>117</b>	49/ 42%	68/ 58%
Regulator	28	9	115	2	<b>126/61%</b>	5	61	14	<b>80/39%</b>	<b>206</b>	105/ 51%	101/ 49%
Professional body	32	6	149	4	<b>159/63%</b>	6	75	14	<b>95/37%</b>	<b>254</b>	117/ 46%	137/ 54%
User	77	19	360	10	<b>389/63%</b>	7	177	40	<b>224/37%</b>	<b>613</b>	306/ 50%	307/ 50%
Grand total	<b>148</b>	<b>41</b>	<b>723</b>	<b>16</b>	<b>780/63%</b>	<b>23</b>	<b>368</b>	<b>74</b>	<b>465/37%</b>	<b>1245</b>	<b>597/ 48%</b>	<b>648/ 52%</b>

\*Table 3 was prepared in ascending order using the grand total column.



Table 4. Stakeholder statistical analysis.

Significance at a 1% level (**) or a 5% level (*).	
<b>Stakeholder v acceptance rate on a total basis</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	-0.004
Spearman's Rho	-0.003
Kruskall-Wallis	1.058
<b>Stakeholder v nature of proposal accepted/rejected</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	0.043
Spearman's Rho	0.040
Kruskall-Wallis	8.524
Jonckheere-Terpstra	373157.000
<b>Discussed and accepted/rejected per stakeholder</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	0.000
Spearman's Rho	0.005
Kruskall-Wallis	2.555

and professional bodies submit 40.54% of the CLs and 36.95% of the requested changes to the IFRS 10 ED.

A more refined test is performed by focusing on the nature of changes requested by each stakeholder and whether these were accepted or rejected. There is no association (chi-square = 0.043,  $p > 0.01$ ) and correlation (Spearman's Rho = 0.040,  $p > 0.1$ ) between the number of accepted minor, moderate and major requested changes and the stakeholders who requested the changes. This is in line with the conclusion to Hypothesis 1. The null hypothesis for Hypothesis 2 for all stakeholders is not rejected. The nature of the proposed change (minor, moderate or major) does not appear to affect whether a stakeholder's proposal is accepted or rejected.

Users and professional bodies make most of the minor, moderate and major requested changes, which are accepted (389 changes). This represents an acceptance rate of 63%, the same as for professional bodies. If a preparer requests a moderate change, it will probably be accepted (62%). If a preparer/accounting firm requests a major change it will most likely be rejected (0%), as there are no accepted major requests from preparers or accounting firms. Regarding accounting firms, this may be a specific attempt to project an independent appearance as there can be a negative impact on the legitimacy of the IASB if there is evidence of procedural bias towards accounting firms (Bamber & McMeeking, 2016; Burlaud & Colasse, 2011; Georgiou, 2010). It may also be that accounting firms are regular participants in IASB conferences and other outreach initiatives, and their comments have already been largely incorporated into the ED.

The Kruskal-Wallis (value = 8.524,  $p > 0.01$ ) and Jonckheere-Terpstra (value = 373157.000,  $p > 0.01$ ) statistics corroborate the lack of statistical significance and trend in the nature of proposals by the stakeholder and their influence on acceptance by the IASB. Most of the requested changes made by users are moderate requests (537/613 requested changes). This may be because users prefer to reduce the need for judgement, so they may request more guidance on the application of IFRS 10. The interest displayed by users may result in a due process affected more powerfully by lobbying actions, which can result in biased standards and lower acceptance (Eisenschmidt & Krasodomska, 2017). The 'docility' of users which was noted in prior research is refuted in this instance (Durocher & Gendron, 2011).

Discussion of the requested changes can increase the perceived procedural legitimacy of the IASB. Focusing on whether the requested changes were accepted or ignored was discussed or not, which provides some evidence on this point. There is no significant association (chi-square = 0.000,  $p > 0.01$ ) or correlation (Spearman's Rho = 0.005,  $p > 0.01$ ) between the proposals discussed and accepted or rejected by the IASB and the stakeholder which made the proposal. The Kruskal-Wallis test (value = 2.555,  $p > 0.01$ ) lends credence to the lack of a statistically significant difference in the treatment of the stakeholders. The null hypothesis for Hypothesis 3 is also not rejected.

When analysed on a relative basis, the highest rate at which requested changes are discussed by the IASB is 51%, so there appears to be little risk of the concerns of stakeholders being rejected without appropriate consideration. Requests discussed by the IASB before they are rejected or accepted increase the perceived procedural legitimacy of the IASB. Requested changes discussed by the IASB do not favour any single stakeholder. The type of stakeholder does not influence whether the IASB discusses or ignores a proposal, ameliorating the independence and procedural legitimacy of the IASB.

On a more granular level, CLs 5, 9, 10 and 40 reflect evidence of self-interest change requests and comments. The requested changes by CL 5 are rejected at a rate of 60%, the requested changes by CL 9 are rejected at a rate of 25% and the requested changes by CL 10 are rejected at a rate of 57%. These differing rates suggest the IASB is able to identify self-interest requests and respond accordingly (Giner & Arce, 2012; Hoogervorst & Prada, 2015; Watts & Zimmerman, 1978). Based on the development of IFRS 10, the IASB appears to maintain its moral legitimacy by not being swayed by inappropriate amendment requests (biased or not in the best interest of the public). This is confirmatory of Bamber & McMeeking (2016).

The next section presents the results and discussion around influence by jurisdiction of CL submission.

#### 4.2. Jurisdictions

Table 5 presents, by jurisdiction, the total number of CLs submitted, the total number of requested changes broken down into minor, moderate and major change requests and how many of the requested changes are discussed by the IASB.

This is followed by Table 6, in which it is considered whether there is an association, correlation and statistical difference between the acceptance/rejection rates and the respective jurisdictions.

##### *Jurisdiction discussion*

There appear to be differences in the rate of acceptance of proposals from different jurisdictions (US: 67%, Australia: 54%, RoTW: 54%, UK: 70% and Europe: 65%). At face value, requested changes made by the UK are more likely to be accepted, with Australia being least likely. There is a significant association (chi-square = 0.083,  $p < 0.01$ ) and correlation (Spearman's Rho = 0.089,  $p < 0.01$ ) between the proposals accepted or rejected and the jurisdiction. The relationship between the two variables indicates that the type of jurisdiction affects whether the requested changes are accepted or not.

The above results are confirmed by a significant statistical difference found at the 1% level (Kruskal-Wallis = 31.373,  $p < 0.01$ ) between the proportion of proposals accepted from any jurisdiction. The null hypothesis for Hypothesis 4 is rejected. The results appear to indicate a correlation between the type of jurisdiction submitting the requested

Table 5. Accepted/rejected responses per jurisdiction.\*

Jurisdiction	Number of comment letters	Number of proposed changes which were accepted or rejected, by category of change								Grand total	Number of proposed changes discussed by IASB/working groups	
		Accepted				Rejected					Yes/%	No/%
		Minor	Moderate	Major	Accepted total/%	Minor	Moderate	Major	Rejected total/%			
US	14	3	60	1	<b>64/67%</b>	2	20	10	<b>32/33%</b>	<b>96</b>	54/ 56%	42/ 44%
Australia	14	7	95	5	<b>107/54%</b>	1	82	7	<b>90/46%</b>	<b>197</b>	73/ 37%	124/ 63%
Rest of the World (RoTW)	39	6	116	1	<b>123/54%</b>	2	82	22	<b>106/46%</b>	<b>229</b>	119/ 52%	110/ 48%
UK	32	14	190	1	<b>205/70%</b>	7	65	14	<b>86/30%</b>	<b>291</b>	127/ 44%	164/ 56%
Europe	49	11	262	8	<b>281/65%</b>	11	119	21	<b>151/35%</b>	<b>432</b>	224/ 52%	208/ 48%
<b>Grand total</b>	<b>148</b>	<b>41</b>	<b>723</b>	<b>16</b>	<b>780/63%</b>	<b>23</b>	<b>368</b>	<b>74</b>	<b>465/37%</b>	<b>1245</b>	<b>597/ 48%</b>	<b>648/ 52%</b>

\*Table 5 was prepared in ascending order using the grand total column.

Table 6. Jurisdiction statistical analysis.

Significance at a 1% level (**) or a 5% level (*).	
<b>Jurisdiction v acceptance rate on a total basis</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	0.083**
Spearman's Rho	0.089**
Kruskall-Wallis	31.373**
<b>Jurisdiction v nature of proposal accepted/rejected</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	-0.089**
Spearman's Rho	-0.103**
Kruskall-Wallis	41.202**
Jonckheere-Terpstra	391884.000**
<b>Discussed and accepted/rejected per jurisdiction</b>	
<b>Statistic</b>	<b>Value</b>
Pearson chi-square	0.081**
Spearman's Rho	0.089**
Kruskall-Wallis	27.502**

change and the IASB's decision to accept or reject such requested changes. However, other factors, such as the quality of the requested changes, may have influenced this.

A more refined test is performed by focusing on the nature of the changes requested by each stakeholder. There is an association (chi-square = -0.089,  $p < 0.01$ ) and correlation (Spearman's Rho = -0.103,  $p < 0.01$ ) at the 1% level between the type of jurisdiction and the nature of the proposals. We can predict that if a stakeholder in the UK requests a minor change, it has a greater probability of being accepted than a similar request from the US (67% versus 60%). We can also predict that if a stakeholder in the UK or US requests a moderate change, it will be accepted (75%). This rate of acceptance is higher than that of Australia (54%), RoTW (59%) and Europe (69%).

There is a significant trend and difference between the nature of the proposal accepted and the jurisdiction from which it originates (Kruskal-Wallis = 41.202,  $p < 0.01$ ; Jonckheere-Terpstra = 391884.000,  $p < 0.01$ ). There is a direct relationship between the number of minor/moderate/major proposals accepted and the jurisdiction of submission. The null hypothesis for Hypothesis 5 is also rejected.

There is a significant association (chi-square = 0.081,  $p < 0.01$ ) and correlation (Spearman's Rho = 0.089,  $p < 0.01$ ) between the proposals discussed by the IASB and the jurisdiction from which the proposals originated. This is reinforced by the Kruskal-Wallis test (value = 27.502,  $p < 0.01$ ) which reflects a significant difference in the proposals discussed/not discussed and those accepted or rejected.

The association and correlation provide evidence that the discussion of a proposal by the IASB is influenced by the jurisdiction submitting that proposal. This contributes to the argument that the IASB appears not to be independent of jurisdictions, resulting in an apparent impairment of its legitimacy. The belief that the US and the UK have, in the past, influenced practice in financial accounting appears to hold true (Bamber & McMeeking, 2016; Ryan et al., 2002). The null hypothesis is rejected for Hypothesis 6. The results could be interpreted as biased in favour of the US. However, the rejection rates of US proposals may be an indication that the IASB is conscious of its commitment to a principles-based framework (Psaros, 2007) and its ability to identify requests which may threaten this.

Political involvement by jurisdictions is not unique to the IASB (Sacho & Oberholster, 2008). The objective of IFRS 10 is to establish principles for the consolidation of financial

Table 7. Summary of results.

Hypothesis	Conclusion	Comparison to Bamber and McMeeking (2016)
H1: There is a statistical difference between the proportion of proposals accepted/rejected from any stakeholder group.	Null hypothesis is not rejected: There is no statistical difference.	Contrary, as accounting firms' outcome-oriented comments were rejected at a statistically significant rate.
H2: There is a statistical difference between the proportion of proposals accepted/rejected, across minor, moderate and major proposals from any stakeholder group.	Null hypothesis is not rejected: There is no statistical difference.	Contrary, as major and moderate comments by accounting firms were rejected at a statistically significant rate.
H3: There is a statistical difference between the proportion of proposals accepted/rejected and discussed/disregarded from any stakeholder group.	Null hypothesis is not rejected: There is no statistical difference.	Contrary, as post-discussion the comments by accounting firms stood a statistically significantly greater chance of being rejected.
H4: There is a statistical difference between the proportion of proposals accepted/rejected from any jurisdiction.	Null hypothesis rejected: There a statistical difference.	Corroborated.
H5: There is a statistical difference between the proportion of proposals accepted/rejected, across minor, moderate and major proposals from any jurisdiction.	Null hypothesis rejected: There a statistical difference.	Corroborated.
H6: There is a statistical difference between the proportion of proposals accepted/rejected and discussed/disregarded from any jurisdiction.	Null hypothesis rejected: There a statistical difference.	Corroborated.

statements, and the standard requires the preparer to look at all facts and circumstances in deciding on consolidation (IASB, 2018b). The respondents who requested making the standard less prescriptive did so with the goal of ensuring that IFRS 10 is principles-based and not rules-based. For instance, CL 70 (professional body from the UK) suggested that it would be easier to apply the principles for options and convertible instruments if the final standard were less prescriptive in how to apply this principle. If this suggestion were accepted by the IASB, it would be for reasons of providing a better-quality standard rather than being influenced by a certain jurisdiction.

## 5. Conclusion

This paper examined the legitimacy of the IASB's standard-setting process by analysing the relative acceptance levels of requests by stakeholders and jurisdictions.

Despite concerns that the IASB favours accounting firms in the due process (Bamber & McMeeking, 2016), this study, concentrating on the development of IFRS 10, finds that these firms have the least influence. This supports research from a funding perspective showing that despite substantial contributions being made by accounting firms, they do

not unduly influence the decisions of the IASB (Larson & Kenny, 2011). The treatment of proposals from stakeholders by the IASB does not appear to favour any one stakeholder. Encouragingly, users did contribute most letters (77) to the standard-setting process. The increase in participation by users may be a result of IFRS 10 affecting most listed companies in important and significant ways. This finding contrasts with prior studies where user participation was low (Durocher & Gendron, 2011; Georgiou, 2018).

Prior studies found that stakeholders with greater monetary and intellectual resources are better able to participate in the standard-setting process and protect their interests (Burlaud & Colasse, 2011; Giner & Arce, 2012; Sacho & Oberholster, 2008; Stenka & Taylor, 2010). This study noted that this was not the case, as evidenced by the lack of statistical significance between the various stakeholders and the proposals accepted or rejected.

Interestingly, there did appear to be a difference in the treatment of the proposals from different jurisdictions. As in the findings of Bamber and McMeeking (2016) and Sacho and Oberholster (2008), the US and UK appear to be more successful in their submissions and proposal discussions than other jurisdictions. In this case, the UK is marginally more successful than the US, contrary to Bamber and McMeeking (2016). This may indicate potential threats to the IASB's procedural legitimacy. However, these developed countries also have significant global economies and experience applying accounting frameworks to complex transactions and events. Their relative success may be indicative of their experience. Furthermore, the favouring of the UK over the US may be indicative of the IASB defending against a litigious culture and ensuring its commitment to a principles-based framework over a rules-based one (Donelson et al., 2012; Psaros, 2007). Table 7 summarises the results of this study and compares the results to those of Bamber and McMeeking (2016).

It is important to note that the findings of this study are in the context of the development of IFRS 10 and are not specifically generalisable. Future research can consider whether the results of this study can be generalised to other standards. Future researchers may also consider investigating why there might be specific stakeholders or jurisdictions which influenced the development of IFRS 10 more than others did. Because of the subjectivity involved in interpreting and applying accounting standards, future research should evaluate whether requests for grammatical changes will have a significant impact on the application of accounting standards. After sufficient standards have been analysed, a final paper should then evaluate the results of all the standards and provide closing insights and comments.

## Notes

1. There may be instances where a jurisdiction mandates the use of IFRS, making the adoption mandatory. However, relevant jurisdictions have the option to mandate IFRS or not, making it voluntary in that regard.
2. The IFRS Foundation also develops sustainability disclosure standards.


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