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Accounting for Financial Instruments in an Uncertain World: Controversies in IFRS in the Aftermath of the 2008 Financial Crisis

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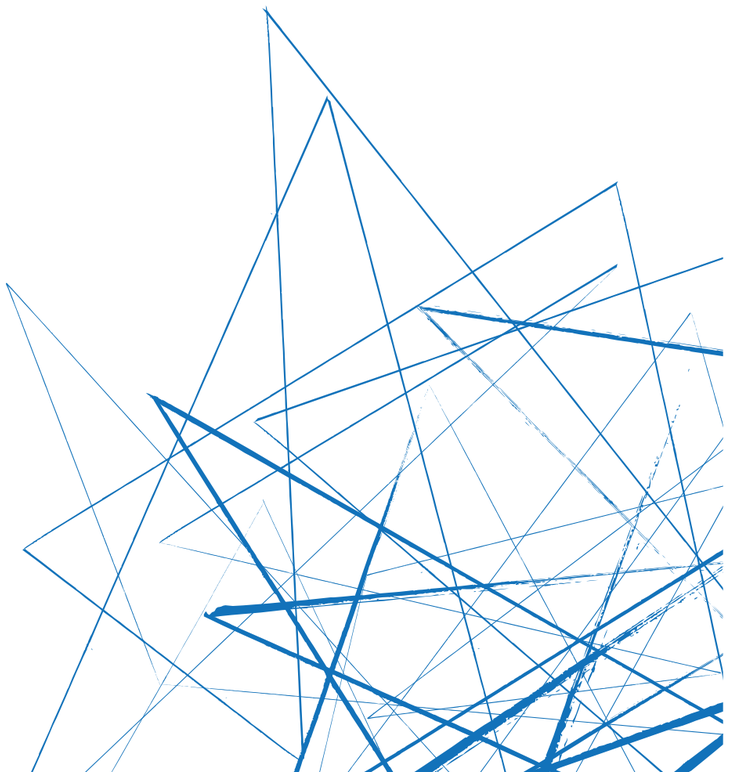
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ACCOUNTING FOR FINANCIAL INSTRUMENTS IN AN UNCERTAIN WORLD CONTROVERSIES IN IFRS IN THE AFTERMATH OF THE 2008 FINANCIAL CRISIS PhD Series 16-2017



Richard Pucci

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CONTROVERSIES IN IFRS IN THE AFTERMATH OF THE 2008 FINANCIAL CRISIS

Doctoral School of Business and Management | **PhD Series 16.2017**

CBS COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

Accounting for Financial Instruments in an Uncertain World

Controversies in IFRS in the Aftermath of the 2008 Financial Crisis

Richard Pucci

Supervisors: Thomas Riise Johansen and Peter Skærbæk

Doctoral School of Business and Management
Copenhagen Business School

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Foreword

The completion of this thesis would not have been possible without the considerable amount of support and inspiration I have benefited from receiving over the years. First of all I would like to thank the entire Department of Accounting and Auditing at Copenhagen Business School (CBS). I consider myself extremely fortunate to have been given the opportunity to study and work in the department for the past three years. Thanks to Associate Professor Carsten Krogholt Hansen for offering the PhD Fellow position to me and to Dorte B. Munck and the entire Administration team for their steadfast assistance. I feel particularly privileged to have studied under the direction of my two supervisors: Professor Thomas Riise Johansen and Professor Peter Skærbæk. I have learned a great deal from them and it is difficult for me to imagine having a more helpful and friendly supervisory team at my disposal. In particular, co-authoring two articles of this thesis with my supervisors was an invaluable experience in terms of developing my rather limited skills on the craft of writing an academic article. Furthermore, many thanks to Assistant Professor Tim Neerup Themsen for taking the time to translate my abstract into Danish, Associate Professor Caroline Aggestam Pontoppidan for her valuable feedback as the discussant in my opening seminar, and Professor Christoph Pelger and Associate Professor Kjell Tryggestad for their constructive comments during my closing seminar at CBS.

Another beneficial aspect of the PhD program at CBS has been the substantial financial assistance made available to students for study trips and conference participation. To support my study trips I also appreciate the funding provided to me by P.A. Fiskers Fond. Many thanks to Professor Richard Barker and the Accounting Group at Saïd Business School in Oxford for making my time as a visiting PhD student so memorable, and to Professor Christoph Pelger and the Accounting Theory and Research group for their remarkable support during my visit to the University of Innsbruck. Moreover, I sincerely thank all of the faculty and students who commented on my work during PhD courses and at the EAA Doctoral Colloquium in St. Andrews, the IPA Emerging Scholars' Colloquium in Stockholm, and the APIRA Emerging Scholars' Colloquium in Melbourne. I also would like to thank the participants of my seminar at Warwick Business School for their useful feedback.

I owe a huge debt of gratitude to all of the interviewees who kindly gave up their time to meet with me despite being under no obligation to do so. I particularly want to thank Stig Enevoldsen for graciously agreeing to speak with me on multiple occasions. In addition, I would like to thank Guillermo Braunbeck for facilitating my interviews at the IASB and Mark Byatt for approving my usage of selected interview quotes pertaining to the personal observations of individual IASB staff members.

I greatly appreciate the time and effort that was no doubt put forward by my Assessment Committee: Professor Kim Klarskov Jeppesen, Professor Carlos Ramirez, and Professor Christoph Pelger. I also want to thank former colleagues Thomas Ahrens, Nihel Chabrak, Joseph French, Rihab Khalifa, Habib Mahama, Jeremy Pearce, and Crawford Spence for significantly inspiring me to pursue my PhD over the years and helping to make my initial ideas sound more reasonable.

Most likely I would not have attempted to enter academia in the first place without the guidance of Dr. John Erkkila, my undergraduate academic advisor at Lake Superior State University. Dr. Erkkila managed to convince me not to give up on my bachelor's degree studies during my first semester. He later succeeded in persuading me to pursue a graduate degree in accounting in spite of my belief at the time that I was not master's degree material.

Finally, this dissertation would not have had a glimmer of hope without the encouragement of my wife Jenny, my parents Amedeo and Peggy, and my sister Celina. To say that they have unwaveringly supported me throughout my studies would be an understatement. In the process I have even succeeded, albeit temporarily, in convincing Jenny of the existence of a few interesting aspects of Financial Accounting, the Sociology of Worth and Actor-Network Theory, which is likely a far greater accomplishment than the making of this thesis!

Richard Pucci
6 April 2017

Abstract

This thesis explores the response of the International Accounting Standards Board (IASB) to the 2008 financial crisis. At the onset of the crisis, the international accounting standard on financial instruments, IAS 39, was blamed for exacerbating the ill effects of the economic downturn and significant changes were called for by numerous actors including the G20 and the Financial Stability Forum. The dissertation focuses on the events surrounding the emergency amendments to the standard in October 2008 along with the IASB's long-term response to the crisis, IFRS 9. Moreover, the project analyzes the IFRS 9 endorsement process in the European Union. Attention is directed towards broadening our awareness of the interplay among diverse actors in the revision of international accounting standards. Ultimately, it is hoped that the thesis will broaden extant understandings of the manner in which accounting standard-setters cope with multiple and conflicting interests which crystallize in times of crisis. The project contributes to the literature on accounting standard-setting by further explicating three pertinent issues; namely, (1) how agreements are reached in the critical moments of standard-setting, (2) the influence of economics on accounting standards, and (3) how financial accounting texts are solidified. The thesis is comprised of the following three papers.

The first paper of the thesis investigates the agreements reached in international accounting standard-setting during critical moments of the 2008 financial crisis. Emphasis is placed on the controversial amendments to permit certain reclassifications under IAS 39 and the emergence of the 'business model' approach to the classification and measurement of financial instruments in Phase I of IFRS 9. The paper contributes by shedding light on the role of different political philosophies on how to promote the common good in the provisional agreements on two pivotal matters in accounting for financial instruments. This points to the potential significance of tests of market worth in the fragmentation of the decision-usefulness program in financial reporting, the pervasiveness of compromises between the market and industrial worlds of standard-setting, and the influx of a number of additional orders of worth which amalgamate to induce accounting change. Additionally, the paper provides empirical insights into the rise of the Project World at the IASB and its implications for the domain of accounting standard-setting.

The second paper of the thesis examines the role of economic theory in the reconstruction of the IASB's financial asset impairment model in IFRS 9 Phase II. The resulting approach, based on expected losses, was assembled by the IASB after a failed attempt to produce a converged model together with the Financial Accounting Standards Board (FASB). The paper demonstrates how the Efficient Market Hypothesis on loan pricing set the premises for the approach by shaping its outcome. Although the ideal-type model initially developed was deemed unworkable, the IASB maintained its objective of adhering to the economic theory by endeavoring to link disparate matters of concern during the protracted standard-setting process. This was accomplished by means of approximating the financial statement effects of the ideal-type model whilst producing a largely workable approach for preparers and regulators, albeit on a temporary basis. Consequently, the paper adds to our understanding of the practical difficulties involved in the operationalization of financial economic theory within global standardization movements.

The final paper of the thesis studies the solidification of financial accounting texts by the European Financial Reporting Advisory Group (EFRAG) as part of the IFRS 9 endorsement project in the European Union. The paper traces the construction process in regards to the letters drafted from EFRAG to the European Commission on IFRS 9. Several fact-building initiatives are highlighted, drawing attention to the often laborious efforts aimed at the production of evidence-based assertions within the letters. While facts were deployed to justify the positions adopted within the texts, or to justify inaction regarding alternative standpoints, the paper illuminates the general instability of such endeavors. As such, the role of fact-building in the transformation of the overall endorsement advice from a positive to a qualified assessment is elucidated along with the weakening of statements within the texts due to a lack of substantiation. This accentuates the significance and fragility of fact-building efforts during the negotiation process surrounding the contents of controversial financial accounting texts.

Resumé

Afhandlingen undersøger hvordan det internationale regnskabsstandardudstedende organ: "The International Accounting Standards Board" (IASB) responderede på den globale finansielle krise i 2008. I den finansielle krises indledende fase blev den internationale regnskabsstandard om finansielle instrumenter, IAS 39, kritiseret for at have forværret de skadelige virkninger af den økonomiske afmatning. Dette ledte blandt andet til at en række aktører, herunder G20-landene og "The Financial Stability Forum", krævede væsentlige ændringer gennemført. Afhandlingen fokuserer på begivenhederne omkring de akutte ændringer af IAS 39, samt IASB's langsigtede reaktion på krisen i form af IFRS 9. Afhandlingen fokuserer herudover på EU' godkendelsesproces i forhold til IFRS 9. Det analytiske fokus er rettet mod at øge forståelsen af samspillet mellem forskellige aktører ved udviklingen af internationale regnskabsstandarder. Det endelig håb er, at afhandlingen øger den eksisterende forståelse af den måde, hvorpå udstederne af regnskabsstandarder håndterer forskellige og modstridende interesser hos aktører under finansielle kriser. Afhandlingen bidrager herudover til den eksisterende og omfattende litteratur inden for udviklingen af regnskabsstandarder ved yderligere at belyse tre relevante spørgsmål: (1) hvordan opnås enighed i standardfastsættelsens kritiske øjeblikke, (2) hvilken indflydelse har økonomisk teori på udarbejdelsen af regnskabsstandarder, og (3) hvordan gøres tekster relateret til regnskabsstandarder mere solide. Afhandlingen består af følgende tre arbejdspapirer:

Afhandlingens første arbejdspapir undersøger de aftaler omkring regnskabsstandarder, der blev indgået under den globale finanskrises kritiske øjeblikke. Arbejdspapiret fokuserer på de omstridte ændringer til IAS 39, der blev gennemført for at muliggøre visse omklassificeringer, samt tilvejebringelsen af en forretningsmodel-tilgang ('business model' approach) til klassificering og måling af finansielle instrumenter under "Phase I" af IFRS 9's udviklingen. Arbejdspapiret bidrager til litteraturen ved at undersøge, hvordan en række aktører trækker på forskellige politiske filosofier og derved kommer frem til og promoverer en foreløbig aftale, der er bedst for alle (the common good), inden for to vigtige områder af betydning inden for finansielle instrumenter. Dette peger på den mulige betydning af tests af værdien for markedet (tests of market worth) i forbindelse med fragmenteringen af finansiel rapporterings' beslutningsnytte (the decision-usefulness program), betydningen af kompromisløsninger mellem markeds- og industriperspektiver på standardudvikling,

samt indblandingen fra en række andre værdiordener (orders of worth), som spiller sammen og inducerer regnskabsmæssige ændringer. Derudover giver arbejdspapiret empirisk indsigt i oprettelsen af "The Project World" hos IASB og dets betydning for udviklingen af nye regnskabsstandarder per se.

Det andet arbejdspapir undersøger betydningen af økonomisk teori i rekonstruktionen af IASB's model for nedskrivning af finansielle aktiver under IFRS 9's "Phase II". IASB's endelige løsning endte med at være baseret på en "forventet tabs model" efter et fejlslagent forsøg på at producere en fælles konvergensmodel sammen med "The Finansiel Accounting Standards Board" (FASB). Arbejdspapiret demonstrerer, hvordan den økonomiske teori om det effektive marked for prisfastsættelse af lån (the Efficient Market Hypothesis), satte premisserne for den valgte model ved at synliggøre modellens slutresultat. Selvom den oprindeligt udviklede idealmodel blev vurderet uanvendelig, så fastholdt IASB alligevel målet om at basere sig på økonomisk teori ved at forsøge at forbinde adskilte interesser og mærkesager under den langvarige proces med udarbejdelse af regnskabsstandarden. Det som gjorde det muligt for IASB, var udviklingen af en mere praktisk anvendelig fremgangsmåde for regnskabsaflæggere og regulatorer, hvorved idealmodellens regnskabsmæssige effekter modereres. Samlet set bidrager dette arbejdspapir til at øge vores forståelse af de praktiske udfordringer med at operationalisere finansiel økonomisk teori i global standardudvikling.

Det tredje og sidste arbejdspapir undersøger "The European Financial Reporting Advisory Group" (EFRAG)'s solidificering af regnskabsmæssige tekster som del af EU's IFRS 9 godkendelsesprojekt. Arbejdspapiret kortlægger og analyserer processen der fører til udarbejdelsen af et udkast til en godkendelsesanbefaling fra EFRAG til Europakommissionen. Adskillige "fact-building"- tiltag er synlige i disse tekstudkast, hvilket indikerer de betydelige og ihærdige bestræbelser på at producere evidensbaserede udsagn til teksten. "Fakta" indsættes på denne måde for at retfærdigøre teksternes påstande, eller for at retfærdiggøre passivitet i forhold til alternative standpunkter, men arbejdspapiret viser derudover også den generelle ustabilitet knyttet til sådanne bestræbelser. På den måde belyses processen med at producere fakta (fact-building) i forbindelse med at den overordnede anbefaling om godkendelse af IFRS 9 ændres fra at være positiv til at være med forbehold. Derudover viser arbejdspapiret generelt, hvordan de frembragte tekster løbende

svækkes som følge af manglende dokumentation / underbygning af argumenter. Dette understreger betydningen og skrøbeligheden af arbejdet med at konstruere fakta (fact-building) under de forhandlingsprocesser der relaterer sig til indholdet af kontroversielle regnskabsstandarder.

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Accounting for Financial Instruments in an Uncertain World[1]

1. Introduction

This thesis analyzes significant developments in International Financial Reporting Standards (IFRS) on financial instruments in the aftermath of the global financial crisis. Attention is directed towards broadening our awareness of the interplay among diverse actors in the revision of international accounting standards. Arguably, the events leading up to the controversial amendments to IAS 39 in October of 2008 represent the most contentious period in the brief history of international accounting standards. Furthermore, the emergence of a 'business model' approach to the classification and measurement of financial instruments and the transition from an 'incurred loss' to an 'expected loss' approach to the impairment of financial assets constitute substantial transformations in the financial reporting landscape. Accordingly, the project focuses on the immediate reaction of the International Accounting Standards Board (IASB) to the crisis along with the construction of its long-term response to the crisis, IFRS 9. Rather than providing a comprehensive analysis of the changes to accounting standards since the crisis, the thesis endeavors to highlight three specific cases involving the IASB, the European Financial Reporting Advisory Group (EFRAG) and their respective constituents. The project contributes to extant understandings of the domain of accounting standards by linking three pertinent empirical settings with three novel theoretical frameworks. Therefore, in addition to elucidating the momentous revisions in the international accounting requirements for financial instruments since the commencement of the crisis, the thesis aims to shed light on wider considerations pertaining to the global standardization movement in financial reporting.

[1] The title of this thesis is inspired by the book *Acting in an Uncertain World: An Essay on Technical Democracy* by Michel Callon, Pierre Lascoumes and Yannick Barthe (2009).

By examining critical moments pertaining to the classification and measurement of financial instruments, the first paper of the thesis seeks to better understand how agreements are reached on controversial accounting standards. As the topic of accounting standards permeated the discussions of the G20 and the Financial Stability Forum, considerable pressure was exerted on the IASB to permit the reclassification of certain financial instruments. Whilst previous research has described the events of 2008 (André *et al*., 2009; Bengtsson, 2011; Camfferman and Zeff, 2015, chapter 13; Lagneau-Ymonet and Quack, 2012; Véron, 2008), our knowledge of the notion of legitimacy within these agreements is limited. Moreover, while the 'business model' approach to classification and measurement has been discussed within the literature (Brougham, 2012; Leisenring, Linsmeier, Schipper, and Trott, 2012) little is known in regards to the manner in which it has recently emerged within IFRS 9. Furthermore, it may be argued that the consequences of a recent shift in the manner in which the IASB seeks to maintain its legitimacy through extensive consultation procedures (Pelger and Spieß, 2016; Richardson and Eberlein, 2011) are relatively unknown. Adopting a Sociology of Worth framework (Boltanski and Thévenot, 2006), the paper investigates the compromises associated with these developments involving disparate notions of how to promote the common good in the realm of accounting standard-setting.

The second paper of the thesis explores the influence of financial economics in accounting standard-setting (Power, 2010; Ravenscroft and Williams, 2009) by following the construction of the expected credit loss impairment model by the IASB. In congruence with calls by the G20, the Financial Stability Forum and the Financial Crisis Advisory Group (FCAG), the IASB and the FASB pursued the development of a more forward-looking approach to loan loss provisioning to counter the alleged untimeliness of loss recognition under the incurred loss model leading up to the crisis. In doing so, the IASB maintained an objective to reflect the presumed relationship between initial expected credit losses and loan pricing at inception, leading to the assembly of an ideal-type amortized cost impairment model. However, the idealized model faced significant resistance from constituents as other matters of concern pointed to the unworkability of the proposed approach. Provided with a similar mandate but faced with dissimilar matters of concern, the eventual solution rendered by the FASB constitutes a strikingly divergent expected credit loss model in comparison with the approach adopted in IFRS 9. Drawing on Actor-Network Theory (ANT) and its notions of

performativity (Callon, 1998b, 2007) and translation (Callon, Lascoumes, and Barthe, 2009), the paper observes the malleability of the decision-usefulness program in financial reporting when standard-setters are met with the diverse and often influential interests of a wide range of actors. It also generates further insights into the challenges involved in the attainment of global financial reporting standards.

In studying the endorsement of IFRS 9 in the European Union, the final paper of the thesis underscores how financial accounting texts are constructed and stabilized in settings in which each word seemingly guards against a potential catastrophe. This portion of the project focuses on the work of EFRAG in solidifying letters to the European Commission regarding IFRS 9. As illustrated by the infamous "carve-outs" of IAS 39 (Baudot and Walton, 2013; Bischof and Daske, 2016; Camfferman and Zeff, 2015) and the non-endorsement of the first edition of IFRS 9 (Camfferman and Zeff, 2015, chapter 13), the IFRS 9 endorsement process in the European Union is potentially fraught with contentiousness. Accordingly, several changes in direction have been observed largely propelled by the concerns of the European insurance industry which ultimately led to a 'qualified' endorsement opinion. This constitutes a prime setting for the examination of the practices of purification (Latour, 1993) involved in the construction of financial accounting texts. The active role of fact-building and positive and negative modalities is also probed (Latour, 1987) explicating the transformation of the overall endorsement advice on IFRS 9.

Overall, the three cases examined in this thesis highlight an assortment of settings in which proposed accounting standards interact with the potentially diverse environments that they are targeted towards. The remaining portions of this introductory chapter consist of the following. First, a brief overview of the literature on accounting standards is outlined with a particular focus on the notions of tension and crisis. Next, background information is provided in regards to the principal approaches to social theory utilized in the thesis – ANT and the Sociology of Worth. Subsequently, the major contributions generated by the thesis are summarized. The chapter concludes with a summary of the methods drawn upon in the three papers.

2. Literature review

2.1 Tensions in the domain of accounting standards

The understanding of accounting as not merely a technical, apolitical mechanism has been well-established in the interdisciplinary literature (see, for example, Burchell, Clubb, Hopwood, Hughes, and Nahapiet, 1980; Hopwood, 1976; Hopwood and Miller, 1994; Loft, 1986). In the domain of accounting standard-setting, this comprehension of accounting calls into question the purported neutrality of standard-setters in objectively reflecting business activity (Tinker, 1991), while pointing to the propensity of accounting standards to both construct reality (Hines, 1988, 1991) and be shaped by their respective institutional and social environments (Bhimani, 2008; Burchell, Clubb, and Hopwood, 1985; Robson, 1991, 1994). For instance, in the case of fair value accounting, it has been argued that such measurements are based on the presumption of a perfect market reality (Whittington, 2008; Bougen and Young, 2012) and are only verifiable (Ramanna, 2008) and intelligible (Barker and Schulte, 2015) in certain circumstances. While the preceding studies underscore some of the considerable challenges associated with market-based valuations in financial reporting, other research points to the assorted implications of fair value accounting and its interaction with broader societal transformations. For example, irrespective of the role played by fair value accounting measurements in the 2008 financial crisis (Barth and Landsman, 2010; Laux and Leuz, 2009, 2010), it has been suggested that the intense deliberations in this regard situate the standard-setting function within an era of economic financialization (Arnold, 2009, 2012).

Nevertheless, the conviction that financial reporting should foster the provision of useful, unbiased information finds support both in the mainstream literature (see, for example, Solomons, 1991; Barth, 2007) and in the conceptual frameworks of accounting standard-setting organizations (FASB, 2010; IASB, 2010). According to the IASB and FASB, the sole objective of financial reporting is valuation-usefulness (Pelger, 2016) while 'neutrality' remains firmly enshrined within the conceptual framework as a component of 'faithful representation'; the latter of which replaced the notion of 'reliability' in 2010 (Erb and Pelger, 2015). In combination with the rise of fair value accounting metrics (Ramanna, 2015; Walton, 2006), it has been posited that this signifies the influence of financial economics in accounting standard-setting and the formation of a distinctive standard-setting identity (Power, 2010) which arguably plays an active role in standard-setting

processes. For instance, as demonstrated by Young (1996, 2014) standard-setting decisions have been justified using the precept of valuation-usefulness while the same rationality has been utilized to ignore or criticize alternative possibilities. This may be regarded as "a strong commitment to objective realism" contributing to a "constructed divide between the technical and the moral in accounting and accounting standard setting" (Young and Mouck, 1996, p. 127/144). Whilst the confinement of considerations to 'technical' matters is largely consistent with the practices of transnational private standard-setters such as the IASB (Perry and Nölke, 2006) this rationality by no means guarantees the non-existence of political influences in the standard-setting process. Nonetheless, it endeavors to demarcate the varied political interests and social implications associated with accounting standards from the apolitical efforts directed towards valuation-usefulness. Barth and Landsman (2010), for instance, argue that it is the obligation of bank regulators to safeguard financial stability while it is the remit of accounting standard-setters to improve transparency, although some coordination between the two categories may be necessitated in the name of efficiency.

The previous statement illustrates that, for better or worse, the aim of decision-usefulness in standard-setting is often compromised in practice by the sway of other objectives. For example, Solomons (1983) and Zeff (2002) discuss the influx of politics in standard-setting at the FASB and the IASB, respectively, while more recent studies illuminate the political implications experienced by accounting standard-setters in times of crisis (André *et al.*, 2009; Bengtsson, 2011; Lagneau-Ymonet and Quack, 2012). Along these lines, Barth (2007, p. 13) acknowledges that "social welfare trade-offs" are required to be considered in the standard-setting process, while Zeff (1978) posits the importance of predicating standard-setting decisions upon "accounting considerations" despite the necessity to study the social and economic implications of proposed standards. This resonates with the standpoint that although in an ideal world the goal of transparency in financial reporting should be upheld (Tweedie, 2008) the political pressures faced by standard-setting organizations occasionally precipitate changes in direction (Street, 2014). Thus, despite the persistent efforts directed towards eradicating political elements from accounting standard-setting processes, it is evident that such practices may be regarded as a Weberian ideal-type in that they are not invariably successful. In turn, notwithstanding its simultaneous occurrence it may be discerned that the

political aspects of the process tend to be viewed as practical concessions or aberrations wholly distinct from the undertaking to promote valuation-useful information. Whittington (2005) refers to this dichotomy in terms of a "technical programme" in which the IASB attempts to be viewed as impartial with respect to political forces and a "political dimension" whereby it contends with influential actors such as the EU.

2.2 Accounting standards and crises

It has been posited that knowledge of the relationship between financial reporting standards and the macroeconomic environment in which they are situated remains relatively unknown (Arnold, 2009). Nevertheless, it is observed that a review of the most significant upheavals of accounting standards reveals that many of the fundamental notions of financial reporting tend to receive increased scrutiny during periods of economic turmoil, often leading to substantial amendments to accounting standards by governments and standard-setters alike. In the case of the recent financial turmoil of the late 2000s, the accounting rules for financial asset valuations have been blamed for exacerbating the crisis (Ryan, 2008) leading to the controversial amendments which followed later in the same year (Bengtsson, 2011).

The potential for accounting regulation to create economic consequences has led to a vast interest in the rules that govern financial reporting, particularly in times of crisis. Although evidence of the concept of 'economic consequences' as a means of influencing accounting standards has been documented as early as 1941, the widespread usage of this notion did not become apparent until the 1970s due presumably to the preference of standard-setters and other interested parties to adhere to what was considered the "traditional accounting model" (Zeff, 1978). However, on a wider basis the increased fascination with the economic consequences of accounting may be explained in reference to what Carter and Mueller (2006) refer to as "accountingisation" – a term the authors describe as "*the increasingly pervasive influence of accounting metrics, ideologies and practices*" which was the result of a general rise in the privatization of government assets in the latter part of the 20th century. It has been argued that this element, along with the related financialisation of the economy which ensued (Müller, 2014), contributed to a considerable increase in the political complexity of standard-setting. According to Perry and Nölke (2006), the recent rise in the

financialisation of the global economy and its resultant codification within accounting standards evidenced by the rise of fair value measurements constitutes the fortification of political economy conceptions within accounting standards.

Subsequent to an economic crisis, the literature has demonstrated that sentiments regarding what are often deemed to be best practices in financial reporting may become altered in response. For instance, prior to the Savings and Loan Crisis of the 1980s and 1990s, the purportedly lenient accounting standards afforded to the banking industry that allowed banks to defer restructuring losses were justified on the basis of "economic consequences" (Pushkin and Pariser, 1991). However, sentiments on the issue were dramatically altered subsequent to the crisis as accounting standards were ascribed with blame (White, 1991). As Young (1995) posits, the Savings and Loan Crisis led to the transformation of perceptions of what is considered the "right" accounting standard from a perspective of concealment to one of revelation. Arguably, not only does this elucidate the political nature of the accounting standard-setting process and the irrationality of claims of "correctness" in regards to newly issued accounting standards, the reaction of accounting standard-setters to the Savings and Loan Crisis depicts the propensity of accounting to react in moments of crisis.

Moreover, not only are specific accounting standards often reconsidered during or subsequent to periods of economic strife, so too are the overarching philosophies of accounting standards increasingly open to debate in times of crisis. An example is provided by Bhimani (2008) in which it is demonstrated that the perceived failure of rules-based accounting standards surrounding the U.S. accounting scandals of 2001-2002 led to the "unthinkable" increase in the credence of principles-based accounting standards within the United States. Similar to the accounting response to the Savings and Loan Crisis above, in this instance it is observed that a concerted effort was put forth to improve accounting directives, this time through the promotion of principles-based standards (Schipper, 2003) and regulation aimed at enhancing transparency through heightened disclosure requirements. As such, a certain degree of change from apparent concealment to revelation is observed at this juncture which also led to corresponding implications on financial reporting practice. As Young (2014) explains, negative connotations surrounding the misuse of employee stock options were widespread at the time which paved the way for the eventual passing

of an accounting standard mandating the expensing of such options. This demonstrates the manner in which the passage of an accounting standard may be significantly affected by a range of considerations unique to a particular period of time and space.

Accounting research has attempted to ascertain the extent to which accounting for certain financial assets at their fair values has contributed to the 2008 crisis. Whilst on one hand, numerous studies have concluded that fair value accounting played virtually no role in intensifying the crisis (see, for example, Barth and Landsman, 2010, Laux and Leuz, 2010, Badertscher, Burks, and Easton, 2012), other studies have elucidated the potentially hazardous implications of fair value accounting (Cooper, 2015). For instance, research has pointed to the capacity of fair value accounting practices to promote insolvency during bleak economic times due to the inherent nature of fair value accounting methods (Allen and Carletti, 2008; de Jager, 2014) or as a result of the poor implementation of such procedures (Kothari and Lester, 2012). However, from the perspective of investors and creditors it has been argued that due to the alleged reduction in transparency historical cost measurements may lead to comparatively more problematic outcomes during an economic crisis than fair value accounting (Laux and Leuz, 2009).

In contrast to explorations into the complicity of fair value measurements in the crisis, few studies have focused in great detail on the reaction of accounting standard-setters to the political pressures exerted on them during this tumultuous time. A notable exception is the work of Bengtsson (2011) which depicts the highly politicized environment surrounding the IASB during the crisis whilst pointing to the coordination among various entities that occurred with an aim towards the restoration of financial stability. On one hand, these developments may be regarded as a loss of legitimacy for the IASB as anxieties in terms of sovereignty soared to the surface (Burlaud and Colasse, 2011) although this purported loss of legitimacy is countered by Danjou and Walton (2012). Accordingly, the political forces that contributed to the emergency measures have been criticized for inappropriately blaming the messenger (Ball, 2008; André *et al.*, 2009).

In this brief review of the literature on accounting standards and crises, multiple themes may be distinguished. For instance, a prevalent stream of accounting research attempts to discern the role of financial reporting standards in crises. Moreover, it may be perceived that on one hand the literature

views accounting standards as evolving technical tools for the depiction of economic reality, while on the other hand accounting standards have been understood as the result of self-interested behavior, politics, power struggles, capitalism, or financialization. This project endeavors to be situated in the burgeoning field of qualitative empirical studies in financial reporting (see, for example, Burchell *et al.*, 1985; Erb and Pelger, 2015; Morley, 2016; Pelger, 2016; Young, 1994, 1995, 1996, 2003, 2014) which aims to further extant comprehensions of the multifaceted role of financial accounting in society as called upon by Hopwood (2000). In outlining the theoretical approaches employed in the study, the next section delineates the manner in which the thesis seeks to shed new light on the international accounting environment in the wake of the 2008 financial crisis.

3. Theory

This section provides a general introduction to the theoretical approaches utilized in the thesis; namely, ANT and the Sociology of Worth. It also argues that these approaches are particularly adept at the provision of novel insights into the controversies of accounting standard-setting.

3.1 Towards a Deeper Understanding of Controversies

As opposed to viewing controversies simply as differences of opinion that may be resolved upon the provision of adequate information to all parties concerned, it may be argued that controversies are phenomena that potentially provide important opportunities to deepen our understandings of the interrelationship between technology and society (Munk and Abrahamsson, 2012). As Sismondo (2011) notes, technology has typically been thought to play an ancillary role in society as it is often regarded as the benign application of scientific pursuits. Nevertheless, Callon (1998a) posits two interrelated explanations for the shift towards increasingly controversial situations which, arguably, reflect recent occurrences in accounting standard-setting. The first is that due to the rise of science and technology, society has become progressively complex to the point where actions tend to be bound together in increasingly multifaceted ways. In accounting standard-setting, evidence of such complexity may be observed in the rise of the consideration for the economic consequences of accounting standards. As noted by Zeff (1978), evidence of the consideration of economic

consequences in accounting standard-setting has been observed for some time. However, it was not until the advent of the purported 'politicization' of accounting regulation in the 1960s and 1970s that such intricacies became commonplace which led to a more divisive standard-setting environment (Zeff, 2003).

The second reason for the increased prevalence of 'hot' situations as posited by Callon (1998a) stems from a change in the manner in which knowledge tends to be produced in society. As opposed to the traditional focus on scientists formulating knowledge in laboratories, the complex associations formed as a result of the techno-sciences stipulate that a more diverse collection of actors is required in order to resolve situations. The consideration of economic consequences in the accounting standard-setting domain corresponds with a surge in the participation of 'non-accountants' in the sphere of standard-setting (Zeff, 1972). The concoction of the so-called 'technical' and 'political' aspects of accounting standards may be viewed as a process of 'hybridization'. Hybrids may be defined as "*new phenomena produced out of two or more elements normally found separately*" (Miller, Kurunmäki, and O'Leary, 2008, p. 943). As the preceding study indicates, accounting is inherently hybridized in that its practices are multidisciplinary, pointing to the need for researchers to recognize this hybridization. In terms of standard-setting, it is believed that the rise of 'hot' situations allows for such practices to be viewed as increasingly 'hybrid' processes which combine elements from several disciplines. In this sense, actors in the standard-setting process consist of individuals and groups with a flexible ontology (Callon, 1991) which necessitates the adoption of research approaches that facilitate the recognition of such transformations.

3.2 Actor-Network Theory

In differentiating this approach from the "sociology of the social" and "critical sociology", Latour (2005) lays a foundation on which the potential contributions provided by ANT may be clarified. Instead of tracing associations through all-encompassing notions such as 'society' and 'capitalism', Latour (2005, p. 61) stresses the need to "follow the actors themselves" which contrasts with "critical sociology" in that it emphasizes social descriptions as opposed to social explanations (Blok

and Jensen, 2011, p. 128). However, Latour concedes the difficulty posed by a reliance on the actors themselves.

> How ridiculous is it to claim that inquirers should 'follow the actors themselves', when the actors to be followed swarm in all directions like a bee's nest disturbed by a wayward child? (Latour, 2005, p. 121)

Despite this drawback, it is believed that ANT offers a useful mechanism to facilitate studies seeking to understand how accounting standards are constructed given a diverse amalgamation of actors. The approach taken by ANT in this regard stands in stark contrast with positivistic perspectives which view the outcome of accounting standard-setting processes as driven by the overarching notion of self-interest (Watts and Zimmerman, 1978) hence equipping accounting theory with the ability to "explain and predict" (Watts and Zimmerman, 1986). Irrespective of the seemingly logical arguments put forth from a positivistic perspective, the development of accounting standards is arguably far more complex than is often predicted from scientific models (Lowe, Puxty, and Laughlin, 1983). In an ANT approach, researchers may attempt to reconstruct the successive stages in which an accounting standard is transformed, rather than taking-for-granted the arrival of an innovative tool for the reflection of the world (Latour, 1999).

The concept of translation – a central notion of ANT (Justesen and Mouritsen, 2011) – was first conceived by Callon and Latour (1981) who introduce it as a means by which to analyze the efforts of actors to transform the desires of other actors into a common will. However, this does not imply that the initial aspirations of the instigating actors will be achieved. In this regard, the sociology of translation takes the view that the process of unifying actors habitually results in significant alterations in the specifics of a program; however, it is not possible to foresee who will determine such effects and what such effects will entail. Callon (1986) highlights three important characteristics of such an endeavor. First, the principle of agnosticism refers to the importance of maintaining impartiality towards the arguments raised by the actors in the controversy. This implies that the actors must be permitted to speak for themselves and their identities should be viewed as adjustable. Second, the principle of generalized symmetry requires that any association among actors be examined to explain its network effects. In doing so, separate types of explanations for 'technical' and 'social' effects must be avoided. Thirdly, the principle of free association requires

that the distinction between 'natural' and 'social' elements and the formation of predetermined analytical classifications be rejected. According to Latour (1993), modernists habitually attempt to purify programs or objects by partitioning their 'natural' and 'societal' elements. This purification work takes place concurrently to the process of translation in which 'hybrids' are constructed by heterogeneous networks (Latour, 1993; Law, 2004, p. 121).

As noted by Justesen and Mouritsen (2011), the influx of ANT-inspired research in accounting was spurred by the rise of sociological inquiries into accounting which commenced in the early 1980s. Whilst ANT studies have extended the work of existing research that has attempted to explicate accounting change, such research has also chartered new territory by providing fundamentally different lines of inquiry in comparison with other more commonly used theoretical perspectives. In particular, this approach allows researchers to free themselves of the modern dichotomy between 'facts' and 'values'. Therefore, ANT is believed to be a valuable tool in elucidating the processes that contribute to the construction of accounting standards. Nevertheless, as Guggenheim and Potthast (2011) remind us, both ANT and the Sociology of Worth constitute novel theoretical approaches for the investigation of controversies.

3.3 The Sociology of Worth

Boltanski and Thévenot (2006) point out a multitude of political philosophies that people draw on in critical moments when they justify their own actions or criticize others which are grounded in distinct notions of how to serve the common good. Nonetheless, the Sociology of Worth adopts a flat ontological standpoint with respect to the higher common principles of actors in that it does not assign individuals to particular orders of worth. Although the political philosophy drawn upon by actors engaged in critical situations is an empirical question within this framework, Boltanski and Thévenot (2006) observe that actors tend to switch between vastly different worlds in their everyday lives.

> In disputes in justice, people present critiques and offer justifications. To do this, they must make a particular use of language that consists in moving to a higher level of generality, so as to bring out the principles of equivalence that support the prevailing order of worths in a given situation. (Boltanski, 2012, p. 69).

It has been argued that in order to be considered legitimate, public justifications made in the midst of controversies must appeal to a greater good, yet these arguments are subject to "legitimacy tests" (Patriotta, Gond, and Schultz, 2011). Disputing actors operating under the precepts of a particular order of worth do not merely scrutinize the reasonableness of assertions made by others based on individual opinions; these judgments tend to be predicated on evidence that is garnered in reality tests (Boltanski and Thévenot, 2000, p. 228).[2] In addition to shedding light on the worthiness of persons, reality tests highlight the potential deficiencies of the objects deployed within a particular world (Boltanski and Thévenot, 2000, p. 212). This is what Boltanski and Thévenot (2006, p. 134) refer to as the establishment of "deficiencies" in the persons or objects involved in contentions where states of worth are interrogated. However, as opposed to the tests involved in the assessment of worth within a particular world, a clash between worlds consists of the inclusion of more than one higher common principle within a dispute (Boltanski and Thévenot, 2006, p. 224). Whilst the latter situation may be referred to as a moment of crisis, it may concurrently be considered a moment of coordination if the parties involved attempt to flee from crisis mode by seeking compromises.

> In the concept of crisis, we have chosen to retain not a moment of chaos created by actors following their own separate paths with no attempt to coordinate their actions, but moments in which the partners agree on the need to define the reality that they have to take into account (Boltanski and Thévenot, 2006, p. 350).

Under the framework of Boltanski and Thévenot (2006) the move from a reality test within a specific world to a compromise situation between multiple worlds does not eliminate the pursuit of a common good. In seeking a 'general interest' among the disputing worlds, the priorities of one world are not entirely forsaken but related to those of other orders of worth in an attempt to render them compatible, although the principle of the consensus may be treated in a taken-for-granted fashion as opposed to being explicitly specified. Specifically, Boltanski and Thévenot (2006, p. 277-278) define the 'general interest' as *"not only the interest of the parties involved but also the interest of others not directly affected by the agreement."* Compromises are believed to be fragile,

[2] Alternatively, a 'reality test' may be referred to as a 'trial' (Boltanski and Thévenot, 1999, p. 367). In this paper, the term 'reality test' or 'test' refers to its formulation in *On Justification*. A subsequent elaboration of this notion in Boltanski and Chiapello (1999) incorporates both the 'reality test' from On Justification and the Latourian-inspired 'tests of strength' (Guggenheim and Potthast, 2011, p. 164).

however, because due to their composite nature they tend not to establish entirely coherent order of worth (Boltanski and Thévenot, 2006, p. 278). Nevertheless, these accords may be made less tenuous through the creation of indivisible objects that relate to multiple worlds (Boltanski and Thévenot, 2006, p. 278-279).

It may be discerned that the Sociology of Worth provides researchers with an instrument to analyze not only the manner in which agreements are reached in reference to a particular notion of the common good but also how compromises are entered into whereby multiple notions of the common good are related with one another. According to Boltanski and Thévenot (1999, p. 360), *"Nobody can live constantly in a state of crisis."* Thus, in addition to elaborating how differing notions of the common good are utilized by actors, it is believed that this approach holds considerable promise in terms of elucidating the manner in which agreements are reached in the accounting standard-setting arena.

4. Contributions

In exploring an array of situations, it is believed that the three papers included in this thesis further existing understandings of the reaction of the IASB to the 2008 financial crisis whilst providing a basis for future research examining the milieu of accounting standard-setting. The first paper studies the critical moments of standard-setting when the matter of public justification and critique is emphasized. This provides a framework to analyze public disputes surrounding accounting standards and the manner in which compromises are reached. The second paper offers a procedure for investigations of how the decision-usefulness program of financial reporting is operationalized by drawing on the precepts of financial economics and how standard-setters attempt to link this program with other matters of concern. This also affords researchers with a mechanism to explicate the provisional success or failure of proposed accounting standards and convergence projects. Lastly, by emphasizing the practices of purification employed in the solidification of financial accounting texts, the third paper stipulates an insightful approach to comprehending how proposed accounting standards are evaluated by a diverse collection of actors. This is expected to be of particular relevance in reference to recent calls for the enhancement of procedures utilized to assess financial reporting standards prior to their approval for use (European Parliament, 2016; Maystadt,

2013). Due to the complementary nature of the theoretical frameworks utilized in the thesis (Guggenheim and Potthast, 2011), it is believed that future research may draw on unique combinations of these frameworks within investigations of the interaction between accounting standards and the heterogeneous social environment. The following subsections summarize the primary contributions generated by the three papers.

4.1 Orders of worth in international accounting standard-setting: Critical moments from the global financial crisis

The first paper of the dissertation draws on the Sociology of Worth (Boltanski and Thévenot, 2006) to examine the controversial events of 2008 in international accounting standard-setting and the arrival of the 'business model' approach to the reporting of financial instruments. In doing so, the paper aims to emphasize the manner in which agreements are reached in the critical moments of standard-setting. This provides a grammar to situate the justification and critiques of actors in the standard-setting domain within a multitude of orders of worth which are grounded on distinctive higher common principles on how to promote the common good. Seven worlds of accounting standard-setting are identified; namely, the civic, market, industrial, domestic, inspired, and project worlds, along with the World of Fame. The pervasiveness of compromises between the market and industrial worlds is highlighted, while the influx of other orders of worth in standard-setting agreements is also illuminated in critical moments. While this emphasizes the difficulty of operationalizing the Market World of accounting standard-setting in isolation, the reality tests associated with a common world may also lead to disagreements and tension.

In reference to the IASB's *Mission Statement*, the provision of decision-useful information to market participants would appear to denote how the IASB aspires to serve the common good (IASB, 2015). The paper sheds light on the disjointedness of the market order of worth in international accounting standard-setting. Ironically, the transformation of tests in the Market World facilitated the legitimacy of the IASB's shift away from its proposed 'full fair value' model for financial instruments. This was accomplished by means of the transformation of the nature of the reality test applied within this order of worth which aligned the justifiable action of the Market World with that of the Industrial World. This demonstrates that irrespective of any allegiance on the part of standard-setters towards a Market World orientation, it may be difficult to predict how the

fair value projects of accounting standard-setters will evolve because the priorities of other orders of worth may induce indeterminable changes in direction. Thus, despite the formal pronouncements of accounting standard-setters in relation to how they promote the public interest, it has been observed that in contentious situations the IASB is largely unable to consistently justify action according to the market order of worth alone.

By illuminating the political philosophies that underpin the legitimacy of the critiques and justifications employed by actors in the standard-setting process, the paper provides novel insights into the compromises of accounting standard-setting. The compromises analyzed illustrate that, at minimum, efforts to reach common ground between the market and industrial orders of worth appear to be pervasive in the resolutions to critical standard-setting situations. This adds to the insights provided by Bengtsson (2011) and Camfferman and Zeff (2015, chapter 13) on the IASB's immediate reaction to the financial crisis in 2008 by illustrating how divergent worlds were related with one another in an effort to uphold the legitimacy of the compromise. However, as may be observed on the issue of reclassification, resolutions are tenuous, particularly when they combine multiple orders of worth. As such, the paper analyzes the prohibition on reclassification proposed by the IASB in 2009. This was criticized on several fronts including from a Market World standpoint, leading to the permission of certain reclassifications in line with changes in an entity's business model.

From a European perspective, it has been argued that the 'outsourcing' of financial reporting standards to a private, transnational expertise-based organization increasingly challenges the capacity of accounting regulation to serve a diverse list of affected stakeholder groups (Chiapello and Medjad, 2009). Moreover, it has been argued that the lack of legal authority of many standard-setting organizations has led to efforts aimed at instilling a sense of legitimacy to the standards being issued (Brunsson, Rasche, and Seidl, 2012). The framework represents a distinct approach to research on how legitimate agreements are reached in accounting standard-setting. As such, the paper points to the relative success or failure of various modes of critique by actors in controversial accounting standard-setting projects. For example, while the Civic World did not appear to constitute a significant element of the compromises reached, the general rise of the Project World (Boltanski and Chiapello, 1999) of international accounting standard-setting has been discerned. By

offering empirical insights into the rise of the Project World in international accounting standard-setting, the paper adds to recent studies on the shift in the manner in which the IASB seeks to legitimize its existence (Botzem and Dobusch, 2012; Pelger and Spieß, 2016; Richardson and Eberlein, 2011). This has been observed to generate a substantial degree of tension for standard-setters when their efforts aimed at incorporating the interests of influential constituents fail to resolve disputes.

4.2 The role of economics in performing accounting standards: A study of IFRS 9 Phase II

The second paper of the dissertation focuses on the role of economic theory in shaping accounting standards. According to the IASB, the sole objective of financial reporting is valuation-usefulness (IASB, 2010; Pelger, 2016) for the economic decision-making of users – primarily referring to investors and creditors (IASB, 2010; Young, 2006). Whilst this points to the rise of the influence of financial economics in accounting standard-setting (Power, 2010), it may be argued that our comprehension of the operationalization of these developments in controversial accounting standard-setting projects is underdeveloped. The case utilized to examine this issue is the reconstruction of the financial asset impairment model by the IASB from 2009 to 2014. In the aftermath of the financial crisis, the Incurred Loss Model stipulated under IAS 39 was criticized as "too little too late" in terms of its capacity to recognize the impending loan defaults that occurred during the crisis. Drawing on the ANT notions of performativity (Callon, 1998b, 2007) and translation (Callon, Lascoumes, and Barthe, 2009), this paper reconstructs the process in which the International Accounting Standards Board (IASB) attempted to mobilize the Efficient Market Hypothesis on loan pricing in the development of an expected loss impairment model for financial assets. Previous research pertaining to loan loss provisioning standards illuminates the controversial nature of the topic. Included within IAS 39 *Financial Instruments*, the incurred loss model for loan loss provisioning was initially released by the IASB in 1998 and was significantly influenced by U.S. GAAP (Zeff, 2012). This illustrates the long-standing importance attributed to achieving convergence in financial instruments standards (Walton, 2004).

The first iteration of the IASB's expected loss model in 2009 utilized an ideal-type approach to depict the economic reality of lending. In a relatively isolated setting, this version of the IASB

model was largely regarded as a conceptually sound attempt to represent the "underlying economics" of lending in financial reporting (IASB, 2011, p. 41). This approach endeavored to apply the theoretical presumption of "the economic link between pricing and the initial expectations of credit losses" (IASB, 2013, p. 13). Nonetheless, the approach was deemed unworkable due to its inability to address the "too little too late" concerns raised during the financial crisis and the widespread claims by preparers that the proposed model was not operational. Although some of these operational anxieties were diminished in the 2011 joint IASB–FASB project, both boards maintained a separate objective. On one hand, the IASB endeavored to achieve a solution consistent with Efficient Market Hypothesis which precludes the recognition of losses at the inception of a loan. On the other hand, the FASB attempted to directly address the problem of "too little too late" by recognizing lifetime expected losses at inception. Consequently, the compromise reached produced an unworkable solution to the constituents of both boards. With the exit of the FASB from the joint project in 2012, the IASB continued work on its expected loss model. Finally, the IASB was able to reach a temporarily stabilized solution which included a provision to recognize 12-month expected losses on loans which have not significantly increased in credit risk. This managed to largely coalesce the interests of the IASB and its constituents by adequately addressing the operational concerns and the problem of "too little too late" whilst not significantly deviating from its objective of depicting economic reality as accurately as possible.

This paper contributes by detailing how a proposed standard-setting solution predicated upon economic theory fails to materialize in its idealized form and is then subjected to a series of transformations prior to publication. In its initial formulation, the reality envisaged by the ideal-type model was deemed to produce significant operational concerns along with constituting an insufficient response to the criticism directed towards the incurred loss model during the financial crisis. Consequently, the paper shows how financial economic models in accounting standard-setting are translated to incorporate pertinent constituents within the project. This was accomplished by imbuing the standard-setting project with a specific objective which was then subjected to a series of experiments and negotiations prior to the provisional closure of deliberations. Nonetheless, it has been observed that the Efficient Market Hypothesis contributed significantly to the outcome of the process. In this regard, the paper traces the manner in which standard-setters attempt to forge

linkages between economic theories and other heterogeneous elements across jurisdictions. This case has illustrated that although in isolation economic theories may not wholly determine accounting standards, they have the propensity to significantly alter the outcome of standard-setting projects in conjunction with a host of other elements. Concurrently, the paper elucidates the failure of the convergence project and the temporarily stabilized outcome eventually rendered by the IASB, pointing to substantial obstacles associated with the global standardization movement.

4.3 Solidifying financial accounting texts: The EU endorsement of IFRS 9

In the third paper of the dissertation, the solidification of financial accounting texts is explored in the EU endorsement project on IFRS 9. Utilizing Bruno Latour's work on purification (Latour, 1993), fact-building and modalities (Latour, 1987), the construction of two letters by EFRAG to the European Commission are analyzed; namely, its endorsement advice on IFRS 9 and a follow up letter on the matter of insurance. The controversy over the international accounting requirements for financial instruments in the European Union has been well publicized following the infamous "carve outs" in 2004 (Baudot and Walton, 2013; Bischof and Daske, 2016; Camfferman and Zeff, 2015) along with the deferral of the endorsement decision in regards to the initial version of IFRS 9 in 2009 (Camfferman and Zeff, 2015, chapter 13). Commencing shortly after the implementation of significant reforms (EFRAG, 2016), the IFRS 9 endorsement process presented a substantial challenge for EFRAG. Despite the previous concessions made by the IASB in response to "European concerns" (IASB, 2009), a number of pertinent issues remained unresolved at the commencement of the endorsement project. Moreover, the importance of an evidence-informed evaluation was accentuated by the European Commission (2014) in its request to EFRAG for endorsement advice.

The paper underscores several fact-building endeavors aimed at demarcating 'facts' from 'values' surrounding the construction of the letters. In particular, quantitative and qualitative evidence provided to EFRAG by the European insurance sector built the case against the swift endorsement of IFRS 9 without a workable solution to the alleged implications of the non-alignment of the effective dates of IFRS 9 and the future standard on insurance contracts. The active role of this fact-building effort may be discerned in its capacity to transform EFRAG's overall endorsement advice

in the draft letter. Whereas the initial draft endorsement advice recommended endorsement without delay, the final version of the advice was qualified with respect to the insurance issue. This constitutes a shift from a positive modality to a negative one. Additionally, the separation of fact from fiction played an active part in the weakening or removal of statements within the texts that were perceived as unsubstantiated. For instance, negative assertions regarding the use of fair values were significantly weakened due to an alleged factual deficiency. This demonstrates the instability of assertions within financial accounting texts to the extent that actors are able to successfully cast doubt on the fact-building process.

Furthermore, the role of the practices of purification in the provisional stabilization of controversial financial accounting texts has been observed. This contributes to extant understandings of the micro-politics of accounting standards by building on studies pointing to the clash of ideologies. In the case of the endorsement of IFRS 9 in the EU, ideology alone was observed to be ineffectual in transforming assertions within the texts. In comparison, fact-building endeavors subsequently inserted within positive modalities, along with the weakening of statements placed within negative modalities have been discerned to form the basis for the preponderance of the principal agreements reached in regards to the texts. This led to the isolation of board members unwilling to accept widely accepted facts that were provisionally incapable of being discredited. However, the productivity of the attempted separation of 'facts' and 'values' was complemented by other tactics such as the toning down and repositioning of statements with a view towards guiding the possible reactions of the recipients of the texts. This adds to previous studies by drawing attention to the strategies involved in the solidification of 'evidence-informed' accounting documents over several iterations.

5. Methods

To shed light on the above, the thesis relies on document analysis, interviews, and observations. *Table 1* contains an overview of the principal documents pertaining to the public consultations analyzed in each of the three papers. In addition to public documents concerning the amendments to IAS 39 in 2008 outside the IASB's formal due process procedures, the first paper of the dissertation follows the 2008 IASB consultation on *Reducing Complexity in Reporting Financial Instruments*.

Moreover, the paper studies the Exposure Draft on *Financial Instruments: Classification and Measurement* in 2009 along with the limited amendments proposed in 2012 in regards to IFRS 9 Phase I. Meanwhile, the second paper examines the four consultations initiated by the IASB in relation to IFRS 9 Phase II on the matter of impairment. This includes a Request for Information and an Exposure Draft in 2009, a Supplementary Document in conjunction with the FASB in 2011 followed by an additional Exposure Draft issued in 2013. Lastly, the third paper focuses on the construction process surrounding the numerous versions of two letters drafted by EFRAG to the European Commission on IFRS 9 over the course of 2015.

Additionally, a total of 23 interviews were carried out in relation to the thesis from March of 2014 to June of 2016 in five different countries; namely, Denmark, Sweden, Germany, Belgium, and the U.K. The interviews were recorded and transcribed, with the exception of two interviews in which notes were taken by the researcher. The interviewees compromise of a wide range of individuals with either a direct involvement in financial instruments projects at the IASB or EFRAG, experience in the development of comment letters within these processes or a specialization in financial instruments in accordance with IFRS. The interviews were semi-structured in nature and centered on the relevant personal experiences and opinions of the interviewees. The interviews also served as a mechanism to corroborate the researcher's understanding of the pertinent IASB and EFRAG documents along with the comment letters submitted by the interviewee's organization. The interview data gathered from individuals affiliated with the IASB and EFRAG represent their personal observations and should not be regarded as official positions of these organizations. Information regarding the identities of all other interviewees has been treated confidentially with generic descriptions representing the relevant position and industry sector of the individual (see *Table 2*). All interviews were carried out in person, except for interviews 12, 14, and 16 which were conducted by telephone.

Lastly, eight non-participant meeting observations were carried out during 2015 in relation to the third paper of the thesis. One observation took place at the Financial Reporting Council in London, U.K. on the 22nd of June in regards to the public *FRC Meeting on EU endorsement of IFRS 9 Financial Instruments*. The remaining seven observations relate to meetings of the EFRAG Board pertaining to its IFRS 9 endorsement project. These meetings were held on 21-22 July, 29 July, 1

September, 21 September, 28 October, 9 November, and 24 November. The EFRAG Board Meeting of 21st and 22nd of July was attended in person in Brussels, Belgium with the other meetings observed by means of a conference call. Notes were taken by the researcher in relation to each observation.

Table 1

Year	Paper 1 (IASB)	Paper 2 (IASB)	Paper 3 (EFRAG)
2008	Reducing Complexity - Discussion Paper		
	Reducing Complexity - Comment Letters		Reducing Complexity - EFRAG Comment Letter
	Reducing Complexity - Comment Letter Summary		
2009	IFRS 9 Phase I - Exposure Draft	Request for Information - Expected Loss Model	
	IFRS 9 Phase I - Exposure Draft Basis for Conclusions	Request for Information - Comment Letters	Request for Information - EFRAG Comment Letter
	IFRS 9 Phase I - Comment Letters	Request for Information - Comment Letter Summary	IFRS 9 Phase I - EFRAG Comment Letter
	IFRS 9 Phase I - Comment Letter Summary	IFRS 9 Phase II - Exposure Draft	
		IFRS 9 Phase II - Exposure Draft Basis for Conclusions	
2010		IFRS 9 Phase II - Comment Letters	IFRS 9 Phase II - EFRAG Comment Letter
		IFRS 9 Phase II - Comment Letter Summary	
2011		IFRS 9 Phase II - Supplementary Document	
		IFRS 9 Phase II - Comment Letters	IFRS 9 Phase II - EFRAG Comment Letter
		IFRS 9 Phase II - Comment Letter Summary	
		IFRS 9 Phase II - Summary of Outreach	
2012	IFRS 9 Phase I - Limited Amendments		
2013	IFRS 9 Phase I - Comment Letters	IFRS 9 Phase II - Exposure Draft	IFRS 9 Phase I - EFRAG Comment Letter
	IFRS 9 Phase I - Comment Letter Summary	IFRS 9 Phase II - Comment Letters	IFRS 9 Phase II - EFRAG Comment Letter
		IFRS 9 Phase II - Comment Letter Summary	
2014	IFRS 9 Financial Instruments - Basis for Conclusions	IFRS 9 Financial Instruments - Basis for Conclusions	
2015			Draft Endorsement Advice (11 March 2015)
			Draft Endorsement Advice (9 April 2015)
			Draft Endorsement Advice (22 April 2015)
			Draft Endorsement Advice (4 May 2015)
			Draft Endorsement Advice - Comment Letters
			Draft Endorsement Advice - Comment Letter Summary
			Draft Endorsement Advice (21-22 July 2015)
			Draft Endorsement Advice (29 July 2015)
			Final Endorsement Advice (1 September 2015)
			Final Endorsement Advice (15 September 2015)
			Draft Letter to the EC (28 October 2015)
			Draft Letter to the EC (9 November 2015, version 1)
			Draft Letter to the EC (9 November 2015, version 2)
			Draft Letter to the EC - Comment Letters
			Draft Letter to the EC - Comment Letter Summary
			Draft Letter to the EC (24 November 2015)
			Final Letter to the EC (4 December 2015)

Table 2

Interview	Description	Date	Duration (minutes)
1	Stig Enevoldsen, EFRAG Board Member	28 March 2014	85
2	Stig Enevoldsen, EFRAG Board Member	23 November 2014	94
3	Accountant, Information technology sector	31 October 2014	55
4	Accountant, Banking industry representative group	19 November 2014	41
5a	Accountant, Banking industry representative group	19 November 2014	42
5b	Accountant, Banking industry representative group	19 November 2014	42
6	EFRAG TEG Member (former)	19 November 2014	76
7	Partner, Big Four accounting firm	24 November 2014	34
8	Partner, Big Four accounting firm	19 December 2014	42
9	IASB Staff	06 March 2015	23
10	IASB Staff	06 March 2015	41
11	IASB Staff	06 March 2015	54
12	Stig Enevoldsen, EFRAG Board Member	30 June 2015	33
13	Accountant, Banking industry representative group	09 July 2015	78
14	EFRAG TEG Member	14 July 2015	47
15	Accountant, Accounting professional organization	23 July 2015	50
16	Accountant, Banking industry representative group	06 August 2015	38
17	IASB Staff (former)	28 September 2015	75
18	Accountant, Financial services industry	07 March 2016	65
19	Partner, Big Four accounting firm	24 May 2016	49
20	Accountant, Insurance industry representative group	24 May 2016	54
21	Accountant, Financial services industry	25 May 2016	65
22	Accountant, Financial services industry	01 June 2016	38
23a	Accountant, Government agency	13 June 2016	43
23b	Accountant, Government agency	13 June 2016	43

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Orders of worth in international accounting standard-setting:
Critical moments from the global financial crisis

Richard Pucci

Abstract

This study sets out to further extant understandings of how compromises are reached in the realm of accounting standard-setting. The case selected to examine this issue surrounds the fair value accounting debate in IFRS at the onset of the 2008 financial crisis. Specifically, the emergence of the 'business model' approach to classification and measurement and the controversy over the reclassification of financial instruments under IFRS are analyzed by drawing on the theoretical framework of the Sociology of Worth (Boltanski and Thévenot, 2006). The paper aspires to contribute to the literature on accounting standard-setting in five main respects. First, the efficacy of 'reality tests' carried out by diverse actors elucidates the disjointedness of the decision-usefulness program in financial reporting. Second, the compromises reached on fair value accounting exemplify how an assortment of connotations on how to promote the common good converged to influence financial reporting standards in indeterminable ways. Third, the increasing influence and implications of the Project World in the domain of accounting standards is highlighted. Fourth, the paper points to a paradoxical relationship between 'the legitimacy of agreements' and 'the quest for input legitimacy' in accounting standard-setting. Lastly, while the Civic World was distinguishable within the disputes over fair value, it was largely ineffectual in prompting accounting change. Consequently, the approach adopted offers an insightful alternative to studies that view the fair value polemic as a dualistic contest between the 'advocates' and 'detractors' of fair value measurement.

Keywords Fair value accounting, Global financial crisis, IASB, Sociology of worth, Legitimacy

1. Introduction

> "Banks were subjected to accounting rules which provide no guarantee on the proper management of the risks but which, in the event of a crisis, contribute to exacerbating the situation instead of cushioning the shock. It was a madness for which we're paying the price today!"
>
> – Nicolas Sarkozy, September 2008

> "Financial statements contain information that should enhance transparency for investors and hence improve the ability and willingness of an investor to take an investment decision. Attempts to suppress such information will simply erode market confidence with investors applying a healthy risk premium or seeking investment opportunities elsewhere."
>
> – Sir David Tweedie, October 2008

As illustrated by the radically contrasting views above, the matter of fair value accounting measurement during the 2008 financial crisis has been one of the most fervently debated issues experienced in the realm of accounting standard-setting. This may be observed by reference to the vast amount of statements published in media outlets in the wake of the crisis which directed attention towards the subject (Becker, Daske, and Sextroh, 2016). Whilst a number of studies have aspired to ascertain the extent to which fair value measurements intensified the crisis (Arnold, 2009; Barth and Landsman, 2010; Laux and Leuz, 2009, 2010; Magnan, 2009; Ryan, 2008), this research investigates how agreements were reached by the International Accounting Standards Board (IASB) during this period pertaining to the classification and measurement of financial instruments. Two significant developments are explored; namely, the divisive amendments on the reclassification of financial instruments and the emergence of the 'business model' approach to classification and measurement. Arguably, such an endeavor is not merely useful in further explicating a contentious period in recent accounting history; it focuses on one of the most fundamental questions relating to the accounting standard-setting function: how are controversial issues provisionally resolved in the accounting standard-setting arena?

Previous research has described much of the controversy over fair value accounting faced by the IASB in 2008 (Bengtsson, 2011; Camfferman and Zeff, 2015, chapter 13) and has framed the debate in a number of ways. The reforms may be depicted as a struggle between the "competing diagnoses" offered by the proponents of transparent financial reporting and the advocates of a prudential approach to accounting for financial instruments (Lagneau-Ymonet and Quack, 2012, p. 213) leading some to suggest that the IASB was inappropriately blamed for the global financial

crisis (André *et al*., 2009; Véron, 2008). More generally, the disparity of thought over fair value accounting has been viewed as "*the trade-off between relevance and reliability*" with 'relevance' pertaining to the penchant of the providers of capital to favor fair value measurements and 'reliability' relating to historical cost valuations and the priority of stewardship (Whittington, 2008b, p. 501). Alternatively, the fair value debate has been perceived as the result of different preferences over the extent of information willing to be divulged by companies. For example, it has been suggested that "*continental European companies have a tradition of not revealing too much information*" in comparison with their Anglo-Saxon counterparts (Walton, 2004, p. 8).

Additionally, research has pointed to the possibility of an epistemic void in the commitment of professional accountants towards fair value measurement (Durocher and Gendron, 2014). This sense of disunity on the matter has also been identified in regards to the IASB board's inclusion of "pragmatists" (Power, 2010) along with the "fair value group" (Morley, 2016). Although the expansion of the IASB's fair value project has been observed prior to the global financial crisis (Power, 2009; Whittington, 2008a), the persistence of a mixed measurement model in the standard-setting domain points to the unlikelihood of a move towards a 'full fair value' approach (Georgiou and Jack, 2011). Along these lines, Whittington (2012) attributes this to recent changes in the composition of the IASB board and the organizations' increased level of engagement with constituents. In contrast, studies have highlighted the "power struggles" between the IASB and government actors during the crisis (Bengtsson, 2011) leading to an "intervention" by the European Commission (André *et al*., 2009). Nonetheless, it is believed that our knowledge of how agreements are reached on accounting standards in times of crisis is relatively under-researched. As opposed to viewing the debate through a dualistic lens or as a result of force or the background of individuals, this paper offers a nuanced appraisal of the debate by focusing on a plurality of justifiable actions in standard-setting and how these intermingle to engender financial reporting change in critical situations. In doing so, it does not refute the role of power or culture in the disputes but opts to emphasize the notions of justice and compromise.

Drawing on the theoretical framework of Boltanski and Thévenot (2006), this paper explicates how these events unfolded from a pluralist perspective which recognizes that, in critical moments, actors' assessments of worth are often grounded in divergent political philosophies on how to

promote the common good. Thus, despite the general lack of clarity in regards to the meaning of the public interest in accounting contexts (Baker, 2005, 2014; Dellaportas and Davenport, 2008; van Mourik, 2013),[1] this approach facilitates the elucidation of how notions of the public interest are mobilized by actors in the standard-setting process. Along these lines, seven worlds of accounting standard-setting have been identified – each comprising of a distinct higher common principle by which to assess worth. The paper distinguishes between 'Standards Level Orders' based on civic, market and industrial worth and 'Organizational Level Orders' which are predicated upon the precepts of the world of fame and the domestic, project and inspired worlds. While the civic, market and industrial worlds tend to favor particular objectives within accounting standards, orders of worth at the organizational level do not possess an accounting essence *per se* but nonetheless provide a basis for legitimate action. However, as each world is not expected to exist in isolation, compromises between multiple orders of worth are often necessary to provisionally end disputes (Boltanski and Thévenot, 2006). Accordingly, it is believed that the Sociology of Worth is a useful approach to understanding how agreements are reached in controversial accounting standard-setting projects.

The paper aims to contribute to the extant literature on accounting standard-setting in the following ways. First, the agreements analyzed illustrate significant tensions within the Market World of accounting standard-setting. Counter-intuitively, tests of market worth posed an insurmountable obstacle for the proposed 'full fair value' measurement model for financial instruments, while justification and criticism grounded in the Market World formed a significant component of the compromise reached in regards to the controversial amendments to IAS 39 on the 13th of October 2008. Second, the compromises investigated point to the ubiquitous interplay between the market and industrial orders of worth along with the influx of a multitude of other worlds particularly in times of crisis. This underscores the substantial challenges involved in mobilizing the decision-usefulness objective of financial reporting based solely on Market World precepts. Third, the paper observes a considerable degree of justification and action consistent with the Project World with comparatively limited indications of inspired worth. Whilst this is congruent with the purported shift in the manner in which the IASB aspires to achieve legitimacy (Richardson and Eberlein,

[1] In its recently issued Mission Statement, the IASB elaborates on the manner in which it serves the public interest in congruence with its decision-usefulness objective from the perspective of the providers of capital (IASB, 2015).

2011), the paper highlights the tensions produced in this world when the laborious efforts stemming from due process procedures fail to end disputes. Fourth, the paper sheds light on a legitimacy paradox in accounting standard-setting which suggests that the agreements of standard-setting are increasingly difficult to legitimize and stabilize as the degree of inclusion within the process broadens. Lastly, the collective will of the Civic World materialized in the debate in the form of criticism carried out largely by government actors over the economic impact of fair value accounting requirements during the crisis. However, while this mode of denunciation problematized the need for accounting change to a wider audience (Becker, Daske, and Sextroh, 2016), it did not explicitly contribute to the eventual compromises observed.

The remainder of the paper proceeds as follows. First, the theory and relevant literature is outlined including a preliminary exposition of the orders of worth in international accounting standard-setting. Next, the methods employed in the study are delineated followed by a background section introducing the fair value debate in IFRS. Subsequently, from the perspective of the Sociology of Worth, critical moments in the dispute are analyzed. This includes the emergence of the 'business model' approach to the classification and measurement of financial instruments, the controversial amendments to IAS 39 in October 2008, and the rise of the Project World of accounting standard-setting. Finally, the paper concludes with a summary of the insights produced and suggestions for future research.

2. Theoretical Framework and Relevant Literature

2.1 The Sociology of Worth of Boltanski and Thévenot

This paper draws on the sociological framework devised by Luc Boltanski and Laurent Thévenot in *On Justification: Economies of Worth*. Originally published in 1991, this book sets out to describe how reactions to 'critical situations' are justified and legitimized through the combination of a specific prioritization of worth and a notion of the common good which together produce what is referred to as a 'higher common principle'. Based upon selected underlying works of political philosophy, these 'polities' are predicated upon varying notions of the common good which

engender a sense of justice to the manner in which situations are governed.[2] Within each polity, 'reality tests' are used as the basis in which legitimate agreements may be reached (Boltanski and Thévenot, 2006, p. 40).[3] Accordingly, the authors relate the polities to common worlds in which individuals justify their actions in a largely consistent manner. However, such tests are only beneficial when there is a general congruence of principles (Kilfoyle, Richardson, and MacDonald, 2013); and therefore the potential for criticism arises in situations in which conflicting rationalities are present (Messner, Clegg, and Kornberger, 2008). As such, the framework of Boltanski and Thévenot (2000, p. 225) presupposes that given the existence of a plurality of philosophies in the justification of action and the complex nature of society, it is unlikely that the reality test of a single world will be sufficient to form the basis of resolution to a state of crisis. By characterizing this type of situation as a "clash between orders of worth," Boltanski and Thévenot (2006, p. 134) highlight a distinct circumstance in comparison with the tests of reality described above. Whereas actors involved in disputes grounded in the precepts of a particular world attempt to address the purity of the reality tests to be deployed, clashes represent a polemic between different worlds in which both the nature of the reality test and the notion of the common good to be drawn upon in devising the test are called into question (Boltanski and Thévenot, 2006, p. 223). Whilst these situations require compromises to be reached in order to end the dispute, such compromises are believed to be fragile because due to their composite nature they tend not to establish an entirely coherent order of worth (Boltanski and Thévenot, 2006, p. 278).[4]

Within an accounting research context, Annisette and Richardson (2011) put forth a compelling argument in terms of the potential benefits provided by an 'orders of worth' approach including its suitability for examinations of the fair value accounting debate. In response, recent accounting studies have employed this approach in empirical settings. For example, the framework has been

[2] Polities may be understood as systems encompassing principles that comprise a specific notion of the common good which "makes it possible to assess the relative worth of the parties, leading the persons involved either to agree or to judge themselves wronged, lodge a protest, and demand justice" (Boltanski and Thévenot, 2006, p. 67).

[3] Alternatively, a 'reality test' may be referred to as a 'trial' (Boltanski and Thévenot, 1999, p. 367). In this paper, the term 'reality test' or 'test' refers to its formulation in On Justification. A subsequent elaboration of this notion in Boltanski and Chiapello (1999) incorporates both the 'reality test' from *On Justification* and the Latourian-inspired 'tests of strength' (Guggenheim and Potthast, 2011, p. 164).

[4] Whilst the framework presupposes that actors actively strive towards agreement (Boltanski, 2012, p. 43), no such presumption is made in relation to the propensity of disputing parties to reach a consensus (Basaure, 2011). As such, disputes may indeed be "endless" (Boltanski, 1996).

utilized to provide insights on the manner in which budget disagreements are resolved (Kilfoyle and Richardson, 2011), the potential role played by accounting during organizational disputes involving different orders of worth (Chenhall, Hall, and Smith, 2013), and the interplay between multiple worlds in the context of integrated reporting (van Bommel, 2014). Moreover, the Sociology of Worth has been utilized to illuminate conflicting ideals within the context of the accounting profession. Annisette and Trivedi (2013) analyze the experiences of professional accountants who have immigrated to Canada to expose the existence of contradicting orders of worth. Likewise, Ramirez (2013) employs an Orders of Worth approach to provide insights into how conflicts regarding a shift in institutional logics are endured, articulated and resolved within the domain of a large professional accountancy body. However, with the exception of the work of Baudot (2014a) in regards to justification, no known studies have significantly applied Boltanski and Thévenot's approach in the sphere of accounting standard-setting. Thus it may be argued that the Orders of Worth framework is an under-utilized approach within accounting research on standard-setting that is well-placed to offer unique insights into present comprehensions of the fair value accounting controversy.[5]

Another perspective that may be adopted in this case in place of an Orders of Worth approach is one predicated on the precepts of Institutional Logics. Seemingly analogous to the higher common principles of Orders of Worth, Institutional Logics contain the values and interests of entities which aid in the understanding of action (Thornton and Ocasio, 2008, p. 103). Indeed, the mobilization of different institutional logics may be examined to better understand institutional change (Seo and Creed, 2002). However, there are important differences between Orders of Worth and Institutional Logics with respect to the common good. Whilst an Orders of Worth approach stresses how actors appeal to specific higher common principles during moments of crisis, the manner in which public justifications are enacted during controversies is not overtly evident in the Institutional Logics

[5] Alternatively, it may be contended that the standard-setting predicaments examined in this paper merely represent conflicts over the fulfillment of the needs of constituents as opposed to clashes between divergent political philosophies. Indeed, an Orders of Worth approach to accounting standard-setting does not presume that actors involved in the process unwaveringly aspire towards a common good. Nonetheless, it has been suggested that the imperative of justification increases with the severity of the dispute (Boltanski and Thévenot, 2006, p. 82). Given the gravity of the fair value accounting debate during the 2008 financial crisis (Hopwood, 2009), criticisms and justifications based solely on the needs of private interests are unlikely to be construed as legitimate under the polity model of Boltanski and Thévenot (2006) because their exclusion of segments of the population signifies a lack of regard for a common humanity.

literature (Patriotta, Gond, and Schultz, 2011, p. 1808).[6] Additionally, while Institutional Logics tends to focus primarily on the dominant logics within organizations (Jagd, 2011), the Orders of Worth framework directs its attention squarely on "critical moments" where a multitude of notions of the common good intermingle (Boltanski and Thévenot, 1999, p. 359), allowing the latter approach to potentially offer more insights into how compromises are reached among conflicting rationales (Ramirez, 2013, p. 863). Thus, the Sociology of Worth may be considered a pertinent framework for elucidating how notions of the common good are operationalized within the controversies of accounting standard-setting.

Nevertheless, the approach of Boltanski and Thévenot (2006) has been criticized on a number of fronts. These include its lack of attention to the influence of power, its tendency to focus on relatively brief successions of action, its constraints in terms of representing a general theory of action and change (Guggenheim and Potthast, 2011, p. 163), and its apparently insufficient consideration for historical undercurrents (Lemieux, 2014, p. 163). Boltanski acknowledges that the framework in *On Justification* is restricted to disputes of justice and lacks overt attention towards power relations and historical dynamics not because of a denial of the existence of such factors but due to the authors' deliberate choice to focus on justification and critique in certain situations (Basaure, 2011). Therefore, by drawing exclusively on the model of justice put forth in *On Justification*, this paper is correspondingly limited in terms of the above confines.

The following seven worlds have been identified to illustrate the relevant orders of worth ingrained within the accounting standard-setting environment in the case under study. The seven worlds draw on domestic, fame, civic, market, industrial, and inspired worth (Boltanski and Thévenot, 2006) along with an order of worth based on the project world (Boltanski and Chiapello, 1999). As illustrated in *Table 1*, it is believed that the polities entrenched within the civic, market, and industrial worlds each possess a propensity to produce a common understanding of how the common good may be served by an accounting standard. Conversely, it is suggested that while the priorities of the world of fame, the domestic world, the project world, and the world of inspiration

[6] A noteworthy exception is the "logic of appropriateness" stipulated by March and Olsen (1989). This comprises of a collective approach to promoting the common good based on an assessment of the situation at hand and the relevant rules, obligations, and roles to be performed. Young (1994, p. 86) draws on this logic to explain the reaction of the FASB to perceived "problems."

do not possess an accounting essence *per se*, it is believed that these worlds are nonetheless able to influence the development of accounting standards in distinct respects by exerting influence at the level of the organization.

2.2 The Civic World

Based on the polity espoused by Jean-Jacques Rousseau in *The Social Contract* (Rousseau, 1762/2008), the general will materializes through the abandonment of individual private wills to form a new state of being in which individuals unite to form a common interest. Incorporating objects such as rules and regulations, worthy persons in this world belong to a sanctioned group representing the collective interests of society (Boltanski and Thévenot, 1999). Considering that the legal status of accounting standards within regulatory regimes such as the European Union (Haller, 2002) is highly valued in this world, it would appear that accounting standard-setters and government institutions are well-positioned to act in terms of the higher common principle of civic worth. Thus it has been posited that a civic world orientation to accounting regulation generally aligns with efforts to regulate markets (Annisette and Richardson, 2011). For example, regulatory reforms such as the Sarbanes-Oxley act may be viewed from a Civic World perspective as protecting the public interest to the extent that they curtail the fraudulent behavior of corporations (Canada, Kuhn, and Sutton, 2008). However, while government bodies such as the European Union may attempt to influence the accounting standard-setting process at the IASB (Maystadt, 2013; Quaglia, 2014), under the framework of Boltanski and Thévenot (2006) these institutions are not presumed to operate under the sole apparatus of civic worth.

In addition to the general safeguards described above, there is arguably a more nuanced role of accounting regulation within a Civic World framework where justifiable actions include endeavors aimed at the production of "*rules enforcing equality and solidarity*" (Thévenot, 2002b, p. 60). There is an objective of liberation within this order of worth which aims to counteract the "oppression of selfish interests" (Boltanski and Thévenot, 2006, p. 186).[7] The Civic World of standard-setting may then involve a notion of fairness encompassed within forms of accountability that consider the

[7] For example, Boltanski and Thévenot (2006, p. 186) cite the endeavors of the "labor movement," negotiated by labor unions, which aim to unify the workforce by liberating it from isolation.

"distributive effects" of accounting information in society (Williams, 1987, p. 172). This includes concerns in regards to human rights (McPhail, Macdonald, and Ferguson, 2016), "neglected constituencies" – such as labor groups – and the recognition of externalities; namely, the social and environmental implications of corporate activity (Solomons, 1991). Nevertheless, interest groups such as "*NGOs, trade unions and also governments or parliaments, only rarely appear among the IASB's inner circles*" (Botzem, 2014) p. 944). This may be partly attributed to the perceived insignificance of certain societal groups on the maintenance of the IASB's legitimacy (Pelger and Spieß, 2016).

This apparent deficiency in taking the concerns of certain constituencies into account has led some authors to criticize the manner in which accounting standard-setting in Europe has been essentially 'outsourced' to the IASB (Chiapello and Medjad, 2009; Palea, 2015). In terms of the measurement of financial assets, it has been posited that fair value accounting represents the rise of financial metrics in accounting standard-setting (Müller, 2014; Power, 2010). This suggests that whilst accounting standards on fair value may embody a certain degree of regulatory safeguards in the name of the general will, the purported alignment fair value measurements with dominant societal groups and widening social inequality may lead to criticism of such valuation techniques from a civic world perspective. Such criticism may center on any perceived negative implications on the general will due to the exacerbation of economic strife brought on by accounting standards. Thus, it is believed that accounting-related initiatives aimed at the promotion of 'financial stability' possess the potential to be grounded in civic worth if they exhibit an abandonment of private interests in favor of concern for "problems *common* to all" (Boltanski and Thévenot, 2006, p. 186, emphasis in the original).

2.3 The Market World

As Boltanski and Thévenot (2006) argue, the selected writings of Adam Smith (Smith, 1981[1776]) represent the advent of a polity in which actions grounded upon individual desires may be justified as beneficial to the mutual interests of society. According to Smith, this occurs due to the stimulus of an "invisible hand" which leads individuals towards an "*end being the interest of society as a whole*" irrespective of their actual intentions (Medema, 2009, p. 19). As such, in the market world

individuals are disengaged from each other yet bound by the common principles of coordination, desire, and rivalry (Boltanski and Thévenot, 1999). The role of accounting in providing information useful for investors originated in the 1950s (Staubus, 2013). According to Staubus (1959, p. 4), "the central objective of published financial statements is the presentation of information which will be useful in making investments decisions." Drawing on the precepts of financial economics (Müller, 2014; Power, 2010) which justify an emphasis on satisfying the information needs of the investing community towards the efficient allocation of capital (Williams and Ravenscroft, 2015; Young, 2006), the objectives of accounting standard-setters ostensibly facilitate a Market World orientation towards promoting the common good.[8] This is evidenced by the decisions of the IASB and FASB to formally recognize decision-usefulness as the sole objective of financial reporting (Pelger, 2016).

It has been argued that the most appropriate measurement basis to facilitate the decision-usefulness objective of financial reporting is fair value (Barth, 2014, p. 350). Along these lines, accounting standard-setters have referred to the purported 'reality' illustrated by fair value accounting measurements to justify changes to accounting standards to enhance the decision-making capacities of capital providers (Young, 2003). Whilst in the Market World this may be viewed as a legitimate means by which standard-setters may strive to serve the public interest, it also encompasses a presumption of the existence of an objective economic reality that financial reporting may be incapable of 'accurately' representing (Barker and Schulte, 2015; Lee, 2006; Macintosh, Shearer, Thornton, and Welker, 2000; Perry and Nölke, 2006). Accordingly, it is expected that accounting standard-setters – and accountants for that matter – face considerable internal reality tests of market worth within this world (see, for example, Landsman, 2007).

Furthermore, in addition to the significance of reporting 'realistic' data, the ability to compare financial reporting information has been demonstrated to serve the common good in the Market World of standard-setting. For instance, Young and Williams (2010) note FASB's assertion that the public interest is served through the development of standards that promote the consistent recording of similar transactions. Hence, in the Market World tests of worth may not only surround how to

[8] However, the necessity of accounting standards within a Market World view may be called into question. For instance, positive accounting theorists influenced by the work of Friedrich von Hayek have often adopted an antagonistic stance towards the standardization of accounting practices (see Chabrak, 2012; Cooper, 2015).

provide the most accurate reflection of economic reality but may also relate to a desire to enhance the comparability of items for evaluation purposes. Accordingly, financial reporting information believed to be useless or incomparable for the investment and credit decisions of capital providers would likely be deemed of little utility from a market perspective, irrespective of its perceived value in other worlds.[9]

2.4 The Industrial World

In addition to the higher common principle of market worth, Boltanski and Thévenot (2006, p. 193-194) remind us of the pervasiveness of the precepts of the Industrial World in economic activities. Inspired by the works of Saint-Simon, the industrial polity relates to "the *efficiency* of beings, their *performance*, their *productivity*, and their *capacity* to ensure *normal operations* and to respond usefully to *needs*" (Boltanski and Thévenot, 2006, p. 204, emphasis in the original). Worth in this world focuses on the efficiency of organizations, gauged through an emphasis on causes and effects and the ability to predict future events (Boltanski and Thévenot, 2006, p. 205). Drawing solely on an industrial world view, financial reporting standards may be appreciated in terms of their functionality as useful tools in the promotion of effectual operations demonstrating "stability over time" (Boltanski and Thévenot, 2006, p. 8). The potential prominence of the Industrial World in accounting standard-setting – with its emphasis on the efficiency of organizations – may be discerned by reference to the relative participation and influence of preparers within the process. In regards to the constituent responses to public consultations, the significance of comment letters that tend to be received from preparers is well-documented (IFRS Foundation, 2014, p. 34; Miller, Redding, and Bahnson, 1998, p. 177). Moreover, Miller, Redding, and Bahnson (1998, p. 177-193) divulge several instances in which preparers appear to have been successful in swaying outcomes at the FASB "with the goal of limiting the Board's ability to require corporations to report additional information" (p. 179).

Nonetheless, this order of worth maintains a future-orientation in that it strives towards enhancing the productivity of operations. As such, it is believed that the Industrial World of accounting

[9] Such a view of the world has been strongly criticized within the interdisciplinary accounting literature. For example, Chabrak and Gendron (2015, p. 1) posit that the 2008 financial crisis may essentially be attributed to the false belief that an adherence to market precepts invariably produces beneficial societal outcomes.

standard-setting endeavors to maximize the predictability and reliability of information, stressing the necessity of standards that are operational (Boltanski and Thévenot, 2006, p. 205). Arguably, the import of industrial precepts in accounting standard-setting may be visualized by the intensification of concerns over the economic consequences of accounting regulation (Zeff, 1978) and 'effects analyses' which include considerations over the implications of new accounting standards on preparers (Haller, Nobes, Cairns, Hjelström, Moya, Page, and Walton, 2012; IFRS Foundation, 2014; Teixeira, 2014).[10]

As industrial worth markedly differs from how worth is determined in the market polity, it has been suggested that the potential for conflict and the need for compromise between the industrial and market worlds is one of the most fundamental covenants of commercial activity (Boltanski and Thévenot, 2006, p. 332). For example, whereas the accounting standard that allowed for the optional expensing of the value of employee stock options was generally upheld as sufficient in terms of the Industrial World priorities of efficiency and performance, this standard was largely regarded as unacceptable in the Market World due to the purported lack of useful information typically reported as a result (Young, 2014). Thus, information believed to be decision-useful from the perspective of capital providers, such as fair value accounting measurements, may be of little use from an Industrial World viewpoint because of their potential shortcomings in being perceived as satisfying "real needs" (Boltanski and Thévenot, 2006, p. 271). Thus, it is believed that industrial worth places significant value on the alignment of accounting practices with the manner in which business operations are managed.[11] This suggests that a variety of concerns such as the decoupling of accounting and business practices, preparation costs and other negative economic consequences on organizations due to fair value accounting may lead to justifiable criticisms from this order of worth towards the Market World.[12] Moreover, the industrial world's preoccupation with business

[10] In addition to the assessment of implementation costs to preparers, 'effects analyses' carried-out by the IASB focus on the primary users of financial reporting with a view towards facilitating the objective of decision-usefulness (IFRS Foundation, 2014, p. 11).

[11] Additionally, relative to the primacy of decision-usefulness for capital providers in the market polity, the industrial priority of efficiency may resonate with stewardship concerns in terms of its predisposition to maximize the utility of organizational assets (Birnberg, 1980).Whilst according to the IASB and FASB, the primary objective of decision-usefulness in financial reporting also incorporates the notion of stewardship (Erb and Pelger, 2015), from a Civic World perspective the role of stewardship in accounting has also been examined in terms of its potential to favorably influence the advancement of society (Murphy, O'Connell, and Ó hÓgartaigh, 2013).

[12] For instance, Boyer (2007) posits that fair value accounting may accelerate procyclicality during a financial crisis.

efficiency has the propensity to conflict with the far wider priorities of the Civic World. For example, it has been posited that the treatment of wages as expenses in the determination of corporate profitability often leads to justifiable employee redundancies and widening social inequality, particularly in times of crisis (Sikka, 2015). Nevertheless, it may be argued that these two orders of worth may not necessarily conflict in times of crisis to the extent that emphasis on performance in the industrial world (Boltanski and Thévenot, 2006, p. 204-205) and the solidarity of representative groups such as "labor unions" in the civic world (Boltanski and Thévenot, 2006, p. 186) unite to call for a relaxation of fair value accounting requirements affecting profit or loss.

2.5 The World of Fame

Drawing on the work of Hobbes (1651), Boltanski and Thévenot develop an order of worth that is based solely on the opinion of others. Specifically, "*this kind of worth is based on nothing other than the number of individuals who grant their recognition*" (Boltanski and Thévenot, 1999, p. 371).[13] Given that the world of fame relies on public recognition, it would appear that this order of worth relates to the objective of an accounting standard-setting organization to be upheld as a reputed and necessary component of a well-functioning society. Thus, due to the privatization of the accounting standard-setting domain and the transnational basis in which the IASB operates (Palea, 2015), it is believed that the long-term priority in terms of this order of worth is to reach and maintain agreements with as many jurisdictions as possible regarding the use of its standards, with precedence ascribed based on the perceived importance of the jurisdiction within the global hierarchy. As such, concessions regarding the content of certain standards may be granted to countries willing to adopt the given set of standards, with the highest degree of compromise likely to be conferred to countries deemed the most significant. For instance, the compromise reached between the IASB and The Accounting Standards Board of Japan led to significant changes to IFRS 9 (Street, 2014). Moreover, the effort exhausted by the IASB in its attempt to converge with the FASB illustrates the importance often attributed to the priorities of the world of fame.

> If I had known what was going to happen with the United States, which of course I did not, the Board would have certainly spent more time on problematic standards rather than concentrating

[13] A world predicated on public esteem involves "having no secrets" (Boltanski and Thévenot, 2006, p. 181). This resonates with the IASB's declaration that it maintains "*a thorough, open, participatory and transparent due process*" (IASB, 2015, p. 1).

> almost exclusively on getting the United States to adopt IFRS (Sir David Tweedie quoted in Street, 2014).

In conjunction with the long-term priority of achieving global financial reporting standards, the adoption of a short-term focus in this order of worth arguably entails a desire to satisfy the constituents of individual standard-setting processes.[14] Along these lines, Gerboth (1973) posits that accounting standard-setting processes, as opposed to being mere technical endeavors, are ultimately reliant upon public confidence. However, to the extent that the realization of public recognition leads to conflicting actions, accounting standard-setters are faced with a reality test in the World Fame. For example, in the case of the 2008 financial crisis it may be argued that the reality of public opinion played a prominent role in the resolution process. Whilst the G20 clearly reiterated its support for global IFRS at the apex of the crisis (G20 Working Group 1, 2009, p. 43), calls for reform from the G20 (G20, 2008) and European Union led to considerable strain on the IASB (Bengtsson, 2011). However, as Danjou and Walton (2012) posit, the continued support of the IASB by a considerable portion of the leaders of the foremost global economies goes a long way towards maintaining its legitimacy, irrespective of the concessions it made as a result of political pressure which led to harsh criticisms from certain user groups. Thus, while fair value measurement in financial reporting has been branded as a global initiative predicated on financial economic metrics, it may be discerned that the 2008 financial crisis has shaken the resolve of this movement to a certain degree (Power, 2010). This illustrates that in the World of Fame the issue of measurement in accounting lacks a theoretical foundation beyond the whim of public opinion. However, to the degree that it amalgamates with social movements in the public domain – such as efforts aimed at "revealing" or "concealing" aspects within particular organizations (Young, 1995) – this order of worth enters into compromises with the Civic World of accounting standard-setting (Boltanski and Thévenot, 2006, p. 317).

[14] Ostensibly, by neglecting certain constituencies accounting standard-setters have constructed a more manageable set of circumstances for the satisfaction of "informational needs" (Solomons, 1991, p. 290). Nevertheless, confining the opinion of others to the members of special groups is inconsistent with the polity of fame which is concerned with "the public at large" (Boltanski and Thévenot, 2006, p. 181).

2.6 The Domestic World

In the Domestic World, Boltanski and Thévenot are motivated by the worth of hierarchical relationships articulated by Jacques-Bénigne Bossuet in which "*the person, cannot, in this world, be separated from his/her belonging to a body, a family, a lineage, an estate*" (Boltanski and Thévenot, 1999, p. 370). Domestic worth is predicated upon a chain of dependencies in which individuals are connected to "worthier beings by whom they are *appreciated* and *valued*" (Boltanski and Thévenot, 2006, p. 165, emphasis in the original). This involves a sense of "selflessness" which calls upon entities to exhibit a "*pleasant demeanor* and *obliging manner* that make human relations smoother" (Boltanski and Thévenot, 2006, p. 171, emphasis in the original). As a result, for actions to be deemed legitimate in the Domestic World organizations consider their position within a hierarchy of interconnected entities in which "the worthiest person is found at the point of origin" (Boltanski and Thévenot, 2006, p. 165). For instance, the emphasis on tradition in the Domestic World points to the role of accounting standard-setters within the accounting profession. As Cooper and Robson (2006, p. 433) postulate, "Multi-national accounting firms are centrally involved in regulation." At the same time, however, what are regarded as the "right" accounting procedures have been observed to transform over time (Young, 1995). This suggests that whilst the conventions of the accounting profession influence accounting standards, these traditions are far from stagnant because they are not isolated from wider societal transformations.

On a broader scale, it has been posited that standardization constitutes a vital element in globalization (Brunsson, 2000) and the formation of global order (Ahrne and Brunsson, 2006, p. 83). Thus, the domestic order of worth in accounting standard-setting may also be understood in terms of the purportedly important role played by the 'calculative mentality' of accounting techniques within the functioning of capitalism (Weber, 1930). Influenced by the precepts of neoliberalism (Ravenscroft and Williams, 2009), accounting may be situated in a codependent position within an assemblage of organizations and institutions (Chapman, Cooper, and Miller, 2009, p. 2). As demonstrated by the following statement, in the Domestic World the desirability of specific accounting techniques may be expected to be swayed by other entities within the global financial hierarchy.

> It can also be argued that the embedding of accounting standard-setters in a system of world governance renders these bodies less sensitive to specific private interests, though perhaps more sensitive to other transnational bodies such as the SEC, the Basel Committee, the 'G4 + 1', IOSCO and, as the experience of IAS 39 has shown, specific nation states wishing to exercise veto rights. (Power, 2010, p. 207)

As such, the potential influence of domestic worth in accounting standard-setting may be exemplified by the capacity of the European Union to exert influence in international financial reporting matters despite its outsourcing of standard-setting to the IASB (André *et al*., 2009; Chiapello and Medjad, 2009). Thus, although the alignment of fair value accounting with the realm of financial economics appears to suggest that the priorities of the Domestic World inherently favor fair value measurements, historical events point to the influence of the economic hierarchy on the financial reporting landscape. This suggests that asset measurement practices tend to transform in different historical epochs of capitalism. For example, Zeff (2007, p. 59) illustrates that the insistence on the use of historical cost measurements by the U.S. Securities and Exchange Commission subsequent to the onset of The Great Depression followed the "indiscriminate write-ups of the 1920's." Hence, the absence of a consistent measurement objective in this world may at times lead to contrasts with the ambitions of standard-setters since "private rule-making and public policy goals do not always go hand in hand" (Büthe and Mattli, 2011, p. 220).

2.7 The Project World

Inspired by the economic sociology of Boltanski and Thévenot, Boltanski and Chiapello (1999) observe and develop a new order of worth which they refer to as "the projective city." In this project-oriented world, the authors theorize that society evaluates relative worth on the basis of activity above all else. In order to facilitate this emphasis on activity, the project world relies on open-mindedness and the ability to adapt to changes in direction which could result in the abandonment of long-term plans (Chiapello and Fairclough, 2002). In the context of accounting standard-setting, adherence to the priorities of the Project World appear to support the maintenance of an active agenda and a willingness to deviate from work plans, along with a proactive approach to consultation with constituents. In this sense, action consistent with projective worth may align with those based in the World of Fame in that the preservation and enhancement of public recognition requires a degree of flexibility in adapting to shifting matters of concern.

Whilst strategic interaction with external entities has long been a characteristic of the predecessor to the IASB – the International Accounting Standards Committee (IASC) (see, for example, Botzem, 2012, p. 50) including the utilization of public consultations in relation to its standards (Camfferman and Zeff, 2007), the role of the Project World in international accounting standard-setters has evolved over time. For example, it has been posited that the IASB increasingly refers to its "extensive due process" (Barth, 2007; Herz, 2003) to justify its standing (Richardson and Eberlein, 2011). Although the tendency to act is paramount in this world, the selection of specific projects is voluntary, and the existence of a multitude of potential projects likely creates a situation in which projects are ranked in terms of the priorities of other worlds. Nevertheless, an assessment of worth based on the priorities of the Project World does not necessitate that accounting standards be determined by reference to the majority viewpoint of constituents (Erb and Pelger, 2015; Pelger, 2016). Whilst this potentially calls into question the morality of a world arbitrated by the mere maintenance of activity, the presence of network opportunities and employment mobility are characteristics used to justify engagement within the project order of worth (Chiapello and Fairclough, 2002). Moreover, the emphasis on activity and networking in the Project World resonates with research positing that an extensive level of participation in standardization processes often promotes the legitimization of a standard (Brunsson, Rasche, and Seidl, 2012). As such, it has been suggested that standard-setters may strive to attain legitimacy by means of adhering to extensive due process procedures (Richardson and Eberlein, 2011) as well as facilitating an increased level participation in the process – characterized as "input legitimacy" (Botzem and Dobusch, 2012, p. 741).

2.8 The Inspired World

Analogous to the Project World's penchant to embrace changes in direction, inspired worth encompasses a willingness to abscond from habitual courses of action. However, as opposed to the broad emphasis placed on activity and networking within the projective city, the inspired polity relies on the passion and ingenuity of beings irrespective of the sentiments of others (Boltanski and Chiapello, 1999). Based upon Saint Augustine's *The City of God*, worthy beings in the Inspired World promote the common good by offering their genius to others (Boltanski and Thévenot, 2006,

p. 161) producing a state of worthiness that is spontaneous, uncontrollable, and unmeasurable (Boltanski and Thévenot, 2006, p. 159). Within the accounting standard-setting domain, it is believed that inspired worth has been drawn upon in the identification of innovative techniques at reflecting economic phenomena (Solomons, 1991) such as the utilization of financial models to simulate reality in regards to financial instruments (Bougen and Young, 2012; Macintosh *et al*., 2000). In the inspired order of worth, accounting standard-setters prioritize their passions for change to a greater extent than considerations over public opinion, the desires of constituents or the pressures related with the involvement in hierarchal relationships. This may be observed in the former IASB Chairman's aspiration to reconfigure the financial reporting for leases.

> Sir David Tweedie, the Board's previous chairman, is famously known for saying that one day he would like to fly on an airplane that actually appears on the airline's balance sheet. Well, get ready David—because your wish is about to come true! (IASB, 2016, p. 1)

It may be argued that in recent years the Inspired World of international accounting standard-setting has been heavily influenced by a particular ideology; namely, the precepts of financial economics (Power, 2010) which leads to an apparent partiality towards fair value measurement (Whittington, 2008a). For instance, in the joint IASB–FASB project on revenue recognition the inventiveness of a group of fair value advocates may be discerned by reference to its unofficial internal label; the "space cadets" (Camfferman and Zeff, 2015, p. 358). Nonetheless, the World of Inspiration "is weakly equipped and not very well stabilized" (Boltanski and Thévenot, 2006, p. 159) because it is not predicated upon conformity to a particular ideological framework. Along these lines, Morley (2016) observes an absence of unified thought on the part of Board Members in regards to fair value accounting in the IASB project on liabilities. As such, inspiration may emanate from "calculative pragmatists" in addition to "calculative idealists" (Power, 2010, p. 207).

Table 1: The Orders of Worth

Orders of Worth in Accounting Standard-Setting							
	Standards Level Orders			Organizational Level Orders			
	Civic	**Market**	**Industrial**	**Fame**	**Domestic**	**Project**	**Inspired**
Higher common principle*	Civic duty	Competition; Rivalry	Efficiency; Performance	Public opinion	Tradition; Hierarchy	Activity; Project initiation; Remote links between people	Inspiration
Subjects*	Collective persons and their representatives	Competitors	Professionals	Stars and their fans	Superiors and inferiors	Project leaders	Visionaries
Subjects: Accounting standard-setters and	Society as a whole	Current (potential) providers of capital	Preparers	Relevant decision makers	The accounting profession; The global financial hierarchy	Constituents	Inventive individuals (groups)
Mobilization in international accounting standard-setting	Regulation of business activity; Oppose inequalities in society; Promote financial stability in times of crisis	Provide useful information for the investing community	Prioritize concern over the consequences of accounting standards on organizations	Strive towards the realization of global IFRS	Devotion towards the traditions of the accounting profession; Participation in global macroeconomic initiatives	Maintain an active work plan for IFRS; Cultivate contact with constituents through due process	Ability to pinpoint deficiencies in IFRS; Spontaneous financial reporting innovations that stabilize situations
Mobilization in IFRS 9	Historical cost; Fair Value (cautionary)	Fair value (when useful)	Historical cost; Fair value (flexible)	No accounting essence (revert to Civic, Market, or Industrial World principles)			

*adapted from Boltanski and Thévenot (1999, 2006), Annisette and Richardson (2011), and Chiapello and Fairclough (2002)

3. Methods

In considering the critical moments in international accounting standard-setting in the midst of the global financial crisis, the paper draws on public documents and carries out interviews with pertinent actors. The analysis is divided into three major sections. First, the failure of the proposed 'full fair value' model and the advent of the 'business model' approach in Phase I of IFRS 9 are elucidated. This is followed by an exploration of the contentious amendments to IAS 39 enacted by the IASB in October 2008. Lastly, the paper highlights the upsurge of the Project World of the IASB with reference to events pertaining to the classification and measurement of financial instruments during the crisis.

Regarding the first area of investigation, the analysis commences with the IASB Discussion Paper *Reducing Complexity in Reporting Financial Instruments* in March 2008 and its associated comment letters. It then proceeds to scrutinize the 2009 Exposure Draft on Phase I of IFRS 9 in which the 'business model' approach to classification and measurement is initially outlined by the IASB (see *Table 2*, appendix). The section on the reclassification of financial instruments consists of an examination of documents available in the public domain. This focuses on statements made by the IASB and European government actors in 2008 in regards to fair value accounting. Particular

emphasis is placed on the IASB board meeting that took place on the 13th of October 2008 in which the reclassifications were formally enacted. The reclassification issue is revisited within the context of the IFRS 9 Phase I consultation in a 2009 Exposure Draft and the proposed limited amendments put forth in 2012. Accordingly, the relevant documents released by the IASB are analyzed along with the comment letters submitted by constituents. *Table 3* specifies the material analyzed in relation to the October 2008 amendments to IAS 39 by the IASB outside of its formal due process procedures. The final analysis section centering on the rise of the Project World examines the preceding data along with the delay in the endorsement of IFRS 9 by the European Union in 2009.

To supplement this publicly available data, 15 semi-structured interviews have been carried-out with standard-setters and constituents – all in the European context (see *Table 4*). The interviewees consist of a number of individuals with present or former experience in accounting standard-setting. Furthermore, several interviewees are based in the financial services industry with a particular focus on the reporting of financial instruments. Additionally, the list of interviewees includes individuals employed in banking industry representative groups and organizations representing the accountancy profession. It is believed that the range of actors interviewed provides a cross-section of views on the matter of financial instruments during the global financial crisis. The interview portion of the project serves two main purposes. The interview data is utilized to substantiate the researcher's interpretation of public documents (Muzio and Faulconbridge, 2013). Moreover, due to the presence of boundaries in accounting standard-setting which may constrain the public discourse of actors (Young, 2014), interviews potentially generate valuable new insights in investigations of controversial accounting standard-setting projects. Nevertheless, this case does not significantly investigate the related internal dynamics taking place at the IASB. This represents a limitation of the study due to the relatively wide range of actors involved in the critical moments under examination and the decision to study these events from the perspective of the IASB and its constituents.

4. Background to the Financial Instruments Polemic in IFRS

Largely based on U.S. GAAP, the international accounting standard on financial instruments – IAS 39 – was completed in 1998 after an expedited process which allowed the IASB to submit its suite of standards to IOSCO (Zeff, 2012).[15] From its inception, IAS 39 has been considered a controversial and interim standard. "*This was a complex mixture of the more traditional and the new approaches, which satisfied very few people*" (Camfferman and Zeff, 2007, p. 13). This mixed measurement approach to the reporting of financial instruments may be criticized on a number of fronts, and the sheer complexity of the standard led to denunciation from the outset (Lagneau-Ymonet and Quack, 2012). In addition, Camfferman and Zeff (2007, p. 376) note the criticisms rendered at the time by several of the IASB's major constituencies. For example, Australia was disappointed that the standard did not require that all financial instruments be measured at fair value, France objected based on its trepidations over prudence and reliability, while the United States expressed unease over the swiftness of the standard-setting process. In regards to the latter concern, the IASB would experience a similar predicament when republishing IAS 39 in 2004 as it was unable to significantly overhaul the standard as planned in time for the mandatory adoption of IFRS in the European Union at the beginning of 2005 (Whittington, 2005).

Whilst the relative lack of ingenuity involved in the production of the standard may be criticized from the standpoint of the World of Inspiration, the European Union decision to mandate the use of IFRS for all listed companies may be viewed both as part of an effort to create a common European financial market and an abandonment of domestic sovereignty in terms of financial reporting standards (Chiapello and Medjad, 2009). This led to a significant amount of political fallout over IAS 39, including criticism by French President Jacques Chirac in regards to the potentially negative effects of fair value measurements on financial stability (Baudot and Walton, 2013). As Zeff (2012) explains, the European objections to IAS 39 – particularly stemming from the banking sector – led to controversial "carve-outs" of the "macro hedging" and "full fair value option" portions of the standard by the European Commission in 2004. Whilst this prioritizes a notion of common good consistent with an industrial order of worth by addressing two of the major concerns

[15] Work on an international accounting standard for financial instruments commenced in 1988 (Walton, 2004).

expressed by portions the European Banking community, it also exemplifies the propensity of the Domestic World of accounting standard-setting to induce accounting change. Nevertheless, the carve-outs may be criticized from the standpoint of the Market World – which stresses the importance of promoting the common good through financial statement comparability and transparency in the global marketplace (see, for example, Walton, 2004) – whilst being justifiable according to the hierarchy of domestic worth.

As Power (2009, p. 335) points out, the momentum towards the usage of fair value measurements in IFRS had been on the rise in the years preceding the crisis. While instances such as the replacement of 'reliability' with 'representational faithfulness' in the joint IASB–FASB conceptual framework indicated a further move away from the Industrial World towards the Market World of accounting standards, the practical effects of such changes has been inconclusive (Erb and Pelger, 2015). Although the controversy surrounding the accounting for financial instruments has been long-standing, it may be argued that the 2008 financial crisis has led to a significant intensification in the level of criticism towards both IAS 39 and the IASB itself, provoking several changes within IFRS.[16] According to Lagneau-Ymonet and Quack (2012, p. 233), these critiques stem from the purported role played by fair value accounting in the crisis and the resultant revitalized interest in a longer-term "prudential perspective" on the valuation of financial instruments. This coincides with the diversification in the composition of the IASB board, the expansion of IFRS adoption globally and an enhanced emphasis on satisfying the needs of the user and preparer communities (Whittington, 2012). In spite of this, at the advent of the crisis the IASB initiated a consultation aimed at reducing complexity in the reporting of financial instruments by proposing a full fair value measurement model.

[16] Nonetheless, Nölke (2010, p. 54) suggests that the alterations to IFRS subsequent to the 2008 financial crisis were "rather incremental."

5. Towards a Business Model Approach to Classification and Measurement

5.1 The failure of the 'full fair value' proposal in the market and industrial worlds

> I often say about IAS 39 (the standard on the recognition and measurement of financial instruments) that, if you understand it, you haven't read it properly—it's incomprehensible (Sir David Tweedie, quoted in Pickard, 2007, p. 38).

In March of 2008, the IASB (2008a) and the FASB (2008) issued the discussion paper *Reducing Complexity in Reporting Financial Instruments* in response to requests from constituents to simplify and enhance accounting standards on financial instruments. On the surface, the desire to reduce complexity appears to be largely consistent with the precepts of the Industrial World by aiming to promote a more efficient and operational financial reporting function. However, upon consideration of the IASB's definition of 'complexity' it becomes apparent that this consultation is not situated solely within the industrial order of worth. In the IASB's terms, 'complexity' in this sense refers to "*the difficulty for users to understand the economic substance of a transaction or event and the overall financial position and results of the company, preparers to properly apply generally accepted accounting principles and communicate the economic substance of a transaction or event and the overall financial position and results of a company, and other constituents to audit, analyse and regulate a company's financial reporting*" (IASB, 2008a, p. 10-11). Thus, in attempt to address the issue of complexity from both a market and industrial world standpoint, the report posits that a major cause of complexity in the reporting of financial instruments is the multitude of measurement bases utilized for the purpose of valuation and suggests that the adoption of a single measurement basis provides a resolution to the problem in the long-run (IASB, 2008a, p. 4).

Along these lines, the report identifies fair value as the only appropriate measurement base for all financial instruments, particularly in regards to "instruments with highly variable cash flows" such as derivatives because measuring such instruments at cost "has no value in the assessment of future cash flow prospects" (IASB, 2008a, p. 44). This is largely consistent with the principles of the Market World in that it attempts to reflect the expected prices of financial instruments; information that is purportedly highly valued by financial statement users with an aim towards the acquisition of scarce resources. Moreover, fair value measurement for derivatives has potential worth in the Industrial World by facilitating the predictability of information. The initiative also aspires to

address the issue of volatility – another priority of the Industrial World in addition to complexity. Along these lines, it is contended that measuring all financial instruments at fair value eliminates artificial volatility that arises "when market changes cause the fair values of two financial instruments (or other assets or liabilities) to change in opposite directions and only one is measured at fair value" (IASB, 2008a, p. 52). Nevertheless, the project may be criticized from an Industrial World view for not addressing the appropriate matters of concern. For example, one interviewee insinuates that the initiative falls more in line with the Market World's fixation on decision-useful information for investors and the Project World's preoccupation with activity than with the desire to minimize complexity from a preparers' point of view.

> Simplification was never the purpose of the project. They wanted to use it to make more fair value accounting. [It leads to] more (and complicated) rules, and, in the next years, 'improvement projects' and changes to the rules and what have you (Interview 5a).
>
> [The IASB was] waiting for the right time to go to [a full fair value] model; they never wanted to go back to the amortized cost model (Interview 5b).

The boards received a total of 162 comment letters in response to the consultation, including 32 from preparers and eight from users (FASB-IASB Staff Paper, 2008, p. 2). Users responding to the discussion paper were largely supportive of a full fair value approach that would preclude the managers of a firm from categorizing a financial instrument based on intent. However, skepticism was asserted regarding the nature of the 'complexity' to which the paper was aimed.

> We strongly support the greater use of fair value as the single measurement attribute for financial instruments as a means of reducing complexity. We believe, however, that the board needs to clarify the element of complexity being resolved in each of its proposals. There are implementation and interpretation complexities and the board should prioritize solutions to limit interpretation complexity. (CFA Institute, 2008, p. 2)

Along these lines, with a view towards the interests of financial statement users, securities regulator IOSCO (2008) expresses support for the measurement of all financial instruments at fair value while cautioning against an excessive emphasis on simplification. A similar view is expressed by the Investors Technical Advisory Committee (2008) which stresses the need for investors to have the most accurate and up-to-date information possible to be able to assess the effects of changing market conditions. Moreover, the full fair value approach to the reporting of financial instruments

was subjected to tests of reality in the Market world. According to a survey conducted by the CFA Institute (2008), "58% of respondents prefer fair value as the single measurement basis for financial assets and liabilities" while "72% of respondents indicated that companies should not have recognition and measurement options for similar items" (CFA Institute, 2008, p. 3).[17] Whilst this largely demonstrates the support of fair value metrics within a segment of the user community, it also reveals the absence of unanimity in this regard. The list of individuals and entities classified in the user category may then be expected to assess fair value approaches to measurement differently according to the results of tests of market worth. For instance, the comment letter submitted by the London Investment Banking Association describes why a preponderance of its members support a mixed measurement model as opposed to a full fair value approach.

> The fair value of the instrument may not reflect the actual cash flows likely to be realised by the entity concerned and putting fair value gains through the P&L may therefore not reflect the profit or cash flows that are actually likely to be realised by that entity. (LIBA, 2008, p. 8)

This underscores that the nature of the reality test selected in the Market World influences the degree of legitimacy of fair value measurements. While an expected cash flow test produces results that are difficult to justify for a fair value approach across the spectrum of financial assets and liabilities, a test based on the comparability of information aimed at eliminating the variations generated by a mixed measurement regime may be deployed to justify a full fair value approach (CFA Institute, 2008). Irrespective of the views of users, most constituents did not support the full fair value proposal (FASB-IASB Staff Paper, 2008, p. 12). Three major themes contained in these dissenting views include disagreements regarding the nature of the reality test in the Market World, the actual effect of the proposed strategy on complexity (consistent with the Industrial World), and the appropriateness of contemplating such an approach in a time of financial crisis (motivated by a combination of domestic and industrial orders of worth).

Firstly, the presumption that the proposed approach results in the most relevant information for decision-making purposes may be interrogated – in effect subjecting the market world to an internal reality test. For example, EFRAG (2008) express reservations in terms of whether providing users

[17] See CFA Institute (2010, p. 7-8) for a summary of the July 2007 survey results in regards to preferred approaches to the measurement of assets and liabilities.

with valuations that represent opportunity cost constitutes the most relevant information for decision-making purposes. Along these lines, it has been posited that fair value measurement based on exit value is inappropriate for financial instruments that are not expected to be sold (GASB, 2008). Most constituents upholding this view suggested that the proposed approach is incongruent with the business models employed by firms in regards to financial instruments (FASB-IASB Staff Paper, 2008, p. 11). Hence, it may be argued that a mixed measurement approach based on how an asset is managed constitutes a better reflection of the cash flows expected to be derived (Société Générale, 2008) and produces a more accurate assessment of a firm's profit or loss which avoids the "unrepresentative volatility" from the recognition of gains and losses on financial assets expected to be held to maturity (Credit Suisse, 2008, p. 4). This coheres with the concern over the functionality of accounting standards in the industrial order of worth and its aspiration to foster stable operations within organizations.

This leads to a second criticism, which, similar to the concern over excessive income variation, is grounded in a critique of the Market World from the Industrial World; namely, that eliminating the categorization requirement in itself is unlikely to reduce complexity. Due to the relative difficulty in determining fair value in comparison with other cost-based measures, it may be argued that a full fair value category merely shifts complexity from the issue of categorization to the task of measurement (BUSINESSEUROPE, 2008) – a suggestion that is of particular relevance during periods in which trust in market information has diminished (Interview 8). Lastly, the Industrial and Domestic Worlds cooperate in another critique of the IASB discussion paper. Given the relatively uncertain market circumstances at the time of the discussion, there was a sense that the timing of a full fair value proposal was inappropriate (ICAEW, 2008). "*Indeed, the emphasis the IASB puts on widening the use of fair values comes at a point in time when institutions and in particular a number of banks have encountered significant fair value measurement problems during and in the wake of the market turmoil*" (CEBS, 2008). In this instance, the IASB is reminded that it does not exist in isolation from the Domestic World; namely, the multitude of entities seemingly tasked with the restoration of the global financial system. In the name of financial stability, the priorities of the domestic and industrial orders of worth are aligned towards the common objective of opposing the expansion of the IASB's fair value project as outlined in the discussion paper.

5.2 Compromise between the market and industrial worlds

The previous subsection detailed the pressing concerns over the complexity of accounting for financial instruments at the advent of the 2008 financial crisis. Consistent with the assessment provided by Camfferman and Zeff (2015, p. 380), the proposed full fair value model to the reporting of financial instruments proved to be an ill-timed effort to expand the use of fair values during a period in which this approach to measurement faced increasing scrutiny. Whilst there was a time preceding the financial crisis in which a full fair value model was open for consideration (Interview 10), the significant pushback experienced in this debate led to the ultimate demise of the proposal (Interview 9). Fair value measurements were under siege from both the domestic and industrial orders of worth and from within the Market World itself. Subsequently, responses to a 2009 consultation by the Financial Crisis Advisory Group generally suggested that the classification of financial instruments be based on the business model in which items are managed to "reflect the economic reality of a transaction" (FASB-IASB Staff Paper, 2009, p. 8). Accordingly, the final report produced by the advisory group did not advocate a full fair value approach to the measurement of financial instruments (FCAG, 2009).

Unsurprisingly, the IASB's Exposure Draft on the classification and measurement of financial instruments in Phase I of its project on IFRS 9 comprised of a business model approach as opposed to a full fair value model. This included an amortized cost category and a fair value through profit or loss category (IASB, 2009a).

> The Board concluded that an entity's business model affects the predictive quality of contractual cash flows—ie whether actual cash flows will result from the collection or payment of cash flows arising from the instrument's contractual terms or from transferring the instrument before maturity to realise fair value changes. (IASB, 2009b, p. 11)

The business model approach put forward in the Exposure Draft represents an alteration in the reality test of market worth employed by the IASB for the purpose of justification. This test – predicated on reflecting the cash flows expected to be collected – places significant worth on an amortized cost approach to measurement for financial instruments projected to be held for collection. It may thus be criticized by proponents of other tests of market worth which tend to favor the measurement of all financial instruments on a fair value basis. For instance, the alternative

view in the Exposure Draft provided by James J Leisenring advocates for a full fair value approach because this "maximises comparability and absolutely minimises complexity" (IASB, 2009b, p. 25). This resonates with the comment letter received by the CFA Institute (2009, p. 4) in response to the consultation which posits that "the continued application of the mixed measurement model will retain the situation of different accounting for identical financial instruments, making it difficult for investors to compare company earnings and net worth." Nonetheless, respondents were nearly unanimous in regards to support for a mixed measurement approach (IASB Staff Paper, 2009, p. 5) which links measurement with the business model employed (see, for example, ACCA, 2009; Citigroup, 2009; EFRAG, 2009; European Commission, 2009; HSBC, 2009). Thus, the transformation of the market test towards an expected cash flow assessment largely aligns with an industrial test or worth based on functionality which forms the basis for the general agreement on a mixed measurement approach.

In addition to the strong influence of the market and industrial worlds, indications of the presence of other worlds may also be discerned. In particular, the comment letter submitted by the European Commission (2009, p. 2) reminds the IASB of the calls of the G20 and The Ecofin Council for a consideration of "holding horizons" in the valuation of financial instruments. According to the European Commission (2009, p. 2) "the prevailing view in the European Union is that the amortised cost category has been defined too narrowly" which may lead to "an inappropriate broadening of reporting under fair value rules that risks exacerbating income volatility and undermining financial stability." This suggests that, from an industrial, domestic and civic world view, the business model approach to classification and measurement must be mindful of a range of aspects in addition to a sole focus on decision-usefulness for the investing community. As such, the IASB proposed limited amendments to the Exposure Draft in 2012 including a third measurement category of fair value through other comprehensive income (IASB, 2012). While the proposal still faced criticism on a number of fronts (IASB Staff Paper, 2013), on a general level the business model approach appears to have reached a state of provisional stability, with concerns largely centering on the manner in which such an approach is to be applied (see, for example, EFRAG, 2013).

> There seems to be the perception that the IASB is very much fair value minded. I'm not so sure. For example, in the classification and measurement part of IFRS 9, they seemed to have moved the line a bit so that more falls under amortized cost than, at least, originally anticipated. I think moving to a

> total fair value model will not happen. It is the idea of many that you distinguish between, more or less, amortized cost and fair value on a business model basis. (Interview 6)

As a result of the 'business model' approach to classification and measurement, it has been posited that the extent of fair value measurement within IFRS 9 relative to IAS 39 is uncertain on a general level. *"I don't think anybody can categorically say this will result in more or less fair value"* (Interview 9). Thus, it may be observed that compromises between the market and industrial orders of worth have effectively limited the expansion of the fair value project in regards to financial instruments.

> I think that when you write the history of the IASB you will find that we had 10 years of fair value in the first 10 years, then at least 5 years of uncertainty. In these 5 years, they are not sure what the direction is, but it's surely not fair value. I don't think there is another direction *per se* (Interview 2).

6. Financial Asset Reclassifications

6.1 The clash of the market world with the civic and industrial orders of worth

As the ill effects of the 2008 financial crisis took shape, fair value accounting measurements were blamed for exacerbating the crisis (Bengtsson, 2011). Central to the initial discussions surrounding the debate were appeals directed towards accounting standard-setters to reconsider the fair value accounting rules in place at the time due to their supposed procyclical impacts. In the European context, whilst concerns over the impact of fair value measurements on financial stability were expressed by the European Parliament in February 2008 (European Parliament, 2008), the pressure on the IASB to act substantially increased in the second half of 2008 due to the significant declines in global equity markets spurred on by the collapse of Lehman Brothers.

> The economy was in bad shape. It was going downhill very fast. There was enormous pressure. There was anger that the banks had not realized this before, and that auditors had not qualified their accounts. The politicians were scared because they would be blamed if they did not react. […] Many who were opposed to IFRS in those days put petrol on the fire in order to get it to flame up. Some tried to get rid of IFRS in Europe; that was certainly an objective. (Interview 2)

Such concerns reached an apex in Europe during the third quarter of 2008, as many financial institutions vehemently contested the requirement to recognize these losses (Interview 2). Thus, not only is critique stemming from the Industrial World directed towards the Market World, the Civic

World denounces the Market World in that the status quo of fair value accounting would have "actually posed a real problem for the economy if they had to keep following the strict conceptual way" (Interview 8). However, it may also be argued from a Market World view that the virtual disappearance of certain markets created a situation in which management no longer intended to sell certain assets – such as loans and receivables – that were measured at fair value, thus leading to fair value information that was no longer useful. *"We've realized it's now stuck and it's probably going to remain there until it's redeemed. So yes, that's loans and receivables [measured at amortized cost]"* (Interview 3). Nonetheless, in a report published near the apex of the crisis in October of 2008, the Chairman of the IASB warned against the concealment of fair value information from a Market World view, reiterating the importance of transparent financial reporting in the global marketplace even in times of crisis.

> My personal view is that showing the changes in values of these securities, even if imperfect, provides much needed transparency and enables markets to adjust in a necessary, even if painful manner. (Tweedie, 2008, p. 116)

This justification of fair value metrics from the standpoint of market worth clashes with the civic worth due to its alleged impact on the economy along with the industrial world's concern over the functionality of organizations (Sarkozy, 2008). Nevertheless, a harmonized European initiative would subsequently prove fruitful in asserting influence on the matter by relying on a vastly divergent approach to critique.

6.2 The internal reality test of market worth

Instead of drawing on critiques from the Civic World and the Industrial World against the Market World of accounting standards, it attempts to engage the market order of worth in an internal test of reality. Specifically, the European Union effort seizes on an actual inconsistency which was identified between US GAAP and IFRS, wherein US GAAP permits the desired reclassifications in rare circumstances (IASB, 2008b). Whilst in one sense a move away from fair value measurements appears to conflict with the higher common principle of the Market World, inconsistencies in accounting regulation between jurisdictions may be viewed as unjust in this order of worth to the extent that they promote inequitable rivalries within the global investing community. This also

congruent with a Domestic World standpoint which may regard this stipulation under US GAAP as an exemplary against which justifiable action to change IFRS may be undertaken (Thévenot, 2009).

Accordingly, on the 1st of October 2008, the European Commission announced its plans to initiate a coordinated 'European response' to the financial crisis which "*includes adapting our accounting rules to a new situation*" (Barroso, 2008, p. 3). The specific call by the European Union to permit the reclassification of financial assets out of the trading category, which draws on the Market World and the World of Fame, was put forth at the Summit of European G8 members on the 4th of October.

> We will ensure that European financial institutions are not disadvantaged vis-à-vis their international competitors in terms of accounting rules and of their interpretation. In this regard, European financial institutions should be given the same rules to reclassify financial instruments from the trading book to the banking book including those already held or issued. […] We also welcome the readiness of the Commission to bring forward appropriate measures as soon as possible. (Summit of European G8 members, 2008, p. 1).

From a Sociology of Worth perspective, the preceding statement pinpoints a deficiency in the Market World that would be remedied by enacting the desired reclassifications in terms of enhancing the international comparability of financial reporting information. Furthermore, the willingness of the European G8 to revert to a European-only solution suggests that the World of Fame of the IASB is under threat from within its most prominent jurisdiction. The importance of this request was reiterated in a Press Release of the European Council on the 7th of October; this time reiterating the apparently imminent deficit in regards to Market World. "*On asset valuation, revised standards are urgently awaited from the International Accounting Standards Board; otherwise, persistent concern about the accounting treatment of assets will continue to undermine investor confidence*" (Council of the European Union, 2008, p. 3).

Hence, in the face of extreme pressure which threatened to derail the international accounting movement in Europe (Camfferman and Zeff, 2015, chapter 13), the IASB discussed the reclassification issue at its Board meeting on the 13th of October 2008 (IASB, 2008b). At the meeting, the criticism that current IFRS does not result in a level playing field for the European investing community was debated at length, suggesting that the coordinated European effort was able to impose a reality test of the Market World on the IASB. In this test of market worth,

discussions centered on the state of worthiness of the European Union demand to improve the nature of competition by allowing firms to reclassify certain assets in line with U.S. GAAP. As such, an agenda paper prepared for discussion during the meeting specified that the 'rare' circumstances in which such reclassifications were permitted under U.S. GAAP essentially meant 'never'; as IASB staff members were unable to identify any instances in which transfers out of the trading category were made under U.S. GAAP (IASB Staff Paper, 2008). This calls into question the state of worthiness of the proposed changes from a market perspective; sentiments that are encapsulated in the following statement made by one IASB Board Member during the meeting.

> I don't understand the comment about 'level playing field'. I really don't. The *hypocrisy* in that comment is legendary. If the people that are making those accusations that you referred to were worried about level playing fields they'd had never had the carve-out in the first place. So they're not worried about level playing fields, they're *indifferent* to that. Now, is it unlevel? Sure it's unlevel because we don't allow these transfers that the U.S. does. (IASB Board Member, quoted in IASB Board Meeting, 2008).

This statement underscores that, despite the attempts by the European Union to direct the discussion towards a market test, concerns over the merit of the proposed amendments were not deemed to be entirely justifiable in reference to the notion of the common good embraced by the Market World. In effect, the test points to the skepticism on the part of actors questioning the true intentions of others (Boltanski and Thévenot, 2006, p. 137).

6.3 Compromise among numerous orders of worth

In congruence with the framework of Boltanski and Thévenot, which anticipates the existence of a plurality of orders of worth in the justification of action in critical moments, it is unlikely that the reality test of a single world will be sufficient to form the basis of resolution to a state of crisis (see, for example, Huault and Rainelli-Weiss, 2011). Thus, during moments of crisis coordination between worlds is required to reach a compromise which adheres to a notion of the common good that the worlds hold in common (Thévenot, 2002a). The following statements indicate that the compromise reached to provisionally resolve the predicament permitted the IASB to preserve a certain degree of the legitimacy of the agreement.

> Okay, let's just look at the situation that we're in. There's been calls for a level playing field, partly because of misunderstandings, I think, of U.S. practice. But nonetheless, that has gained a lot of

> traction. The playing field is going to be leveled by the politicians one way of the other. Either we do it or they do it, and I suspect if the politicians do it it'll be crude and it will open up all sorts of floodgates. You'll be able to transfer goodness knows how. So we're faced with that situation. Now we have very little time to do anything (Sir David Tweedie, quoted in IASB Board Meeting, 2008).
>
> [The IASB] created a solution where it became transparent instead of just hidden away. If it had been the European solution, you couldn't have seen the effect. (Interview 2)

Although the 'floodgates' referred to above were not openly discussed by the Board at the time, interview data collected suggests that the continued mandatory usage of IFRS by public companies in Europe was under threat had the IASB not proceeded with the reclassification amendments. Specifically, it has been posited that the European effort to persuade the IASB in this regard amounted to essentially a "do or die" situation for the standard-setter (Interview 1), as the potential for "European Standards" to replace IFRS in Europe was a real concern at the time (Bengtsson, 2011; Camfferman and Zeff, 2015, chapter 13; Interview 2). Hence, from the perspective of the IASB, inaction in this instance was considered unjustifiable from the vantage point of the World of Fame, which in the realm of accounting standard-setting upholds a priority that aspires for IFRS to be as widely applied as possible, particularly in prominent economic regions such as the European Union.

> It was not something that we liked and it was not something we were proud of. The situation was that we basically had two options. One was to shoot ourselves in the head, or shoot ourselves in the foot. We aimed for the foot (Interview 15).

In addition, the compromise is not only consistent with the higher common principle of the World of Fame, it satisfies the aspirations of the domestic and industrial orders of worth. Moreover, it allows for the IASB to justifiably claim from a Market World standpoint that transparency for financial statement users is enhanced in comparison with the supposed 'European option' that would have excluded the IASB altogether.

> My personal view is we should not use the U.S. proposal. I would rather take account of it by dealing with disclosures. I would like to add to the disclosures that we've got in here so that you can see, on a running total, what has been transferred, the fair values of these amounts, so what has been done will be very very transparent, and I think that's going to make people think before they go and transfer. They may not wish to have the items in the accounts, but they'll be there. It'll be a highly watched disclosure and I'm sure the analysts will want it and also, I suspect, the observers and the press will look at it too. So it'll be there (Sir David Tweedie, quoted in IASB Board Meeting, 2008).

Thus, in addition to the threat emanating from the World of Fame, the focus on the part of the coordinated European effort on enhancing 'comparability' for the investing community – a priority situated within the Market World – provided a legitimate basis in which a compromise could be reached in this situation. From the European perspective, however, the initiative was successful in providing relief to preparers who from an Industrial World outlook may have appreciated it as "*a nice option to have when the markets rumbled*" (Interview 8). The gratification of proponents of an Industrial World view of advancing the common good is evident in the following statement by an interviewee.

> During the crisis, the decrease in fair values [led to] a massive decrease in the equity of banks. That was a real problem, so we supported these amendments and several banks used this to reclassify their assets (Interview 4).[18]

Upon the announcement of the amendments, the IASB defended its actions by reference to a combination of justifications based on the market, industrial, project, and domestic worlds, along with the world of fame. Such efforts may be viewed as attempts to specify a "general interest" towards a common good which possesses a capacity to be considered compatible from the perspective of different worlds (Boltanski and Thévenot, 2006). For instance, the following statements released by the IASB in its announcement may be discerned to incorporate an assortment of connotations with respect to the common good.

> In addressing the rare circumstances of the current credit crisis, the IASB is committed to taking urgent action (*the project world*) to ensure that transparency and confidence are restored to financial markets (*the market world*). The IASB has acted quickly to address the concerns raised by EU leaders and others regarding the issue of reclassification. Our response is consistent with the request made by European leaders and finance ministers (*the domestic world and the world of fame*) […] (IASB, 2008b, p. 1-2, parentheses added).

> The purpose of that amendment to IAS 39 was to provide short-term relief for some entities in the financial crisis (*the industrial world*) and was a short-term response to requests for such relief (*the domestic world*). The amendment also aimed to align the accounting requirements for reclassifications in IAS 39 with US GAAP (*the world of fame* and *the market world*) (IASB, 2009b, p. 17, parentheses added).

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[18] Fiechter (2011) examines the extent of the reclassifications taken by a sample of 219 banks applying IFRS in Europe pursuant to the 13 October 2008 amendment of IAS 39 and finds that roughly one-third of the banks opted to significantly reclassify.

6.4 The interplay of the market and industrial worlds

The failure of the IASB to institute a full fair value measurement approach to financial instruments – which would have incidentally solved the problem of reclassification – along with the controversial events of October 2008 set the scene for the reconsideration of the issue of reclassification in the IFRS 9 Phase I project on classification and measurement. In July of 2009, the IASB released an exposure draft that included a comprehensive prohibition on the reclassification of financial instruments between categories (IASB, 2009a) on the basis that this would enhance comparability, reduce complexity, and minimize earnings management (IASB, 2009b). To justify this action, the Board referred to remarks it received from users who criticized the ability of firms to reclassify on the basis that understandability and comparability were diminished as a result while the potential for earnings management was heightened. Moreover, the Board noted that the prohibition of reclassifications would reduce complexity for preparers (IASB, 2009b, p. 17-18). From the vantage point of the IASB, the business model approach to classification in IFRS 9 – as opposed to the intention-based focus of IAS 39 – was aimed at transforming the classification decision to "a matter of fact" thus removing much of the discretion involved in reclassification (Interview 14). It may be discerned that these justifications emanate from both the Market and Industrial Worlds. The desire to enhance comparability is consistent with the market order of worth, the apparent reduction in complexity appeals to the industrial principle of efficiency, and the aspiration to limit the potential for earnings management represents a critique of the Industrial World from the Market World.

Nonetheless, the response from constituents in regards to the proposed prohibition was virtually unanimous in opposition (IASB Staff Paper, 2009). Although a certain degree of sympathy was expressed for the proposal in terms of its purported ability to reduce complexity, several constituents expressed a belief that any benefits derived in this regard may be offset by a decline in useful information (FEE, 2009; KPMG, 2009). Accordingly, numerous constituents denounced the proposed prohibition of reclassifications as unjustifiable from a Market World perspective. Along these lines, it has been argued that the financial crisis has demonstrated that relatively sudden shifts in market conditions can dramatically alter the applicable business model that a bank applies to

asset portfolios (Citigroup, 2009). Thus, it is contended that eliminating reclassifications defies the inherent logic of the proposed approach to classification (Barclays, 2009; IOSCO, 2009) as it may not provide an accurate portrayal the "economic substance" of transactions in certain circumstances (BCBS, 2009) when market prices drastically deteriorate or disappear, and intentions change, "*it is no longer relevant to measure at fair value using exit value*" (Interview 13).

Thus, it is argued that the inability to reclassify to a more relevant category when conditions change actually results in a reduction in transparency for financial statement users from a Market World standpoint. For example, EFRAG (2009) states that "*In our view the classification system will be at its simplest and most transparent if an instrument is required to be reclassified if it no longer meets the criteria for its current classification*." A similar view is expressed by Ernst & Young (2009): "*We do not believe there is a strong technical argument for this proposed prohibition of reclassification, and this seems to be an arbitrary rule rather than a principle*." Hence, it is observed that the IASB's proposal to prohibit reclassifications appears to have failed a Market World test because although it aspires to decrease complexity and improve understandability it faced substantial criticism over its ability to provide useful information for the investing community. Moreover, the prohibition on reclassification entails potential consequences in the World of Fame, as the European Commission alludes to in the following statement. "*From our point of view, a policy reversal of the reclassification implemented last October would be unwarranted from an economic point of view and politically contentious*" (European Commission, 2009, p. 2). This also suggests that the civic and domestic influences on the IASB – along with the World of Fame – have not been wholly removed from the public domain on the matter of reclassification.

Consequently, in November of 2012 the IASB amended the exposure draft to permit reclassifications when changes in a firm's business model have occurred that alter how a financial asset is managed; albeit in extremely rare circumstances (IASB, 2012). Similar to the reclassifications of October 2008, this represents a compromise on the part of the IASB. However, the fact that it did not entirely capitulate to the desires of the European politicians in this instance reflects the altered dynamics of the situation at hand. On this occasion, it may be argued that the principal disparity relates to the pressure exerted on the IASB in terms of the World of Fame and

the Domestic World. Pressure stemming from these orders of worth failed to ascend to the perilous levels reached in October of 2008 which provoked justifiable action to promote the common good from these standpoints. Nonetheless, the non-endorsement of the 2009 version of IFRS 9 on classification and measurement (Camfferman and Zeff, 2015, chapter 13, p. 436-438; European Commission, 2009a) exemplifies that a variety of orders of worth permeate the activities of standard-setting. As the subsequent section will elucidate, the Project World also constitutes a pertinent sphere of influence in accounting standard-setting.

7. The Rise of the Project World

> All of a sudden we said, "We must do this. We must go out and meet people." We can't sit in our ivory tower in the middle of London and say, "Don't have opinions – we know what's best for the world." This has changed a lot. (Interview 15)

It is believed that the activities of the IASB subsequent to the 2008 financial crisis provide vivid examples of the increasing influence of the Project World in international accounting standard-setting. This may be related with the diminishing sway of the Inspired World perceived in the case under examination relative to the activities undertaken during the reigns of the IASC and the early years of the IASB. Whereas the adaptability of the Project World involves "giving up lifelong plans" (Chiapello and Fairclough, 2002, p. 191), creativity and independence are cultivated in the Inspired World (Boltanski and Thévenot, 1999). In terms of the latter order of worth, this points to the potential passion of standard-setting organizations to attain legitimacy primarily on the basis of their expertise (Richardson and Eberlein, 2011).

> The initial Board's idealistic intention to set 'best of breed' standards or the 'gold standard' (as David Tweedie said on many occasions) was reinforced by the fact that, at the very beginning, there were as yet few companies in the world directly applying the IASB's standards. Certainly with hindsight, and perhaps also at the time, Board members described the IASB in its initial years as a 'think-tank'. The implication was that the Board could afford to dispense with compromise in the pursuit of high quality standards. (Camfferman and Zeff, 2015, p. 35)

Nevertheless, "messy compromises" were necessary prior to the dawn of the new millennium, particularly in regards to IAS 39 (Camfferman and Zeff, 2007, p. 13) while convergence initiatives preceding the commencement of the 2008 financial crisis were often influenced by the FASB (Baudot, 2014b; Pelger, 2016). However, it has been posited that changes in the composition of

board members at the IASB in recent years has resulted in increased attention being placed on the concerns of the constituents of IFRS.

> The thrust of these reforms has been to make the IASB more accountable to its constituency, particularly the users and preparers of accounts in those countries that use IFRS. [...] These changes reflect the increasing number of countries that has adopted IFRS and the increasing engagement by constituents as they implement the standards. (Whittington, 2012, p. 5-6)

Whilst this paper does not investigate the transformation of internal dynamics at the IASB, it provides empirical observations on the nature of the IASB's engagement with its constituency and the manner in which this influences accounting standards. In regards to the conception of a full fair value approach to the measurement of financial instruments, numerous concerns expressed by constituents appear to have been taken on board by the IASB. These include the impact on volatility in profit or loss, the apparent unsuitability of measuring non-trading financial instruments at fair value and the associated difficulties involved in undertaking such measurements (IASB, 2009b, p. 6). Accordingly, the full fair value approach to the measurement of financial instruments was discarded prior to the publication of the initial exposure draft on IFRS 9 Phase I.

> In response to those views, as well as the general concerns raised during the financial crisis and acknowledging that there are issues to be resolved before a comprehensive fair value measurement requirement for most financial instruments is feasible, the Board decided that measuring all financial assets and financial liabilities at fair value is not the most appropriate approach to improving the financial reporting for financial instruments. (IASB, 2009b, p. 6)

While detours in the progression of the IASB's fair value project is entirely justifiable in the Project World, the short-term focus on activity above all else within this order of worth has been discerned to result in challenges for the pursuit of 'gold standards'. For example, the amendments to IAS 39 on the 13th of October 2008 surrounding the reclassification of financial assets illustrate the potential obstacles to the quest for the "state of grace" associated with the higher common principle of inspired worth (Boltanski and Thévenot, 1999, p. 370).

> Do I think our literature is superior to the U.S. in that regard? Yes I do. So what you're asking us to do, in the name of a level playing field, is search for the lowest common denominator which both Boards have said they wouldn't do. We don't have time, perhaps, to do otherwise if we want to level the transfer thing. But it is really not what we have ever set out to do. We're adopting the *worst* of the two standards (IASB Board Member, quoted in IASB Board Meeting, 2008).

Analogous with the instability of the inspired order of worth (Boltanski and Thévenot, 2006, p. 159), it has been discerned in this case that the standard-setting agreements reached in the Project World are particularly fragile in nature. For instance, prior to the publication of the classification and measurement requirements in the 2009 edition of IFRS 9, the European Commission reminded the IASB of the importance of incorporating the views of constituents in regards to the negative implications on financial stability to be expected from an excessive reliance on fair value metrics (European Commission, 2009b, p. 1). In embroiling the IASB in the financial stability initiatives of the European Union, the Project World has been observed to temporarily align with justifiable action based on the higher common principles of the civic and industrial worlds. Additionally, the Project World may be related with the emphasis on respecting the lineage of hierarchal relationships in the Domestic World while concurrently facilitating a compromise with the Market World. As posited by Sir David Tweedie in relation to the initial version of IFRS 9, "*We have delivered on our commitment to the G20 and stakeholders internationally to provide an improved financial instrument standard for the classification and measurement of financial assets for use in 2009. Benefiting from unprecedented levels of consultation with stakeholders around the world, the IASB has made significant changes in its initial proposals to improve the standard, provide enhanced transparency and respond to stakeholder concerns*" (IASB, 2009e, p. 2).

Hence, in critical moments of standard-setting the project order of worth may be expected to encourage action in unison with the precepts of other worlds, forming rather tenuous compromises. Despite the IASB's efforts to take the views of European constituents into account (IASB, 2009c, 2009d), the non-endorsement of IFRS 9 in the European Union at the time demonstrates the aversion to stability that is commonplace within the Project World. This has been observed to generate a significant degree of tension when the work carried out in this order of worth fails to close down disputes. In this case, the delay in the endorsement of IFRS 9 in the European Union "shocked the accountancy community" (Sanderson, 2009). This sentiment is encapsulated in the letters exchanged between the IASC Foundation and the European Commission following the postponement of the endorsement of IFRS 9 (Camfferman and Zeff, 2015, p. 438).

> Based upon the unprecedented amount of consultation, change to the originally proposed standard that has resulted, and the level of support internationally, the Trustees are satisfied that the IASB has conducted a thorough, balanced, and fair process. The IASB has responded in an appropriate and

> timely manner to the issues raised by the G20, the European Commission, and other international stakeholders. It is for this reason, even if we understand the context of the EU's political constraints related to the accelerated endorsement procedure, we find the deferral decision particularly disappointing. (IASC Foundation, 2009, p. 2)
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> The decision not to seek an accelerated endorsement of IFRS 9 at this stage reflects the changed financial outlook and market improvements. We also need to have a complete overview of all aspects of the new standard. (European Commission, 2009a, p. 1)

8. Conclusion

By providing a novel perspective on the fair value accounting controversy in IFRS which reignited at the onset of the 2008 financial crisis, this paper aims to further extant understandings of how agreements are reached in accounting standard-setting projects. Irrespective of the purported ambiguity in regards to the meaning of the public interest in international accounting standard-setting (van Mourik, 2013), in the case under examination the Sociology of Worth has drawn attention to the utilization of disparate philosophical orientations on the common good which have the propensity to influence accounting standards. It does so by providing a grammar with which to analyze how actors draw on different notions of the common good to justify and critique existing or proposed accounting standards. This also complements research on the means by which standard-setting organizations strive to maintain legitimacy (Botzem and Dobusch, 2012; Pelger and Spieß, 2016; Richardson and Eberlein, 2011) by examining the manner in which agreements on accounting standards are legitimized by actors. The central insights generated by the study are summarized as follows.

Firstly, the paper draws attention to tests within particular orders of worth which reveal disagreements between actors over how to operationalize the higher common principle of a world. Specifically, a number of internal reality tests of market worth have been elucidated. This demonstrates the tension immersed within the Market World of accounting standards which emphasizes the necessity of realistic and comparable information for financial statement users. For instance, a shift in the nature of the market test on the classification and measurement of financial assets provided justification from a Market World perspective for the departure from the proposed 'full fair value' model towards a 'business model' approach. This test – based on the cash flows

expected to be received by the firm – differed from the market test employed to justify a 'full fair value' approach which emphasized the minimization of complexity and the maximization of comparability for financial statement users. Moreover, on the controversial matter of reclassifications from 2008, a deficiency in IFRS in terms of its comparability with US GAAP was pinpointed by a coordinated European effort to amend IAS 39. Whilst this led some IASB board members to question the validity of the test and the true intentions behind it, various tests of market worth was nonetheless effectual in inducing change albeit in conjunction with a variety of other elements. Market World tests have thus proved to be particularly effective at underlining the disjointedness of the market polity in international accounting standard-setting. This complements existing research that suggests that the expansion of the fair value project at the IASB has not come to fruition due to internal changes in the organization and the diminished public confidence in the efficiency of markets in the aftermath of the financial crisis (Whittington, 2012).

Secondly, the paper sheds light on how multiple orders of worth converge to influence the compromises reached in contentious standard-setting situations. In particular, the complex interplay of the market and industrial orders of worth has been explicated in the disputes regarding fair value accounting measurement. Since market and industrial worth lie at the core of business activity (Boltanski and Thévenot, 2006, p. 193-194), it may be posited that the compromises reached between market and industrial worth represent a fundamental activity of standard-setting. Consistent with the assertion of Power (2010, p. 198) regarding the "tensions between fair value idealists and pragmatists," this interaction has generated a significant amount of strain in this case since both worlds operate under distinct tests of reality. In regards to the emergence of the 'business model' approach to classification and measurement, a compromise was reached between the market and industrial worlds. This was accomplished by limiting the potential for earnings management in the Industrial World by changing the 'intention-based' model in IAS 39 to a 'fact-based' business model approach, while shifting the test of market worth to align with the manner in which financial instruments are managed by organizations.

It may be argued that the 'business model' approach represents a shift towards the Industrial World in accounting standards; underscoring the challenges involved in the operationalization of the decision-usefulness program in financial reporting (Pelger, 2016). This consternation generated due

to this shift may be discerned in the alternative view within the 2009 Exposure Draft on Phase I of IFRS 9 (IASB, 2009b, p. 25-28) along with the work of Leisenring, Linsmeier, Schipper, and Trott (2012) which criticizes the 'business model' approach from a Market World view by associating it with the reflection of management intentions highly valued in the Industrial World. As Boltanski and Thévenot (2006, p. 278) note, "*the principle targeted by compromises remains fragile as long as it cannot be related to form a common good that is constitutive of a polity*." Future research may examine the interplay between the market and industrial polities within the projects of standard-setting. For example, the rise of "effects analysis" may be viewed as one initiative aimed at solidifying the compromises reached between users (the Market World) and preparers (the Industrial World) in the standard-setting domain.

Moreover, it has been discerned that the compromises arrived at were shaped to varying degrees by other orders of worth which are believed to operate at the level of the standard-setting organization. As such, the impacts of the higher common principles of the Domestic World, the Project World, and the World of Fame have been observed to induce financial accounting change. These worlds have been shown to momentarily unite in distinctive ways to effect the construction of specific accountings in critical moments such as the October 2008 amendments to IAS 39 on reclassification. This entailed justifications based on the IASB's responsiveness to pertinent issues (the Project World) in the global financial hierarchy (the Domestic World) whilst aiming to evade the 'European solution' which threatened the adoption of IFRS in the European Union (the World of Fame). This compliments existing research that views the fair value debate as an example of an intervention (André *et al.*, 2009) or a power struggle (Bengtsson, 2011) involving "shifting actor coalitions" (Lagneau-Ymonet and Quack, 2012, p. 238). Consistent with the framework of the Sociology of Worth, the approach adopted does not deny the existence of action predicated upon force but instead emphasizes the often overlooked notion of the legitimacy of agreements (Boltanski and Thévenot, 1999, p. 364). Thus, the paper adds to our comprehension of these events by pointing to the important role of multiple orders of worth and how they are related with one another in an effort to sustain the legitimacy of agreements.

Thirdly, the paper offers empirical insights into the rise of the Project World in international accounting standard-setting and its implications. Studies on the legitimacy of the IASB illustrate

that one of the primary strategies through which it attempts to maintain legitimacy is through extensive due process procedures (Botzem, 2014; Richardson and Eberlein, 2011). From the viewpoint of the Sociology of Worth, the recent emphasis on due process procedures in accounting standard-setting may be broadly linked with long-term shifts in the prevalence of certain orders of worth. For instance, this may be associated with the rise of the projective city (Boltanski and Chiapello, 1999) and the diminished influence of the inspired order of worth in the standard-setting domain. Previous research has postulated that the increasing extent of consultation may lead to greater leeway for decision making at the IASB as many constituents could face challenges in following the process (Pelger and Spieß, 2016). In this case, actions consistent with the Project World have been observed to produce a sense of frustration within the standard-setting community when laborious efforts of engagement nonetheless result in virtually "endless disputes" (Boltanski, 1996). In contrast with the isolation of the Inspired World from the opinions of others, a Project World view of standard-setting increasingly immerses standard-setters in potentially long-lasting global debates. This suggests that the effectiveness of activities within the Project World in provisionally resolving debates is facilitated by the manner in which they adapt to changing circumstances which involves entering into coalitions with the higher common principles of other orders of worth. However, as observed at the advent of the crisis, the projective city potentially conflicts with the Market World of accounting standard-setting because the emphasis on activity in the Project World is largely indifferent to the priorities associated with the decision-usefulness objective of financial reporting. It is believed that this potential clash between project and market worth will continue to present the IASB with dilemmas when contemplating its responses to critical situations.

Fourthly, the paper points to a relationship between the legitimacy of agreements reached on accounting standards and the 'input legitimacy' (Botzem and Dobusch, 2012). While the literature points to a democratic deficit in the engagement of accounting standard-setters with society (Botzem, 2014; Himick, Brivot, and Henri, 2016; Nölke, 2010), the framework of Boltanski and Thévenot (2006) highlights the fragility of compromises reached between multiple worlds. Accordingly, a paradoxical relationship has been observed between the stability of agreements in accounting standard-setting and the degree to which the positions of diverse actors are taken into

account. This occurs because incorporating the potentially varied standpoints of the populace within the due process of standard-setting – encompassing multiple prioritizations of worth – gives rise to accounting standards that are increasingly difficult to justify as the constituency diversifies. For instance, the fragility of the compromise reached in October 2008 between numerous orders of worth may be discerned by the prohibition on reclassification in the IASB's 2009 Exposure Draft on classification and measurement. In comparison, the relative stability of the newfound 'business model' approach to classification and measurement may be largely attributed to the manner in which actors aligned the decision-usefulness program of the Market World with the functionality aspired to in the Industrial World. Consequently, this legitimacy paradox may partially explain the relative absence of particular orders of worth in the disputes observed.

Lastly, it may be discerned that the priorities of the Civic World did not substantially pervade the justifications and critiques deployed by actors in this case nor did they form a significant basis for the compromises reached. On the controversial issue of reclassification, the paper shows that the emphasis of the coordinated European initiative on the Market World notion of comparability facilitated the legitimacy of the compromise enacted by the IASB in October 2008. On one hand, this may be explained by reference to the outsourcing of financial reporting standards in the European Union to the IASB (Chiapello and Medjad, 2009) and the Market World view of the objective of financial reporting delineated by the IASB which may be perceived as an impediment to the critical capacities at the disposal of actors in the public domain. Nevertheless, despite these constraints the influence of multiple political philosophies on how to promote the common good in the accounting standard-setting arena has been made apparent in this case. However, for a wider array of perspectives to be more visible in the everyday practices of standard-setting, it has been suggested that standard-setters reassess the paradigm of decision-usefulness (Williams and Ravenscroft, 2015) and wholeheartedly embrace politics (Young, 2014). This paper adds to the discussion by directing attention to the mobilization of a multitude of orders of worth which induce change by permeating the boundaries of accounting standard-setting.

Appendix

Table 2: Consultation Documents

Year	Name	Source
2008	Reducing Complexity in Reporting Financial Instruments	IASB
	Comment Letters	IASB
	Comment Letter Analysis for IASB and FASB Discussion Paper Reducing Complexity in Reporting Financial Instruments	IASB/FASB
2009	Exposure Draft ED/2009/7. Financial Instruments: Classification and Measurement	IASB
	Basis for Conclusions. Exposure Draft ED/2009/7. Financial Instruments: Classification and Measurement	IASB
	Comment Letters	IASB
	Financial Instruments: Classification and Measurement ED – Comment letter analysis	IASB
2012	Exposure Draft ED/2012/4. Classification and Measurement: Limited Amendments to IFRS 9	IASB
2013	Comment Letters	IASB
	Comment letter and outreach summary—Limited Amendments to IFRS 9	IASB

Table 3: Documents in Relation to the 13 October 2008 Amendments to IAS 39

Date	Title	Source
25 April 2008	Prepared Remarks of Sir David Tweedie, Chairman of the International Accounting Standards Board	IASB
25 September 2008	President Sarkozy's Toulon speech on 25 September on the international financial situation (excerpts)	French Embassy in Ottawa
October 2008	Bringing transparency to financial reporting: towards an improved accounting framework in the aftermath of the credit crisis	Financial Stability Review
October 2008	Agenda Paper 12. IAS 39 Financial Instruments: Recognition and Measurement Reclassifications out of the held for trading part of the Fair Value through profit or loss (FVTPL) category	IASB Staff Paper
1 October 2008	Remarks of President Barroso on financial crisis	European Commission
4 October 2008	Summit of European G8 members. Palais de l'Elysée. Statement.	European G8
7 October 2008	Council Conclusions on a coordinated EU response to the economic slowdown	Council of the European Union
13 October 2008	IASB amendments permit reclassification of financial instruments	IASB
13 October 2008	IASB Board Meeting (audio)	IASB

Table 4: Interview List

Number	Description	Date	Duration (minutes)
1	Stig Enevoldsen, EFRAG Board Member	28 March 2014	85
2	Stig Enevoldsen, EFRAG Board Member	23 November 2014	94
3	Accountant, Information technology sector	31 October 2014	55
4	Accountant, Banking industry representative group	19 November 2014	41
5a	Accountant, Banking industry representative group	19 November 2014	42
5b	Accountant, Banking industry representative group	19 November 2014	42
6	EFRAG TEG Member (former)	19 November 2014	76
7	Partner, Big Four accounting firm	24 November 2014	34
8	Partner, Big Four accounting firm	19 December 2014	42
9	IASB Staff	06 March 2015	23
10	IASB Staff	06 March 2015	41
11	IASB Staff	06 March 2015	54
12	Accountant, Banking industry representative group	09 July 2015	78
13	EFRAG TEG Member	14 July 2015	47
14	Accountant, Accounting professional organization	23 July 2015	50
15	IASB Staff (former)	28 September 2015	75

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The role of economics in performing accounting standards:
A study of IFRS 9 Phase II

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Abstract

This paper adds to the literature on the role of economics in accounting standard-setting by analyzing how a specific economic theory – the Efficient Market Hypothesis – sets the premises for identifying a new approach to accounting for credit losses in financial reporting. Inspired by Actor-Network Theory and its notions of the performativity of economics (Callon, 1998b, 2007) and translation (Callon, Lascoumes, and Barthe, 2009), the paper draws on qualitative interview data and publicly available documents to reconstruct the process by which the devalued "incurred loss" impairment model was replaced with an "expected loss" approach under IFRS subsequent to the 2008 financial crisis. This comprised of a series of experiments and negotiations, including an unsuccessful effort to establish an ideal-type model fully adhering to the economic theory, as well as the failure of a joint initiative between the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) to construct a more "forward-looking" model as called for by the G20. Alongside widespread considerations over how to make the approach operational, the influence of the Efficient Market Hypothesis regarding the relationship between loan pricing and initial expectations of credit losses has been observed. This demonstrates that whilst the performativity of economics in accounting standard-setting is not a self-fulfilling prophecy, in our case it is performative in the sense that it played a significant role in the successive transformations of the model as the process progressed towards provisional closure. The paper contributes by showing a rare case on how an economic theory guides the extensive negotiations among participants in standard-setting projects. This sheds light on the role of economics in accounting standard-setting as an engine that forges linkages with other matters of concern in the process of accounting change.

Keywords Accounting standard-setting, Financial crisis, Loan loss provisioning, Performativity, Translation

1. Introduction

There is a recent interest in the performativity of economics across the social sciences (Callon, 2007; Ferraro, Pfeffer, and Sutton, 2009; MacKenzie, Muniesa, and Siu, 2007; Pollock and D'Adderio, 2012), in finance studies (Mackenzie, 2006; MacKenzie, and Millo, 2003; Vollmer, Mennicken, and Preda, 2009) and in accounting (Cushen, 2013; MacKenzie, 2009; Andon, Baxter, and Chua, 2007; Skærbæk and Tryggestad, 2010). According to Hopwood (1992, p. 128), *"Economics […] is seen as a means for helping accounting to become what it should be, but what currently it is not."* Accounting research has since explored how abstract economic rationales are employed to direct the trajectories of accounting change. In the realm of accounting standard-setting, the rise of the influence of financial economics may be discerned within the conceptual frameworks (Power, 2010; Young, 2006) and standards of financial reporting (Ravenscroft and Williams, 2009). Whilst the 2008 financial crisis has revealed that the enduring stability of financial economic metrics in accounting standards is uncertain, the apparent lack of a coherent alternate philosophy suggests that its influence may persevere (Power, 2010). Thus, in light of the recent criticism of financial economic theory (Arnold, 2009; Cooper, 2015; Gendron and Smith-Lacroix, 2015), we propose that the manner in which financial economics shapes accounting standards remains an important empirical question.

Since the dawn of the 2008 financial crisis, one of the most significant financial reporting issues to arise in the public domain has been the impairment requirements in relation to financial assets. Due to its apparent inability to anticipate many of the sizable loan defaults experienced by financial institutions at the commencement of the financial meltdown, the incurred loss model for loan loss provisioning in place at the time was attributed with the label of "too little too late" (European Union, 2015). Alongside the matter of accounting for equity investments at fair value, this represented a significant component of the apportionment of blame towards accounting standards for exacerbating the crisis (André *et al*., 2009; Bengtsson, 2011). From the declarations of the G20 to the reports of the Financial Stability Board, government leaders and expert groups charged with the task of restructuring the global financial architecture called on accounting standard-setting organizations to reform loan loss provisioning models whilst stressing the importance of increasing the level of convergence in financial reporting standards (Lagneau-Ymonet and Quack, 2012). Accordingly, the IASB and the FASB were besieged with calls for the development of a common financial asset impairment model that incorporates more

realistic expectations of credit losses. This represented part of an international initiative to consider the effects of reducing procyclicality in the economy "*by recognizing changes in loan loss provisioning earlier in the credit cycle*" (Financial Stability Forum, 2009b, p. 2) whilst providing a better reflection of "*the underlying economics of lending activities*" (Financial Stability Forum, 2009b, p. 9).

In analyzing the reconstruction of financial asset impairment methodologies, the paper engages with two streams of the accounting literature. The first relates to the effects of economics on accounting standards. Reference to the joint IASB–FASB conceptual framework suggests that efforts aimed at reflecting "economic reality" may constitute a fundamental determinant of the content of accounting standards (IASB, 2010a, p. 26, 48). For instance, the transformation of 'reliability' to 'faithful representation' denotes the purported importance of providing a largely realistic depiction of economic phenomena in financial reporting (Barth, 2007; Erb and Pelger, 2015; Power, 2010). Accordingly, the current literature has shown how economic principles have been utilized to rationalize accounting standard-setting projects and advance them towards approval and use (Ravenscroft and Williams, 2009; Young, 2014; Young and Williams, 2010). These studies have pointed to instances in which financial economic metrics were largely successful whilst drawing attention to the highly fragmented application of this rationality across the spectrum of financial reporting standards. However, thus far studies on accounting standard-setting have not shed much light on the protracted struggles involved when the operationalization of abstract economic theories transform as part of the negotiation process.

Concurrently, we explore the difficulties involved in the stabilization of standard-setting agreements in IFRS – U.S. GAAP convergence projects. Previous research on the convergence of financial reporting standards has revealed several insightful facets of the joint IASB–FASB initiatives. For instance, the literature has demonstrated the impetus for more principles-based accounting standards in the U.S. after the accounting scandals of the early 2000s (Bhimani, 2008), the often formidable influence of the FASB (Baudot, 2014; Erb and Pelger, 2015; Pelger, 2016), the impacts of changes in personnel and the 2008 financial crisis (Camfferman and Zeff, 2015). However, it may be argued that the extant research has not yet explored in sufficient detail how specific economic rationales guide the convergence process and how they contribute to the provisional success or failure of such projects. Thus, this case provides an opportunity to

study distinctive intricacies entrenched within the global standardization movement in financial reporting.

In order to frame our study we draw on Callon (1998b, 2007) who points out that, in contrast to the widely held understanding of economics as a mechanism to describe economic activity, economics shapes the economy often with considerable support from accounting tools. In this sense, Callon equates the formulae produced by accountants with economics in terms of their capacity to format the economy. Accordingly, "*Any tinkering with the formula can have considerable consequences because it changes the world that the formula is supposed to activate*" (Callon, 2007, p. 334). Whilst this may explain the often contentious nature of accounting standard-setting projects, our paper endeavors to better comprehend how particular economic objectives and rationales permeate the standard-setting process and affect their outcomes. Thus, we also make use of the three-stage translation model of Callon, Lascoumes, and Barthe (2009). From this perspective, we regard accounting standard-setting processes as attempts to transform one state of the world to another.[1] The process commences with the reduction of economic reality to a more manageable scale in *translation 1*, followed by the various experiments and collaborative practices of *translation 2* which result in the formulation of proposed accounting standards. Nonetheless, the extent of collaboration and the manner in which it is incorporated into prospective standards is an empirical question, as is the role of economic theory within the experimentation process.[2] Ultimately, the paper views the ability of standard-setting organizations to generate sufficient associations with pertinent actors to transform a standard as constituted by *translation 3*. Hence, it is believed that the theoretical framework is well placed to explicate the failure of the convergence project on loan loss provisioning, the provisional stability of the eventual IASB solution and the role of economic theory within the process.

The paper contributes by illuminating the complexities involved in the operationalization of the doctrine of financial economics in accounting standard-setting with a particular emphasis on the Efficient Market Hypothesis. The phrase 'efficient market' was first coined by Fama (1965, p. 94) to denote "*a market where prices at every point in time represent best estimates of intrinsic*

[1] Callon *et al.* (2009, p. 20) define a 'state of the world' as "the list of human and non-human entities that make it up" along with "the interactions between these entities."

[2] In contrast with accounting standard-setting consultations in which constituents are largely unsuccessful in shaping the outcome (see, for example, Pelger, 2016), the case under examination depicts a relatively influential constituent role despite the unharmonious viewpoints often observed.

values." This resonates with the IASB's objective to reflect the alleged relationship between loan pricing and initial expected credit losses. We trace the processes that link economics with the operational and regulatory considerations involved in the setting of financial reporting standards. Although the IASB's initial attempt to apply this hypothesis to loan pricing in an idealized form was unsuccessful, its objective was maintained throughout the process. Meanwhile, tasked with a similar mandate to construct a more "forward-looking" approach to impairment, the FASB did not make use of Efficient Market Hypothesis due to the incongruence with its objective of ensuring the adequacy of provision balances despite its purportedly strong affiliation with financial economic thought (Pelger, 2016; Ravenscroft and Williams, 2009). The eventual IASB model maintained its objective by linking the economic theory to other matters of concern by means of approximating the outcome of its idealized model. We thus have a good case to demonstrate how economics sets the premises for accounting standards.

Additionally, the paper highlights an example of the limits of global standardization movements. With the release of IFRS 9 in July of 2014, the IASB finalized its project to formulate a more forward-looking financial asset impairment model. However, its attempt at constructing a converged IASB–FASB approach did not materialize. This breakdown may be attributed to disagreement over rational economic theory as it pertains to loan pricing along with differences in lending practices and regulatory environments. Thus, the case demonstrates that – despite the existence of a common conceptual framework – the IASB and the FASB may significantly diverge on matters related to the depiction of economic reality which further challenges the possibility of achieving global accounting standards. Moreover, the paper shows that idealized models in financial reporting (Ravenscroft and Williams, 2009, p. 774) are potentially unstable particularly within a diverse accounting standard-setting network.

The remaining sections of the paper are structured as follows. A review of the relevant literature is presented in three main sections. First, research pertaining to the influence of economics on accounting is highlighted followed by an outline of the theoretical framework adopted in the paper. In the next section, studies on standardization and the convergence program between the IASB and the FASB are presented. Subsequently, the research methods adopted in the paper are delineated. The paper then proceeds to analyze the convergence project on loan loss provisioning along with the separate IASB consultations immediately preceding and following

the joint initiative. The paper concludes with discussion and conclusion sections which recap the contributions made including suggestions for future research.

2. The influence of economics on accounting

> The idea of a relationship between accounting, as a form of economic calculation, and economics, a form of abstract knowledge about the nature of the economic, is now a longstanding and increasingly accepted one. (Hopwood, 1992, p. 128)

Irrespective of the valuation-usefulness objective stipulated in the joint IASB–FASB conceptual framework (IASB, 2010a) which allegedly situates present-day financial reporting squarely in the purview of financial economics (Müller, 2014), accounting in itself does not encompass an intrinsic purpose (Hopwood, 1992, 2007). Accordingly, in addition to the "faithful reporting of financial information" (Solomons, 1991, p. 293), the literature has outlined a multitude of possible roles of accounting in society (Burchell, Clubb, Hopwood, Hughes, and Nahapiet, 1980; Tinker, 1991; Walker, 2016). Nevertheless, although accounting often derives its directionality from wider economic objectives (Hopwood, 1992) the specific formulation of purposes classified as 'economic' has been observed to vary in the literature. Along these lines, studies have depicted the transition in this relationship from the influence of economic theories on accounting income to a view of accounting as an information commodity (Robson and Young, 2009). Moreover, it has been demonstrated that accounting may be mobilized in the attainment of particular economic objectives. For instance, this may be discerned by reference to the usage of discounted cash flow techniques first described by Miller (1991) and the impact of concerns over economic growth on inflation accounting illuminated by Robson (1994). This suggests that the "internal accounts" generated in accounting have "external origins" thereby linking accounting with distinctive economic and social contexts (Hopwood, 1983, p. 301). Consequently, it has been argued that accounting is not a static apparatus because it transforms alongside economic and social change (Chapman, Cooper, and Miller, 2009, p. 2). Moreover, the literature has demonstrated a relationship between accounting and the safeguarding of rational economic theories. For instance, Skærbæk and Christensen (2015) show how the auditing function was involved in the scapegoating of individuals in an attempt to avoid blame being attributed to underlying economic rationales in the wake of controversy.

2.1 Economic theory and accounting standard-setting

Whilst the preceding literature posits that the influence of economics on accounting is multifarious and context-dependent, recent studies have tended to draw attention to the increasing application of financial economic thought particularly in regards to the domain of accounting standards. As Hopwood (2009a, p. 892) states, "accounting has been in the process of becoming similar to economics and particularly financial economics." Ostensibly, "accounting's fundamental substance has changed" (Bayou, Reinstein, and Williams, 2011, p. 114) from "accounting as history" to "accounting as economics" (Barker and Schulte, 2015, p. 2). As such, it has been suggested that accounting standard-setters are steered by "the underlying logic of neoclassical economics" (Young and Williams, 2010, p. 519). For instance, the rise of neoclassical valuation theories in the endeavor to promote discounted cash flow and fair value measurements in financial reporting provide illustrations of the influence of economic theory in the accounting domain (Chiapello, 2008). Particularly in light of the 2008 financial crisis, there is an increasing fascination with illuminating the rise of fair value accounting (Hopwood, 2009b). Along these lines, Power (2010, p. 201) points to "the cultural authority of financial economics" as one of the major rudiments behind the fair value movement in financial reporting.

The influence of financial economics in financial reporting has also been attributed to the capacity of individual actors to enact decisions based on this philosophy (Miller and Power, 2013). For instance, studies have illustrated the deployment of financial economic thought in regards to the development of the accounting standard on employee stock options by the FASB. According to Ravenscroft and Williams (2009, p. 782), this standard was grounded in the presumption – consistent with financial economic theory – that options granted to employees are a form of compensation that can be quantified using a "mechanical model" due to the absence of an actual market. To justify its necessity, the FASB utilized arguments based on economic theory and referred to several economists in favor of the standard in order to frame the issue as a technical matter (Young, 2014). Moreover, the influence of financial economics may be discerned in reference to the joint IASB–FASB conceptual framework. The objective of decision-usefulness formally adopted by the two boards is predicated upon mainstream economic theory focused on the information needs of the investment community (Williams and Ravenscroft, 2015). As illustrated by Pelger (2016), this rationale has been utilized to reject the inclusion of stewardship as a separate objective in financial reporting. Furthermore, it has been

posited that the construction of the "rational economic actor" as the user of financial statements allows accounting standard-setters to regard conduct that is at odds with financial economic theory as irrelevant (Young, 2006, p. 592). For example, Erb and Pelger (2015, p. 32) highlight the success of certain standard-setters in drawing on the precepts of financial economics in the transformation of 'reliability' to 'representational faithfulness.' As such, economic theories have been observed to infiltrate the processes of accounting standard-setting. Although this suggests that accounting standard-setters have achieved a notable degree of success in mobilizing the precepts of financial economics, the application of such theories is far from ubiquitous given the persistence of a mixed measurement model for financial instruments (Power, 2010; Georgiou and Jack, 2011).[3]

The studies outlined in this section have illuminated ways in which economics provides inspiration for actors within the accounting domain. However, while there are potentially a multitude of contexts in which economics may motivate accounting, research on the financialization of accounting standard-setting has largely emphasized the homogeneous aspects of financial economics. Arguably, this has potentially overlooked the abstract nature of financial economic theories and their immersion within an array of other elements in discrete standard-setting networks. This suggests that the contexts in which accounting standard-setting projects are situated may not be wholly captured by the satisfaction of the hypothetical rational economic user of financial statements. Nevertheless, the conceptual frameworks of financial reporting provide a foundation for accounting standard-setters' attempts to depict an objective social world (Hines, 1991).

2.2 Conceptual frameworks and the depiction of reality

Whilst it may be argued that the joint IASB–FASB conceptual framework revisions, including the shift from 'reliability' to 'faithful representation' are predicated on an ideology aimed at gratifying the needs of the investing community (Zhang and Andrew, 2014), the extent to which these notions materialize within standard-setting projects is contestable. According to McGregor and Street (2007), conceptual frameworks are a necessary mechanism in facilitating the agreements reached among board members. Thus, the joint conceptual framework may be viewed as an important factor in the promotion of global accounting standards (Murphy,

[3] Similarly, Barker (2015) points out that the economic value of firms consistently exceeds its book value under international accounting standards.

O'Connell, and Ó hÓgartaigh, 2013) by providing "*a consistent intellectual foundation for the convergence of the two sets of standards*" (Whittington, 2008, p. 142). Hence, although the framework does not supersede accounting standards, it is purported to encompass indirect implications on financial reporting due to its influence on the standard-setting process (IASB, 2016). Nonetheless, it has been argued that conceptual frameworks serve to legitimize standard-setting organizations in times of strife by aiming to preserve their capacity to self-regulate (Fogarty, 1992; Hines, 1989). Thus, contrasting standpoints have been observed in the literature in regards to the role of conceptual frameworks in influencing actual standard-setting projects.

On one hand, the capacity of a conceptual framework to influence accounting standard-setting processes has been observed in the literature. For example, the definition of revenues and liabilities in the conceptual framework steered certain decisions in the joint IASB–FASB project on revenue recognition (van Mourik and Walton, 2013). This reflects the view that due to the general shortage of guidance on the issue of measurement within conceptual frameworks, when making measurement choices "*standard setters usually focus on applying the definitions of financial statement elements and the qualitative characteristics of accounting information in the context of the objective of financial reporting*" (Barth, 2007, p. 7). On the other hand, however, the efficacy of the conceptual framework in the actual practices of standard-setting is disputable (Zeff, 1999). Along these lines, the active role of newfound concepts such as 'representational faithfulness' may be called into question due to the enduring presence of its precursor notion of 'reliability' in standard-setting processes (Erb and Pelger, 2015). Moreover, it has been posited that the 'political' factors involved in the consideration of divergent interests during the decision-making process may override the 'technical' view provided in conceptual frameworks (Macve, 1997). Similarly, Erb and Pelger (2016) discern a relatively low participation rate among preparers in response to the consultation on the revised conceptual framework and conclude that preparers may have little confidence in the capacity of the framework to influence accounting standards.

Arguably, the presumption of standard-setters pertaining to the existence of an external reality does not posit the extent to which this reality may be accessed (Shapiro, 1997). For instance, the justification for accounting numbers has often been grounded on efforts to capture economic reality as neutrally as possible for the perusal of economic decision-makers (Solomons, 1991) although such efforts may be constrained by an absence of political will (Fogarty, 1992). Along

these lines, the aspiration to 'faithfully represent' facets of external reality within financial reports is consistent with a "correspondence theory of truth" (Shapiro, 1997, p. 169). This resembles the notion of 'representational faithfulness' as defined by the IASB (2010a, p. 18).

> To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible.

Nonetheless, the endeavor to faithfully represent the external world in accounting has been questioned by studies highlighting the increasingly prevalent utilization of simulation techniques (Macintosh, Shearer, Thornton, and Welker, 2000). For instance, Bougen and Young (2012) illustrate that the measurement of certain financial instruments by means of valuation models does not constitute an objective market reality. It has been asserted that accounting standards developed in such a manner represent a particular version of reality in which other imaginings have been suppressed (Young, 2003). Hence, it has been argued that financial accounting information constructs reality (Hines, 1988; Huikku, Mouritsen, and Silvola, 2016), producing tangible effects on the actual economy (Robson and Young, 2009).

Overall, the studies reviewed in this section have provided considerable insights into the prevalence of efforts aimed at the depiction of reality in accounting standard-setting and the potential limitations thereof. Nevertheless, it may be argued that despite the widespread awareness of the influence of economics on accounting (Hopwood, 1992) our understanding of how specific economic theories are immersed within standard-setting processes remains relatively underdeveloped – particularly in instances in which idealized economic models are regarded as untenable solutions. This paper will explore this issue by investigating the impact of financial economic thought on the redevelopment of the financial asset impairment model of the IASB.

3. Theoretical framework

It is believed that analyses of contentious accounting standard-setting projects – such as the failure of major convergence endeavors – are facilitated by a research approach that is well-suited towards obtaining a firm grasp on the assortment of influences that shape it over multiple iterations. Adding to the growing body of ANT-inspired literature that examines issues

pertaining to accounting and auditing standards (Ezzamel and Xiao, 2015; Jeppesen, 2010; Mennicken, 2008; Qu and Cooper, 2011; Robson, 1991, 1994; Vinnari and Dillard, 2016; Young, 2014), this paper aspires to highlight the potential for such an approach to answer calls from the research community to further explicate the specific processes involved in the standardization of accounting (Hopwood, 2007) and how relations of power are formed within such procedures (Arnold, 2009). The theoretical framework adopted in the paper views major shifts in accounting regulation as the outcome of a series of three translations and is complimented by drawing attention to how economic theories on valuation may shape accounting standards in distinctive ways during the translation process.

3.1 The performativity of economics in accounting standard-setting

> […] beyond the material, procedural, legal and monetary elements which facilitate the framing and construction of the space of calculability, there is a capital, yet rarely mentioned, element: economic theory itself (Callon, 1998b, p. 22).

Whilst the propensity of economic theories to shape the economy as opposed to merely observing it has been demonstrated in fields such as finance (Mackenzie, 2006; MacKenzie, and Millo, 2003) and risk management (Millo and MacKenzie, 2009), our understanding of how economics shapes accounting standards is relatively under-researched. Whilst on the surface the performativity thesis is seemingly equivalent to the presumption of the constitutive potential of accounting (Hopwood, 1983) the work of Callon (1998b, 2007) emphasizes the predominance of economic theory, the necessity of examining the manner in which performativity transpires, and the instability of such effects. Specifically, Callon (2007, p. 320) posits that the operationalization of an economic theory involves socio-technical arrangements "*endowed with the capacity of acting in different ways depending on their configuration*." Thus, it is believed that the first step in studying performativity in the domain of accounting standards is to examine how actors mobilize economic theory during the standard-setting process; and second, to ascertain whether the utilization of economic theory made a difference in the resulting accounting standard. The first step is described as "generic performativity" while the second refers to "effective performativity" (MacKenzie, 2006, 2007).

In the case under study, reference to the underlying economics of lending – in particular theories on the relationship between loan prices at inception and initial expected credit losses – may be

observed in several due process documents relating to the IFRS 9 Phase II project.[4] Whilst it may be hypothesized that how accounting standard-setters view the economics of lending leads to predictable outcomes, this paper does not regard such beliefs as self-fulfilling prophecies. According to Callon (2007), socio-technical arrangements provide the framing in which a theoretical statement has an opportunity to survive, albeit temporarily. This workability is attributed not only to the economic theory in isolation, but to a wide-range of factors which contribute to the stability of the arrangement. As such, the capacity of performativity studies to provide insight into the relationship between "calculative practices" and "group differences" (Vollmer *et al.*, 2009) suggests that this notion may contribute to our comprehension of accounting standard-setting projects encompassing a broad range of actors. Consequently, following Pelger (2016) this paper aspires to contribute to our understanding of how the valuation-usefulness program of the IASB and the FASB – which endeavors to 'faithfully represent' economic phenomena in financial reporting – manifests within a highly contentious convergence project.

Whilst this may appear to substantiate the view that accounting tools are central to the realization of the performativity of economics (Callon, 1998a), the seminal work of Burchell, Clubb, and Hopwood (1985) demonstrates that accounting practices are situated within historical socio-economic contexts which impinge upon their perceived relevance.[5] Thus, economics may only be performative in accounting standard-setting when certain "conditions of felicity" are present (MacKenzie, 2007, p. 69). As a result, economic theories may be expected to wield varying degrees of influence on accounting standards within specific settings. Furthermore, it may be envisaged that the abstract nature of an economic theory contributes to potentially wide-ranging applications – and implications – across accounting settings.

3.2 Explicating standard-setting projects using the three-stage translation model

The model of translation put forward by Callon *et al.* (2009) represents a mechanism to analyze transformations from one state of the world to another. Through a process of three translations, the macrocosm may be altered by the efforts of a heterogeneous group of actors – or it may result in utter failure. This comprises of a reduction of the macrocosm to the microcosm of the

[4] See, for example, IASB, 2011a; IASB, 2011d; IASB, 2013a; IASB, 2014b.
[5] As opposed to viewing accounting standards as determined by the contexts in which they are situated, from the standpoint of ANT accounting organizations induce change through associations with external actors in the process of translation (Justesen and Mouritsen, 2011).

research laboratory where potential solutions are investigated prior to the often hazardous return to the macrocosm. In *translation 1*, the intricacies of the big world are converted into the small world of the laboratory by means of transportation and transformation which produces a more manageable set of circumstances whilst not completely forsaking the complexities of the macrocosm (Callon *et al.*, 2009, p. 49-50).

> What they study, describe, analyze, and interpret is a purified and simplified world, but, if they have done their work well, it is a world that can be connected up with the big world from which they have taken care to keep their distance. (Callon *et al.*, 2009, p. 50)

Translation 1 comprises of a "definition of the problem" at hand as well as the arrangement of the necessary "evidence" to be manipulated in the laboratory (Mahama and Chua, 2016, p. 31). In the domain of accounting standard-setting, this may involve the setting of objectives for the project, the procurement of additional personnel, the formation of expert groups, and the collection of relevant published reports and internal data. In *translation 2* the solution forged by the research collective is brought to life through a process of inscription (Callon *et al.*, 2009, p. 59).[6] At this stage, the research collective performs various calculations to model the macrocosm for the purpose of assessing divergent courses of action and their associated implications (Mahama and Chua, 2016, p. 31). This may pertain to the assorted evaluations, both quantitative and qualitative, of the possible solutions available in different portions of the standard-setting project along with a preliminary assessment of how these actions may be perceived across various stakeholder groups. Upon concluding *translation 2*, proposed accounting standards may be drafted and published in the form of discussion papers, requests for information, or exposure drafts.

In returning to the macrocosm, *translation 3* requires that the research collective "produce interest and get the adhesion of influential actors" (Callon *et al.*, 2009, p. 61). This process, known as "interessement," aims to instill a sense of indispensability on the part of other actors in regards to the solution devised by the research collective (Callon *et al.*, 2009, p. 62). According to Callon (1986, p. 209), "The range of possible strategies and mechanisms that are adopted to bring about these interruptions is unlimited." This extends beyond mere rhetorical strategies; it necessitates that a palpable connection is established between what was produced in the

[6] The 'research collective' consists of the human and non-human actors who "participate in the fabrication of knowledge" (Callon et al., 2009, p. 56).

laboratory and the anticipations of the diverse outside world (Callon *et al.*, 2009, p. 62). Whilst the fruitfulness of this process commences in *translation 1*, its workability in the macrocosm is determined in *translation 3* (Callon *et al.*, 2009, p. 65). It is in this phase where stakeholders of the standard-setting process subject the possible implications of a proposed standard to a trial and the extent to which actors are provisionally incorporated within the network will be discernable. Consequently, a decision is formulated as to whether to advance towards the macrocosm or revert to the seclusion of the laboratory. Although economic theory may be discerned to play an active role in the calculative practices employed during this phase of the process, the three translations which may establish an overall transformation of world states are by no means independent of one another. Along these lines, Callon *et al.* (2009, p. 86) point to "the tension between laboratory research, which wants to work on purified objects, and research in the wild, which is faced with composite, impure, polluted realities." Nevertheless, *translation 3* may result in the provisional legitimization of a revised accounting standard despite the influx of impure elements since the utilization of research in the wild may justify the inclusion of non-scientific elements (Callon *et al.*, 2009, p. 216).[7] Arguably, the three-stage translation model offers several advantages to the analysis of accounting standard-setting processes; in particular, projects aimed at the convergence of standards across jurisdictions. Considering that translation may be generally viewed as "the means of linking one thing with another" (Harman, 2009, p. 15), the model may be utilized to trace the manner in which the objectives of accounting standard-setters are related with the potentially diverse interests contained within the wider environment(s) in which they are situated. Accordingly, we intend to elaborate on the following question: *What is the role of economic theory in shaping accounting standard-setting projects and their outcomes?*

4. The treacherous road to global accounting standards

4.1 The standardization literature

Brunsson and Jacobsson (2000, p. 1) emphasize the significance of standardization in terms of its propensity to "*facilitate co-ordination and co-operation on a global scale*" whilst also drawing attention to the role of standards as "*instruments of control*." As such, standards have

[7] Along these lines, the model of translation outlined in this paper may be discerned to incorporate output and input legitimacy mechanisms. While output legitimacy has been described as *"legitimacy based on substantively rational decision results,"* input legitimacy implies that *"political decisions are derived from the preferences of the population in a chain of accountability linking those governing to those governed"* (Mayntz, 2011, p. 143).

been described as "*the most important organizational element that can be found outside organizations*" (Ahrne and Brunsson, 2006, p. 82). Consequently, the diffusion of standards in organizations and society has attracted a significant amount of attention within the field of accounting and the social sciences more generally. In one sense, the alteration of a standard may prove challenging if it is widely deemed to be effective (Brunsson and Jacobsson, 2000). For example, based on a presumption that the QWERTY keyboard is no longer the most efficient configuration, David (1985) posits that – as opposed to representing the most effectual response to current conditions – present day standards may be shaped by a variety of other elements.[8] However, to the extent that they facilitate interaction, standards are implicated in the formation of global orders (Ahrne and Brunsson, 2006). It has thus been posited that the necessity of common standards intensifies with the rise of globalization (Brunsson, 2000).

Although standardization does not ensure uniformity (Mennicken, 2008), standards possess a strong propensity to proliferate and often contribute to the shaping of societal norms and practices (Brunsson and Jacobsson, 2000). Standardization has also been linked to a general presumption in similarity across assorted local environments. "*This commonality of actors, situations and problems leads to the idea and argument that they should naturally be treated in a similar way and be susceptible to the same general rules*" (Ahrne and Brunsson, 2006, p. 85). Although this has led to a standpoint which regards global standardization as a relatively straight-forward technical process free from overt political influence, such a view has been strongly contested (Büthe and Mattli, 2011). Along these lines, it has been argued that taking into consideration the vastly different interests of stakeholders in standard-setting, it is astonishing that such processes do not collapse more frequently (Botzem and Quack, 2006). Nevertheless, a large portion of sociological studies on standardization tend to "*emphasize the link between standardization and the homogenization or flattening of social life in modernity*" with relatively less attention directed towards the struggles involved in this quest for homogeneity (Timmermans and Epstein, 2010, p. 74).

4.2 The convergence literature

Consistent with the standpoint that the realization of a single set of accounting standards is paramount for the efficient functioning of global capital markets (Reilly, 2011; Wagenhofer,

[8] As argued by Paul David, the QWERTY keyboard was designed in the nineteenth century to minimize the jamming of keys and its resilience may be ascribed to the relative success of initial training endeavors utilizing the standard.

2013), the importance of convergence between IFRS and U.S. GAAP has been stressed by a multitude of actors for some time (see, for example, Camfferman and Zeff, 2015; G20, 2009a; Herz, 2003; Tweedie, 2011). However, the literature points to several significant challenges faced by the IASB and the FASB throughout the convergence efforts. Baudot (2014, p. 958) classifies the IFRS – U.S. GAAP convergence initiative into three successive and increasingly challenging phases: "direct emulation," "difference reduction" and "progressive redesign." The first two stages may be largely characterized by the predominant influence of U.S. GAAP over IFRS (Baudot, 2014). For example, in relation to IFRS 8, several IASB stakeholder groups opposed to the adoption of standards merely for the sake of convergence (Crawford, Ferguson, Helliar, and Power, 2014) while the adoption of a rules-based approach was denounced by a majority of IASB constituents in the case of the convergence efforts surrounding IFRS 5 (Camfferman and Zeff, 2015). The period of 2004 to 2008 was characterized by the commencement of joint projects related to the development of new standards (Camfferman and Zeff, 2015). A Memorandum of Understanding between the two boards signed in 2006 reiterated the commitment to convergence (Camfferman and Zeff, 2015; Chiapello and Medjad, 2009). In addition, the boards announced a joint conceptual framework project (IASB, 2004) to be completed in eight phases (IASB, 2007). Along these lines, the continued influence of the FASB has been discerned. For instance, Erb and Pelger (2015) carry-out a detailed analysis of the transformation of 'reliability' to 'representational faithfulness' and reveal the central role of the FASB staff in the initial formulation of the change. Furthermore, the compromise reached by the IASB in regards to the absence of a separate stewardship objective for financial reporting may be partially attributed to pressure to converge on the issue with the FASB – where the desire to include a separate stewardship objective was largely absent from discussions (Pelger, 2016). This echoes the trepidation expressed by De Lange and Howieson (2006) in regards to the possibility that the U.S. may dominate the convergence process.[9]

Nonetheless, only a single phase out of the joint conceptual framework project was finalized (FASB, 2010b). It has thus been argued that in comparison with the difficulties faced in the first two stages of the overall convergence initiative, the commencement of joint projects related to the development of new standards would prove to be the most challenging phase encountered by the two boards (Baudot, 2014). Whilst the IFRS – U.S. GAAP convergence efforts have yielded

[9] An exception to the domination of U.S. interests is highlighted by Morley (2016) whereby the IASB does not concede to U.S.-based concerns over the treatment of pending litigation in the liabilities project.

positive outcomes for the IASB and the FASB such as the joint project on revenue recognition (IASB, 2014e), multiple explanations have been provided to explain the difficulties encountered during this initiative. In the wake of the 2008 financial crisis, the EU and the G20 emphasized the need for convergence particularly in regards to the reporting of financial instruments. However, addressing the demands from Europe whilst attending to the aim of convergence would prove challenging for the IASB since the FASB had adopted a longer-term approach to the revision of its financial instruments standard (Camfferman and Zeff, 2015). Furthermore, the departure of the SEC Chairman Christopher Cox in November 2008 constituted another obstacle towards the full convergence of IFRS and U.S. GAAP since he had supported a roadmap to permit domestic firms to apply IFRS (Camfferman and Zeff, 2015).

As illuminated in this section, previous studies have shed light on several difficulties encountered by standard-setters during convergence projects such as the 'rules-based' vs 'principles-based' divide, the domination of U.S. interests, group effects, and the implications of economic and political contexts. Particularly in regards to the latter, it is believed that an ANT-inspired approach has a propensity to further explicate the relative success or failure of convergence initiatives whilst shedding new light on the role of economic theory within such processes.

4.3 Loan loss provisioning and the 2008 financial crisis

Previous literature highlights the contentious nature of standard-setting processes surrounding loan loss provisioning. The loan loss impairment model for financial assets is contained in IAS 39 – arguably the most controversial International Accounting Standard to have been released by the IASC, the predecessor organization to the IASB (Camfferman and Zeff, 2007; Zeff, 2012). In an examination of the development of the incurred loss model by the IASB, Camfferman (2015) reveals that although the matter of when to recognize loan impairments was fiercely debated by board members and constituents, no clear distinction was made at the time between 'incurred' and 'expected' loss models, and ultimately several key elements were inserted into the standard without having been subjected to public scrutiny. In addition to the time pressures it faced in submitting its standards to IOSCO in 1998 (Camfferman and Zeff, 2007; Zeff, 2012) and the European Union in time for the 2005 adoption of IFRS (Whittington, 2005), the IASB's decision to publish what is now referred to as an incurred loss approach to impairment was largely based on a desire not to significantly deviate from U.S. GAAP

(Camfferman, 2015). Indeed, from its inception it has been observed that the IASB's standard on financial instruments has been heavily influenced by the initiative to converge IFRS with the corresponding accounting standard in the U.S. (Walton, 2004). Accordingly, concerns raised in the U.S. over the potential for earnings management associated with an expected credit loss approach lent further credence to the incurred loss approach at the time, although this apprehension subsided during the 2008 financial crisis as unease over the supposed delay in the recognition of loan losses promoted by the model assumed precedence (Camfferman, 2015).

Within the realm of accounting standard-setting, the 2008 financial crisis led to an escalating amount of attention directed towards the financial reporting requirements for measuring certain financial instruments at fair value (Barth and Landsman, 2010; Laux and Leuz, 2009, 2010). However, as the preceding authors demonstrate, it may be argued that an equally contentious accounting issue emerging from the crisis relates to the impairment model for financial assets measured on an amortized cost basis. Academic research and other pronouncements made since the commencement of the crisis point to the alleged deficiencies of the financial reporting requirements for loan loss provisioning and their potential role in intensifying the economic strife. These criticisms relate to the supposed inability of the incurred loss model to provide timely information to the investing community (Laux and Leuz, 2009; Linsmeier, 2011) along with its procyclical effects on the lending behavior of banks (Beatty and Liao, 2011; Financial Stability Forum, 2009a; Lim, Lee, Kausar; and Walker, 2014). In reference to the former, this has been described as the "delayed and asymmetric recognition of losses" (Barth and Landsman, 2010, p. 415). This highlights a widely-held conviction at the time that the development of a collective and more forward-looking approach to impairment was crucial (see, for example, Financial Stability Forum, 2009a, 2009b; Financial Crisis Advisory Group, 2009; G20, 2009b).[10] For instance, the matter was specifically addressed at the G20 London Summit on 2 April 2009 as leaders agreed "*to call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards*" (G20, 2009b, p. 4). With the failure of a 2008 discussion paper in which the IASB and the FASB proposed a fair value model for all financial instruments (IASB, 2008b), the boards initiated projects to identify more forward-looking impairment methodologies.

[10] The report of the Financial Crisis Advisory Group recommended that accounting standard-setters "should explore alternatives to the incurred loss model for loan loss provisioning that use more forward-looking information" (Financial Crisis Advisory Group, 2009, p. 7).

Whilst studies have focused on the immediate reaction of the IASB to criticisms concerning the ill effects of fair value (André *et al*., 2009; Bengtsson, 2011), a scarcity of academic literature exists on the response of accounting standard-setters to the appeals to transform loan loss provisioning standards.[11] Ostensibly, the move towards an expected credit loss model appears to address a major concern raised in regards to the incurred loss approach to impairment. The proposed methodology is believed to be more forward-looking in that it constructs a procedure in which future credit losses may be recognized without the compulsory observance of a 'trigger event' as was the case under IAS 39 (IASB, 2014b).[12] Nevertheless, the proposed solutions to the deficiencies of incurred loss model introduce an array of practical difficulties that have been well-documented (see, for example, Deloitte, 2014; Ernst & Young, 2012; KPMG, 2015; PWC, 2014). Moreover, expected credit loss impairment models are believed to encompass comparatively higher levels of subjectivity relative to those based on incurred losses (EFRAG and FEE, 2009) and have been observed to be relatively more prone to income smoothing (Gebhardt and Novotny-Farkas, 2011). Hence, the potential impacts of loan loss provisioning standards on financial services organizations and the economy as whole, coupled with the aspirations of standard-setters in terms of fairly representing the economics of lending sets the stage for a standard-setting process fraught with complexity.

Despite the pressure exerted on the boards to achieve a common solution on impairment, shortly after the release of an S.E.C. report (SEC, 2012, p. 4) citing the lack of enthusiasm in regards to the usage of IFRS by domestic firms in the U.S. (Rosivach, 2012) the FASB opted to pursue an approach independently of the IASB (IAS Plus, 2012). This has also been attributed to the discrete objectives pursued by each board on the issue (Hashim, Li, and O'Hanlon, 2016). Subsequently, the negative effect on financial statement comparability that was expected to result from the failure of the convergence project led to calls for the boards to re-deliberate on the matter (Financial Stability Board, 2013; Pozen and Hamacher, 2013). Ultimately, however, the IASB and the FASB issued divergent financial asset impairment models in 2014 and 2016, respectively (IASB, 2014c; FASB, 2016). This paper aspires to add to the literature by further explicating the failure of the convergence project on loan loss provisioning whilst providing

[11] A notable exception includes the work of Hashim, Li, and O'Hanlon (2016).

[12] IAS 39 considers impairment losses pertaining to financial assets to be 'incurred' "if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated" (IASB, 2008a, p. 2045).

additional insights into the obstacles encountered along with the wider standardization movement.

5. Methods

Although concerns over the potential for income smoothing and the practical difficulties for preparers appear to have been considered in the formation of the incurred loss approach, the due process associated with the development of IAS 39 notably lacked extensiveness in comparison with the IASB's current procedures (Camfferman, 2015). It may be discerned that the IASB has carried out far more expansive constituent outreach activities in relation to IFRS 9 relative to IAS 39. According to the IASB, the development of IFRS 9 encompassed a broad level of constituent outreach activities.[13] This resonates with a recent shift in the manner in which the IASB aspires to acquire and preserve legitimacy. Along these lines, studies have pointed to the increasing emphasis placed on due process procedures in international accounting standard-setting (Botzem, 2014; Botzem and Dobusch, 2012; Pelger and Spieß, 2016; Richardson and Eberlein, 2011). Arguably, the extension of consultation activities coupled with the demand to produce a converged model constituted an inimitable challenge for the IASB because – unlike in the IAS 39 project – repudiating constituent views on the expected credit loss model would likely have elevated misgivings over the legitimacy of the organization.

The analysis commences in 2009 with the *Request for Information* released by the IASB to gauge the views of constituents in relation to the operational aspects of its initial version of the expected credit loss impairment model (IASB, 2009b).[14] Subsequently, the IASB published an *Exposure Draft* on *Financial Instruments: Amortised Cost and Impairment* (IASB, 2009a) prior to embarking on an effort to develop a converged financial asset impairment model with the FASB. The convergence project led to the publication of a Supplementary Document in 2011 (IASB, 2011a). Nevertheless, the FASB exited the convergence project in 2012 (FASB, 2012a) and the two boards pursued separate projects on the issue. Following the issuance of another

[13] "The IASB has received over a thousand comment letters from stakeholders and has published six Exposure Drafts, one Supplementary Document and a Discussion Paper during this process. The IASB has also conducted an extensive programme of outreach, including hundreds of meetings with users, preparers of financial statements and others" (IASB, 2014b, p. 4).

[14] The IASB defines a *Request for Information* as: "a formal consultation step that the IASB undertakes to receive feedback and information on a specific aspect of one of its projects. A Request for Information normally helps the IASB to prepare an Exposure Draft or finalise a Standard. A request for information is not a mandatory due process step." (IFRS Foundation, 2013, p. 43)

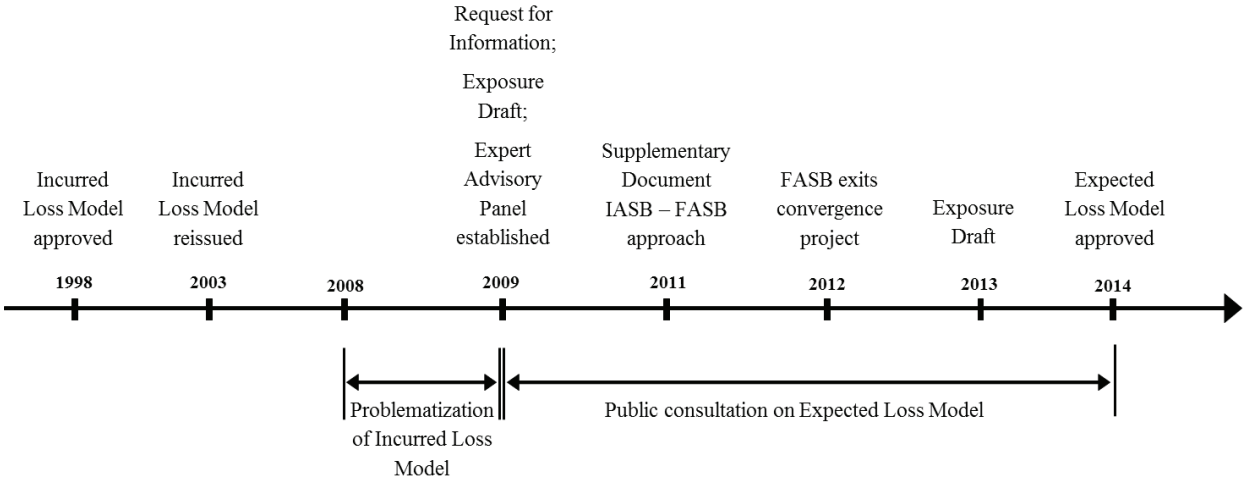
Exposure Draft on *Financial Instruments: Expected Credit Losses* (IASB, 2013a), the IASB released its expected credit loss model in 2014 as a component of IFRS 9 (IASB, 2014c). *Figure 1* provides a timeline of significant events while *Table 3* (appendix) presents a worked example which estimates the accounting treatment pertaining to the different incarnations of the IASB model.

To accomplish this task, a combination of document analysis and interview data is relied upon. The documents utilized in the analysis encompass relevant materials released by the IASB in relation to IFRS 9 Phase II. Although the focus of the paper is placed on the IASB and its constituents, for comparative purposes documentary data is drawn on concerning the related processes carried out by the FASB. *Table 2* (appendix) details the extensive list of documents utilized in the analysis. In addition, interviews with key actors in the European context supplement the analysis of documents. According to Patton (2015), although the triangulation of methods often produces dissimilar results, it potentially promotes the strengthening of insights into the empirical domain. Consequently, interviews are conducted not only to reinforce the researcher's scrutiny of publicly available information but also to further illuminate the activities surrounding the project. The interviewees represent a range of actors with significant experience in regards to IFRS 9 and accounting for financial instruments in general. These actors emanate from accounting standard-setting organizations, financial regulatory authorities, Big 4 accounting firms, accounting professional associations, and representatives from the banking, insurance, and information technology sectors. A total of 22 interviews have been conducted in relation to the study (see *Table 1*).

Table 1: Interview list

Number	Description	Date	Duration (minutes)
1	Stig Enevoldsen, EFRAG Board Member	28 March 2014	85
2	Stig Enevoldsen, EFRAG Board Member	23 November 2014	94
3	Accountant, Information technology sector	31 October 2014	55
4	Accountant, Banking industry representative group	19 November 2014	41
5a	Accountant, Banking industry representative group	19 November 2014	42
5b	Accountant, Banking industry representative group	19 November 2014	42
6	EFRAG TEG Member (former)	19 November 2014	76
7	Partner, Big Four accounting firm	24 November 2014	34
8	Partner, Big Four accounting firm	19 December 2014	42
9	IASB Staff	06 March 2015	23
10	IASB Staff	06 March 2015	41
11	IASB Staff	06 March 2015	54
12	Accountant, Banking industry representative group	09 July 2015	78
13	EFRAG TEG Member	14 July 2015	47
14	Accountant, Accounting professional organization	23 July 2015	50
15	Accountant, Banking industry representative group	06 August 2015	38
16	IASB Staff (former)	28 September 2015	75
17	Accountant, Financial services industry	07 March 2016	65
18	Partner, Big Four accounting firm	24 May 2016	49
19	Accountant, Insurance industry representative group	24 May 2016	54
20	Accountant, Financial services industry	25 May 2016	65
21	Accountant, Financial services industry	01 June 2016	38
22a	Accountant, Government agency	13 June 2016	43
22b	Accountant, Government agency	13 June 2016	43

Figure 1: Timeline of events



6. Prologue: A theoretically sound model in the microcosm; untenable in the macrocosm

6.1 The 2009 Request for Information

In response to calls from the G20, the Financial Stability Board and the Financial Crisis Advisory Group to investigate more forward-looking approaches to impairment, the IASB staff faced the task of transporting the multifaceted world of lending into a simplified formulation in the laboratory (Callon *et al.*, 2009). As result, a *Request for Information* was issued in June of 2009 on the viability of an expected credit loss model (IASB, 2009b). In problematizing the deficiencies associated with the incurred loss model, the document points to the lack of transparency resulting from its utilization. For example, "*if a loss has been incurred it is not always clear when the loss event took place,*" "*incurred losses lag probable losses, which creates an information deficiency,*" and "*the approach is internally inconsistent because expected losses are implicit in the initial measurement of the asset, but not taken into account in determining the effective interest rate used for subsequent measurement*" (IASB, 2009b, p. 2). Accordingly, the Expected Cash Flow approach put forth in the document eliminates the need for an observable loss event under IAS 39 by basing impairments on unfavorable changes in expected credit losses, which may be reversed in future periods (IASB, 2009b, p. 3). Thus, under the suggested approach initial estimates of credit losses are not to be recognized as losses and are included in the determination of the effective interest rate. This results in an approach in which a "single, integrated calculation would determine the carrying amount, interest revenue and impairment gains or losses recognised" (IASB, 2013a, p. 92).

A total of 89 comment letters were received in response to the *Request for Information*. The capability of the proposed model to recognize expected credit losses seemingly addresses the primary concern raised in regards to the existing approach because "*the expected loss model does not suffer from the information lags and recognition issues created by the thresholds within the incurred loss model*" (CFA Institute, 2009, p. 1). However, as may be discerned in the comment letters, the measurement techniques specified are expected to produce a wide-range of negative implications. In sum, "*a large majority of respondents agreed that the [Expected Cash Flow] approach is a significant operational challenge and would entail substantial costs and lead time to implement*" (IASB Staff Paper, 2009, p. 3). Constituents detailed significant operational challenges in applying the effective interest rate method and estimating lifetime cash

flows coinciding with a substantial increase in forecasting length (IASB Staff Paper, 2009, p. 7) along with expectations of "very significant" implementation costs (IASB Staff Paper, 2009, p. 9). Moreover, other themes identified in the constituent responses include whether the IASB should proceed with an expected credit loss model, whether a model based on expected credit losses involves an excessive degree of subjectivity, and the extent to which an expected credit loss model would be countercyclical (IASB Staff Paper, 2009).

Firstly, it has been observed that, out of the respondents who opined on whether the IASB should proceed with an expected credit loss approach, a majority expressed support for the fundamental premise of such an approach. These constituents stressed the importance of replacing the incurred loss model with a workable model that better portrays the "underlying economics" of lending portfolios (Deutsche Bank, 2009). For instance, UBS (2009) suggests that while a new model would be expensive, these additional costs may be justified if the quality of information provided is enhanced as a result. A further example is provided by The Committee of European Banking Supervisors (CEBS). Whilst CEBS recognizes the need for further impact studies to assess operational challenges, it stanchly supports the increasingly realistic approach specified by an expected credit loss model.

> CEBS would therefore welcome the implementation of an impairment model by the IASB that would allow for an earlier recognition of credit risk in an institution's financial accounts, thus better reflecting economic reality and, at the same time, reducing to some extent the cyclical nature of the financial reporting of credit risk (CEBS, 2009, p. 1).

Nevertheless, a significant amount of respondents suggested that the current incurred loss model was sufficient or could be modified in a satisfactory manner. Such respondents questioned the indispensability of the expected credit loss model while calling for an expanded public discussion on possible alterative models (ICAEW, 2009, p. 3). In addition, other constituents underscored that the level of transparency associated with an expected credit loss model may rest on the precision of its estimates. According to Hoffmann-La Roche (2009), the proposed expected credit loss model presumes that companies possess reliable historical data in regards to how loan losses relate to variations in the economy along with a "crystal ball" to assess their current position within the economic cycle. In turn, this may produce a situation in which the expected credit loss model results in a decrease in relevance and reliability (Barclays, 2009). Unsurprisingly, this leads to fears that an expected credit loss model may provide additional

opportunities for companies to smooth earnings along the economic cycle. For example, companies may opt for higher provisions in prosperous times that may be released during times of economic strife (Accounting Standards Council, 2009). Hence, KPMG notes that whilst the FCAG report supports a more forward-looking impairment methodology, the IASB must be mindful of the manner in which estimates are derived within such a model. *"If the Boards pursue an expected loss model, care must be taken to avoid fostering earnings management, which would decrease transparency*" (FCAG, 2009, quoted in KPMG, 2009). Along these lines, a view from the financial services industry suggests that the determination of amounts under an expected credit loss approach is of an intangible character.

> [Impairment in IAS 39] is a very tangible process. Now it is going to be complexly different. Now we can't sit down and calculate the thing unless we have rather intense risk measurement models in place (Interviewee 3).

While the IASB's 2009 request for information on the feasibility of an expected credit loss model contained no references to the desires expressed by the G20 and FSF in regards to the dampening of economic cycles, several respondents elected to provide insights regarding how the proposed model may impact upon procyclicality. Some respondents suggested that the model should be countercyclical. For example, UBS (2009, p. 2) postulates that "*the problem associated with "procyclicality" should be reduced to some extent.*" Conversely, a number of constituents disagreed by arguing that the expected credit loss model would likely increase procyclicality (see, for example, ICAEW, 2009; EY, 2009; Dutch Accounting Standards Board, 2009, HSBC, 2009). In addition to the concerns raised in regards to transparency and operational aspects, the dissenting views above are significant in that they contrast the proposed model with other possible approaches while casting doubt as to the ability of an expected credit loss model to coincide with the financial stability objectives set out by the G20 and the Financial Stability Forum. This suggests that whilst this model was largely considered to be a conceptually sound representation of the macrocosm, its development was carried out during a period of relatively secluded research (Callon *et al.*, 2009).

6.2 The 2009 Exposure Draft

In November of 2009, the IASB issued the exposure draft *Amortised Cost and Impairment* (IASB, 2009c).[15] This stage of development was not intended to result in a decisive outcome due to the expectation of future deliberations with FASB in regards to a converged model (IASB, 2009c). Nonetheless, taking into account the comments received to the June 2009 *Request for Information*, the exposure draft specifies a proposed expected credit loss model including 'practical expedients' aimed at facilitating the operational concerns expressed by preparers. Furthermore, the exposure draft states that in conjunction with the consultation process the IASB intends to form an Expert Advisory Panel (EAP) regarding the impairment of financial assets which will aid in the detection of additional practical expedients (IASB, 2009c). This expands the research collective by assigning an expert group to experiment with solutions to the operational issues associated with the expected credit loss approach (EAP, 2010). Overall, however, the exposure draft maintains many of the main characteristics of the expected credit loss model as outlined earlier in the year.

> In developing a model that depicts expected credit losses, the IASB observed that: (a) when an entity prices a financial instrument, part of the yield, the credit risk premium, compensates the entity for the initial expected credit losses. Thus, an entity will typically demand a higher yield for those instruments with higher expected credit losses. Consequently, no economic loss is suffered at initial recognition simply because a financial instrument has a lower credit quality at that time, because those expected credit losses are implicit in the initial pricing of the instrument. (b) an entity considers those credit losses that are expected at initial recognition when pricing the financial instrument." (IASB, 2013a, p. 91)

Thus, it is presumed that "expected losses are implicit in the initial measurement of the asset" (IASB, 2009b, 2). According to the IASB, this approach "faithfully represents the underlying economics included in the pricing of financial instruments and is consistent with amortised cost measurement in accordance with IFRSs" (IASB, 2011a, p. 41). Reflecting this relationship constitutes the central objective of the Exposure Draft.

[15] Out of the fifteen IASB board members, two (Robert P Garnett and James J Leisenring) did not vote in favor of the 2009 Exposure Draft (IASB, 2009c). The dissenting board members cited various reasons for their vote. These include the potential for earnings management, concerns over cost-benefit considerations and auditability, and that a 'fair value' approach would have better addressed the criticism of "too little, too late" leveled against the incurred loss model (IASB, 2009d, p. 23).

> The IASB's primary objective in the exposure draft Financial Instruments: Amortised Cost and Impairment was to reflect initial expected credit losses as part of determining the effective interest rate, as the IASB believed that this was more reflective of the economic substance of lending transactions. (IASB, 2011a, p. 6)

During the first half of 2010, public comments to the exposure draft were submitted by constituents in the form of 193 comment letters. While several respondents favored the general concept of a more forward-looking model based on expected credit losses on the basis of better reflecting the underlying economics, considerable doubt was expressed as to the possibility that the benefits provided by the model would exceed its costs (IASB Staff Paper, 2010). The operational challenges listed were still quite substantial, including, but not limited to, the increased subjectivity involved (Swiss Holdings, 2010) and difficulties in verification (KPMG, 2010). In this respect, constituent responses did not drastically differ from the comments received in the request for information. Indeed, in the brief period it had to react to this feedback, the IASB did not profoundly alter the primary characteristics of the model, and the modifications it did propose were generally unable to facilitate widespread acceptance.

> Whilst it is based on one view of the economic theory of loan origination and may, therefore, have some conceptual merit, its application is likely to be so complex that the resulting output will be difficult to understand and explain (ICAEW, 2010, p. 3).

This points to a widely-held view that the 'practical expedients' produced by the IASB did not satisfactorily address the significance of the operational concerns of constituents (EFRAG, 2010; EY, 2010; Grant Thornton, 2010; PWC, 2010). In this regard, many respondents pointed to the decoupling of interest revenue and expected credit loss calculations as a possible solution to the operational complexity of the approach (IASB Staff Paper, 2010, p. 5). Moreover, concerns regarding the effect of the model on procyclicality persisted (German Accounting Standards Board, 2010; Wells Fargo, 2010). This reflects a concern that "*the [Expected Loss] approach proposed in the [Exposure Draft] might result in an allowance account whose balance is not adequate at all times to cover the expected credit losses in a portfolio of financial assets measured at amortised cost*" (Basel Committee on Banking Supervision, 2010). Along these lines, a letter submitted by the European Commission (2010, p. 1) expressed support for an expected credit loss model in principle, however it emphasized that "*considerations of financial stability should be further strengthened, mitigating as much as possible the pro-cyclical nature of the current rules on loan loss provisioning.*" Overall, the comment letters reveal that the

research collective – now encompassing the EAP – has yet to substantially embark on the process of experimentation in *translation 2* surrounding the workability of the model. Although at this point it is apparent that the task ahead involves the seemingly unattainable integration of the IASB's economic objective with the various operational and regulatory matters of concern.

It may be discerned that at this point in the process the proposal was unworkable because in *translation 1* the IASB had not produced a solution that sufficiently considered the implications of the proposal with the outside world in *translation 3*. Largely informed by the presumption of an ideal-type loan pricing mechanism which precludes the recognition of credit losses at inception, it addresses an objective of 'faithfully representing' the underlying economics of lending to provide valuation-useful information. As a consequence, whilst it aims to mobilize an aspect of an ideal-type economic world in the standard-setting process, it involves interessement only at the hypothetical level of the general-purpose financial statement user. It is consequently deemed unworkable in terms of its response to the matter of "too little too late" which surfaced at the commencement of the crisis. Furthermore, the measurement framework put forth by the IASB in 2009 faced considerable opposition, particularly from preparers, over the operational concerns of the model. By requiring that cash flows be estimated for all loans, the board appears to dismiss concerns expressed by constituents regarding the potential difficulties and consequences that may result from an over-reliance on estimates of cash flows occurring far into the future (IASB, 2009c, p. 5). "*To estimate for each and every loan when the losses are expected to incur is completely impossible in practice*" (Interviewee 13); therefore, "*you could never implement it without a fundamental redevelopment of every financial institution's infrastructure*" (Interviewee 20). Nonetheless, with the ensuing inclusion of FASB and its constituents, the complexity of the initiative intensifies further commencing with the re-reduction of the macrocosm in *translation 1*.

7. Convergence efforts: The futility of interessement

In consideration of the IASB's publicized commitment to the convergence of financial asset impairment models (IASB, 2009c, 2009d), its initial reconstruction efforts in 2009 may be viewed as an exploratory process to form the basis for subsequent discussions with the FASB. These deliberations commenced in October of 2010 (IASB, 2010b) and led a proposal for a joint expected credit loss impairment model in the *Supplement to ED/2009/12 Financial Instruments:*

Amortised Cost and Impairment in January 2011 (IASB, 2011a). Whilst the joint project aims to satisfy the request of the G20 for a converged approach to impairment, from the perspective of the IASB it introduces a range of additional actors – and their associated matters of concern – which significantly modifies the actions involved in the process of interessement.

7.1 The initial FASB model

Analogous to the IASB's original model, the initial FASB approach to impairment was based on an expected cash flow approach (IASB, 2011a). However, these two initial approaches constitute drastically dissimilar reductions of the complex world of lending practice. Whereas the IASB model stresses the link between initial expected credit losses and the effective interest rate, the FASB approach underscores the relationship between the loss provision and the expected cash flows (IASB, 2011a). This resulted in the FASB model recognizing losses at inception that are based on initial expectations of cash shortfalls, an approach that differs from the IASB approach which allocates initial expected credit losses over the life of the asset (IASB, 2011a).

> The FASB's objective in its originally proposed approach was to ensure that the allowance balance was sufficient to cover all estimated credit losses for the remaining life of an instrument. (IASB, 2011a, p. 6)

The contrasting objectives of the two boards may be rationalized by their divergent standpoints on how to reflect the economics of lending. Whilst the FASB describes the IASB's objective as "conceptually appealing," it is not convinced regarding the alleged link between loan pricing and initial expected credit losses (IASB, 2011a, p. 55). In terms of the FASB's view, "*board members believe that the economics of lending are captured by their preferred approach as actual impairment losses do not occur ratably over time and often arise as discrete amounts early in the expected lives of many asset classes*" (IASB, 2011a, p. 55). Thus, the allocation of expected credit losses over time is incongruous with the FASB's understanding that "if an entity expects not to collect all amounts, a loss exists and should be recognized immediately" (IASB, 2011a, p. 7). As a result, the original FASB expected credit loss model would be expected to lead to higher initial provision balances and loss amounts in comparison with the preliminary IASB approach. Moreover, it may be discerned that the FASB's objective contains an added degree of concern for procyclical effects.

> The FASB proposed this approach because the FASB believed it resolved the concern with respect to the current guidance on impairment that reserves tend to be at their lowest level when they are most needed at the beginning of a downward-trending economic cycle (the 'too little, too late' concern) (IASB, 2011a, p. 6).

As a result, the FASB is of the conviction that the dispersion of initial expected credit losses over the life of the asset is not a suitable solution due to both the initial overstatement of assets and profit and the possible implications in regards to procyclicality. This contrasts with the IASB's objective to "*reflect the relationship between expected credit losses and the pricing of financial assets*" (IASB, 2011a, p. 36) which regards the recognition of losses at inception to be counter-intuitive due to the purported absence of an economic loss. Accordingly, the IASB has described such loss recognition patterns as "*unfaithfully representing the underlying economic phenomenon*" (IASB, 2009d, p. 10). In comment letters to the FASB's initial exposure draft, users largely agreed with the immediate recognition of expected credit losses, while preparers offered mixed views on the issue (IASB, 2011a, p. 39).[16]

7.2 Towards a converged IASB–FASB model

In consequence of the feedback it received in response to the exposure draft the IASB developed a revised approach to its expected cash flow model prior to the commencement of joint deliberations with the FASB. Taking into account the feedback received from constituents and the work of the EAP, the research collective produced a revised approach aimed at facilitating the operational aspects of the model while maintaining the IASB's economic-inspired project objective. For instance, the EAP identified a significant challenge in relation to the calculation of an effective interest rate that takes expected credit losses into account.

> Respondents to that exposure draft and the EAP told the IASB that this approach introduces operational complexity because accounting systems currently calculate effective interest rates whereas expected loss information is contained in credit risk systems. Currently, those systems are not integrated, so the original proposed integrated approach would be very costly and time-consuming for entities to implement (IASB, 2011a, p. 42).

[16] This reflects the overall views of FASB constituents in response to its 2010 Exposure Draft as expressed in a Feedback Summary. Additionally, the summary document depicts the opposition of auditors to the immediate recognition of expected credit losses. "They believe lenders are compensated for losses through the credit spread inherent in the pricing of the asset" (FASB, 2010a, p. 8).

Therefore, in the supplementary document, the IASB elected not to include expected credit losses in the determination of the effective interest rate and develop a separate mechanism for the allocation of credit losses. Along these lines, the EAP specified a distinction between the so-called 'good book' and 'bad book' loans. Based on this advice, the IASB formulated two main loan categories. For loans considered to be in the 'good' books, a time-proportional amount of expected credit losses is to be recognized, whereas full lifetime expected credit losses are to be recorded for loans deemed to be in the 'bad books' (IASB, 2011a). According to the IASB, this was conceived to lessen the operational challenges and costs associated with the model whilst not veering away from its original objective to reflect the underlying economics of lending practices (IASB, 2011a, p. 41).

> The IASB continued to support an impairment model that would reflect the link between the pricing of a financial asset and the underlying economic activity (ie lending), while providing operational relief for entities. Thus, with regard to the timing of recognition of expected credit losses, the IASB continued to support a method that would recognize credit losses over time for the 'good book'. (IASB, 2011a, p. 48)
>
> The IASB members supporting the impairment approach developed during the IASB's redeliberations believe it provides an approximation of the outcomes in the IASB's original exposure draft. (IASB, 2011a, p. 51)

However, the revised IASB model was not sufficient to gratify the FASB's concern regarding the inadequacy of allowance balances. As a result, the proposed model in the joint IASB–FASB supplementary document requires that credit losses on financial assets in the 'good books' be recorded at the higher of the time-proportional losses and the losses expected to occur in the foreseeable future. The 'foreseeable future' element of the proposed approach encompasses what is referred to by the boards as a 'floor' requirement. In this version of the model, "The floor is proposed to be the amount of credit losses expected to occur within the foreseeable future (required to be no less than twelve months after an entity's reporting date)" (IASB, 2011a, p. 16). Meanwhile, full lifetime expected credit losses are to be recognized on financial assets in the 'bad books' (IASB, 2011a, p. 18). As such, it has been proclaimed that the converged impairment model put forth in the Supplementary Document "*reflected the primary objectives of both boards*" (IASB, 2011a, p. 49).[17] In doing so, the boards aimed to generate

[17] While the inclusion of a 'floor' amount served as a bridge provisionally connecting the two disparate models, a minority of IASB board members expressed a preference for the time-proportional approach without the 'floor' (IASB, 2011a, p. 50).

interest in the joint approach by linking these two objectives within its reduction of global lending practice.

In response to the supplementary document, a total of 212 comment letters were received. A majority of the IASB's respondents to the Supplementary Document expressed that the proposed model was an improvement on the 2009 version and that the associated operational challenges have been significantly reduced (IASB Staff Paper, 2011, p. 5). In particular, IOSCO (2011) observes that the proposed model is a noble effort to combine the IASB's objective of aligning interest revenue with expected credit losses and the FASB's intent to promote an adequate balance in the allowance account. In a similar vein, ESMA (2011) appreciates the supplementary document's consideration for both the primary objective of the IASB and that of the FASB. However, constituents with an appreciation for the primacy of maintaining a sufficient level of provisions conveyed that the Supplementary Document does not go far enough in achieving this objective. For example, the Basel Committee on Banking Supervision views the IASB's technique of reflecting economic reality as insufficient in that "*this could be potentially misleading to investors, users, and other market participants, while also raising safety and soundness concerns for prudential supervisors*" (Basel Committee on Banking Supervision, 2011, p. 2). Similarly, the CFA Institute (2011, p. 3) "*cannot conclude that the model is decision-useful*" because "*we do not see any evidence that this model is a faithful representation of the emergence of credit losses*."

The matter of how expected credit losses would be recognized in the 'good books' was a particularly contentious issue (IASB Staff Paper, 2011). Specifically, the inclusion of the 'floor' is regarded as inappropriate by proponents of the IASB's objective of reflecting the underlying economics of lending. For example, Barclays (2011) does not concur with the addition of a foreseeable future floor "*which relates primarily to a prudential regulatory objective*" (see also Grant Thornton, 2011). Other respondents such as EFRAG (2011) stress the necessity to clarify the meaning of "foreseeable future" whilst recommending that this be established as a twelve-month horizon. Indeed, the principles-based notion of "foreseeable future" was generally regarded as inappropriate as currently envisaged in the Supplementary Document (Deloitte, 2011; EY, 2011; FEE, 2011; French Banking Federation, 2011; MAZARS, 2011; PWC, 2011). Nonetheless, general support was voiced for the decoupling of the effective interest rate and the

method of allocating expected credit losses which is expected to mitigate operational challenges (Deutsche Bank, 2011; EBA, 2011).

Overall, the consultation revealed "*strong geographic leanings*" in that a majority of non-U.S. respondents expressed a penchant for the time-proportional approach whilst most of the U.S. respondents favored the foreseeable future floor (IASB Staff Paper, 2011, p. 11). Proponents of the time-proportional approach tended to support the IASB's objective to depict the connection between loan pricing and initial expected credit losses as "*They believe that establishing an adequate allowance balance is a regulatory concern and that a 'day-one loss' is inconsistent with the economics of lending at market rates*" (IASB Staff Paper, 2011, p. 11). Conversely, respondents backing the foreseeable future floor had a tendency to concur with the FASB's objective of safeguarding the adequacy of provisions (IASB Staff Paper, 2011, p. 13).

7.3 The failure of convergence efforts

> We thought we had this with the G20, the financial crisis and this feeling that we need to come together and solve this. And then they dropped off. They think they have understood life better. So, that was something which really made the thought of convergence disappear. (Interviewee 16)

At the joint IASB–FASB meeting in May of 2011, the Boards decided to return to the microcosm to redevelop the proposal taking into consideration the feedback received on previous exposure drafts and the supplementary document (IASB, 2011b). As such, in June of 2011, the Boards put forth the so-called 'three-bucket' impairment model, with losses on assets in the first bucket to be measured based on a 12-month expected horizon, while losses on assets in buckets two and three to be determined based on lifetime expected credit losses (IASB, 2011c). The IASB and the FASB continued to discuss and develop the three-bucket model at joint meetings and in outreach activities for the remainder of 2011 and the first half of 2012. However, at the joint Board meeting of 18 July 2012, FASB disclosed that its "stakeholders consistently expressed significant concerns about the understandability, operability, and auditability of the three-bucket model" (FASB, 2012d, p. 5). Moreover, significant concerns were expressed by FASB constituents over the resemblance between the judgments required in distinguishing between measurement categories in the proposed approach and the judgments involved in determining credit losses under the discredited incurred loss approach (FASB, 2012c, p. 5). Subsequently, during the FASB board meeting of 1 August 2012, board members

were unanimous in voting to pursue a different methodology. "*As a result, the Board directed the staff to explore an alternative expected loss model that (a) does not utilize a dual-measurement approach and (b) reflects all credit risk in the portfolio*" (FASB, 2012a, p. 2). The proposed FASB–only model would include one measurement category that would result in a balance sheet that takes into account expected credit losses and an income statement which reflects the current changes in credit loss expectations (FASB, 2012b, p. 2).

The amalgamation of two incongruous depictions of the economic phenomenon developed separately by each board demonstrates the tension produced by the encounter between pure and impure realities (Callon et al., 2009, p. 86). For many of the advocates of representing the economic link between loan pricing and expected credit losses, the foreseeable future floor constitutes an undue departure from the underlying economics of lending whilst failing to adequately address other matters of concern within the external environment. From the perspective of the IASB and its constituents, although the decoupling of the effective interest rate from the determination of expected credit losses eased some of the operational concerns expressed in relation to the 2009 version of the model (FRC, 2011), the converged model proposed in the 2011 Supplementary Document was deemed largely unworkable for a number of reasons. Firstly, in the Supplementary Document the boards maintained dissimilar standpoints in terms of representing the economics of lending. While the IASB preserved its original objective to depict the relationship between loan pricing and initial expected credit losses, the FASB continued to focus on the adequacy of allowance balances in representing the remaining credit losses expected (IASB, 2011a). This resulted in an unacceptable compromise for constituents viewing the proposal as separate objectives "stitched together" (Wells Fargo, 2011, p. 1). From this perspective, the 'foreseeable future floor' may be regarded as a "buffer" to alleviate the strain of future financial crises (AICPA, 2011) which may be unacceptable for actors stressing the necessity of upholding the objective of transparent financial reporting (Barclays, 2011). On the other hand, from an aim predicated on the mitigation of procyclicality the joint model may be regarded as an unsatisfactory solution to the apparent inadequacy of loss recognition immediately preceding the 2008 financial crisis (U.S. Banking Industry, 2011).

In addition to the continuance of dissimilar objectives for the project, further insight into the collapse of the convergence project may be garnered by reference to the disparate interests of the actors entrenched within the process. According to interviewees, this is partly grounded in a

general discrepancy between the U.S. and European markets in terms of the manner in which capital is raised and the duration for which loans tend to be held.

> In the U.S. capital is mostly provided by markets, while in Europe it is mostly provided by banks. As a consequence of that, the average banking book maturity in Europe is 7-10 years while in the U.S. it's 3-4 years. With that maturity [in the U.S.], it may be better to take the lifetime expected losses up front instead of taking 12-months and then moving to bucket two (Interviewee 14).

> In Europe, the securitization market is not that well developed as in the U.S. and most banks actually hold their portfolios until maturity (Interviewee 13).

Consequently, according to another interviewee, this disparity in lending environments impacts financial service organizations in terms of the measurability of lifetime expected credit losses and profitability.

> You have to be aware that in Europe we grant credit for a long time, for example, twenty or thirty years. In the U.S. you just grant credit for about five years, for a shorter period where it is easier of course to calculate the lifetime expected loss because there are just five years. But it's very difficult to calculate a lifetime expected loss for the next thirty years. And then the second problem, it's not just the calculation, but also then when you have to calculate you have the P&L impact, and the P&L impact for thirty years is much bigger than just for five years and that was the reason why we refused the FASB model, and we think that the IASB model is a better way because in Stage 1 you only have 12-months expected loss to calculate (Interviewee 4).

In addition to the potential implications on profitability, the relationship between the financial reporting requirements for the impairment of financial assets and the level of bank reserves has been highlighted by several interviewees. This suggests that a disparity in the objectives of prudential regulators on the matter of provisioning represents another element explicating the failure of the convergence project.

> We have the feeling that some have more 'reserves' than others […] American banks would have to release reserves if they change over to the IASB model. But then the IASB is in the position of many companies not having those reserves and having longer-running financial instruments. The IASB tried to build 'golden bridges', more or less, by saying not a lifetime [on loans in the 'good' books]. But as the FASB insists on a lifetime loss in the first year, nothing will happen (Interviewee 6).

Thus, analogous to a "politically unacceptable" decrease in the level of reserves in the U.S. (Interviewee 15), the "bad consequences for Europe" (Interviewee 15) of a substantial increase

in the level of reserves has been pointed out. This indicates that the compromise reached between the IASB and the FASB would have been unworkable in both the U.S. and European contexts.

> The reserves in the U.S. are much higher compared to European banks, so that's the starting point of this. It's a very important starting point. The European banks in some countries, major banks, are not in a position to move to the FASB model because if they were obliged to do that, it would not be possible for them to take it. They might have to go into liquidation or into bankruptcy. Their reserves would have to increase so much that their equity would be nil or even negative (Interviewee 12).

This evidence points not only to two different objectives for the project but also to the existence of divergent realities. Although *translation 1* leads to the production of a simplified version of reality, it "assures a certain degree of realistic reduction" "if it is well negotiated" (Callon et al., 2009, p. 50). However, "attracting interest does not mean following existing interests but working on the list of actors and identities in order to redefine them so that the facts and apparatuses leaving the laboratory find their place and their connections in the new world" (Callon *et al.*, 2009, p. 103). Therefore, it may be discerned that the multiple objectives outlined in *translation 1* meant that little attention was directed towards generating a sense of indispensability surrounding the converged model by means of linking these objectives with other relevant matters of concern. As one interviewee points out, the failure of the joint model may be partly attributed to the manner in which the IASB and the FASB initiated their projects disjointedly, with the maintenance of distinct objectives throughout the process.

> With hindsight, if you wanted a single outcome you probably wouldn't have two separate teams developing a model (Interviewee 20).

8. Epilogue: The provisional ascent to the macrocosm

8.1 The 2013 Exposure Draft

At its December 2012 board meeting, the IASB decided that its financial asset impairment methodology should be re-exposed for comment (IASB, 2012). The exposure draft was

published in March of 2013 leading to the receipt of 187 comment letters (IASB, 2013a).[18] This adaptation incorporates many of the components inherent in the expected credit loss model included in the 2011 Supplementary Document. In addition, the 2013 version takes into account the revisions that resulted from outreach activities and the IASB–FASB discussions subsequent to the release of the Supplementary Document, along with the deliberations conducted by the IASB following the departure of FASB from the joint process. The IASB believes that its core principle of depicting the economics of lending is maintained in the 2013 edition of the model; however, it concedes that this would have been best reflected by the approach taken in its 2009 exposure draft.[19]

Building on the 'good book', 'bad book' approach contained in the Supplementary Document, the 2013 model reduces the macrocosm into three successive stages. Upon the purchase of a financial asset, it enters the first stage in which 12-month expected credit losses are recognized. The asset reaches Stage 2 if credit quality diminishes significantly and is considered to be less than 'investment grade' whereby lifetime expected credit losses are recorded. A similar treatment of lifetime expected credit losses is conducted in Stage 3, when credit losses are considered incurred. Interest revenue is calculated based on the asset's gross carrying amount in Stages 1 and 2; however, in Stage 3 interest revenue is determined after taking expected credit losses into account (IASB, 2013b, p. 7). Justification for not recognizing lifetime expected credit losses in Stage 1 is explained in reference to an economic theory regarding the association between the asset's initial purchase price and the initial expectations of credit losses. "*Recognising lifetime expected credit losses on all financial instruments does not faithfully represent the economic expected credit losses*" (IASB, 2013b, p. 13). Hence, the consequence of this would purportedly include "*the double-counting of expected credit losses that are priced into a financial asset*" and "*a loss of information about the changes in credit quality*" (IASB, 2013b, p. 13). This economic rationale also partly explicates the IASB's position that the 12-

[18] An alternative view to the 2013 Exposure Draft was provided by one IASB board member. Stephen Cooper considers that the recognition of losses on assets in Stage 1 is inconsistent with the conceptual framework as it "fails to faithfully represent the transaction" (IASB, 2013a, p. 142). Expressing a strong preference for the 2009 version of the model, the alternative standpoint casts doubt on the ability of the 2013 model to approximate the outcome of the 2009 approach (IASB, 2013a, p. 143).

[19] "In the IASB's view, expected credit losses are most faithfully represented by the proposals in the 2009 ED. Those proposals reflected the economic link between the pricing of financial assets and the expected credit losses at initial recognition, and required the immediate recognition of the effects of changes in expected credit losses subsequent to initial recognition." (IASB, 2013a, p. 10)

month expected credit loss horizon in Stage 1 is an "operational simplification" with "no conceptual justification" (IASB, 2013a, p. 104).

At the same time, the Basel Committee on Banking Supervision (2013) recommends that the Stage 1 horizon of 12-months be further extended which points to concerns over the adequacy of the revised model in addressing the matter of pro-cyclicality (Standard Chartered, 2013). Conversely, however, most respondents question the conceptual merit of recognizing expected credit losses on loans that have not increased in risk, reiterating the tendency of the IASB and several constituents to regard the version articulated in 2009 as an ideal-type model.

> Many respondents, including users of financial statements acknowledge that the model proposed in the IASB's 2009 Exposure Draft *Financial Instruments: Amortised Cost and Impairment* was conceptually more pure and therefore superior to the proposed model, but they also acknowledge that the operational complexities of that model would have resulted in the costs of implementation outweighing the benefits of the information provided. (IASB Staff Paper, 2013, p. 6)

Moreover, to address the operational anxieties of model outlined in the 2011 Supplementary Document, the 2013 Exposure Draft does not include the foreseeable future floor. As such, the determination of expected credit losses in Stage 1 requires only one calculation as opposed to the two required in the 'good book' category of the Supplementary Document. The elimination of the foreseeable future floor thus removes a significant operational concern along with the subjectivity involved in determining what constitutes 'foreseeable' in particular situations (IASB , 2013a, p. 89). Overall, there was a general sense at this point that the IASB had struck an appropriate balance in its 2013 Exposure Draft.

> The vast majority of respondents support the proposals in the [Exposure Draft] as an appropriate balance between faithful representation of credit losses on financial instruments, and the costs of producing that information. Most specified that they agree with the IASB that initial credit loss expectations are priced into assets when originated or purchased, and continue to support an approach that considers deterioration in credit quality in deciding the extent to which expected credit losses should be recognised. (IASB Staff Paper, 2013, p. 3)

> It's been a huge issue about whether impairment was coming too late, whether the current impairment loss model didn't capture the things that we've seen which stands clear when you look in the back mirror. So I think we have also accepted that you need to do something, and where they ended up now is probably not the best, perfect solution but it's also not so bad that we can see this as a good compromise (Interviewee 7).

Along these lines, the responses to the Exposure Draft revealed the considerable alliances formed with entities pointing its workability (ICAEW, 2013; IOSCO, 2013) and suggesting that it should be finalized subsequent to relatively minor revisions (EFRAG, 2013; ESMA, 2013).

8.2 Purported survivability in the big world

Finally, at the IASB's January 2014 board meeting, its re-deliberations were finalized regarding the "clarifications and enhancements" to its 2013 exposure draft (IASB, 2014a, p. 6). The impairment requirements were published in July of 2014 as part of *IFRS 9: Financial Instruments* (IASB, 2014c). To a large extent, the workability of the IASB's eventual expected credit loss model was achieved through the formation of the 12-month expected credit loss requirement for loans in Stage 1 of the model. From the perspective of the IASB, "*the recognition of 12-month expected credit losses is a pragmatic solution to achieve an appropriate balance between faithfully representing the underlying economics of a transaction and the cost of implementation*" (IASB, 2014d, p. 133). This resonates with the standpoint that this adaptation of the model represents a depiction of economic reality that does not significantly deviate from the ideal-type 2009 model. Additionally, in comparison with the version proposed in the Supplementary Document, the 2013 edition appears to address a major operational concern expressed through the removal of the 'foreseeable future floor' whilst confining expected credit loss measurements on 'good' loans to 12-months.

> We prefer the 12-month approach because at least it gives you some respite. The FASB model would make it complicated for everyone all the time. So we wouldn't agree with the FASB approach. (Interviewee 19)

The 12-month window in Stage 1 has also been observed to partially align with existing regulatory requirements. In doing so, the work of the research collective in *translation 2* has provisionally addressed a significant portion of the operational concerns of the model.

> All firms, big and small, have to calculate their regulatory capital on a 12-month expected loss basis. The regulatory measure of expected loss is not the same as the accounting measure of expected loss but at least they have the components in place (Interviewee 20).

Concurrently, the determination of impairment on financial assets in Stage 1 may be regarded as a form of conservatism to the extent that it recognizes losses on a more forward-looking basis

relative to the incurred loss model (Interviewee 20) which relates to an objective of increasing reserve balances through the creation of capital buffers (Interviewee 15). "*The politicians would like us to provision in due time before it's too late, that's the only way I can see it*" (Interviewee 17). In this sense, the revised model has also incorporated – to a certain extent – the interests of the G20 and the Financial Stability Board. Nonetheless, the IASB's idealized view on loan pricing serves to refute the FASB's objective of recognizing lifetime losses at inception and the Basel Committee's recommendation to lengthen the 12-month window in Stage 1 on the basis that this would result in a further departure from its reflection of the economics of lending. In this regard, some interviewees state that the comparatively short loss horizon in Stage 1 is acceptable despite the absence of theoretical foundation as "*it could cover for any imperfections*" (Interviewee 15) since "*the market is not perfect*" (Interviewee 22).

Moreover, drawing on Callon *et al.* (2009) the outcome of *translations 1, 2,* and *3* reveals the strategies enacted by standard-setting organizations to provisionally link its project objectives with the potentially diverse interests of the social milieu. By means of approximating the outcome of the ideal-type model, the IASB preserved a semblance of its long-standing objective to reflect an idealized form of loan pricing while incorporating other relevant matters of concern to a certain degree. As such, the IASB has endeavored to approximate the financial statement outcomes of the ideal-type model through the 12-month expected credit loss requirement.

> In both the [Supplementary Document] and the current proposals, the IASB has sought to approximate the outcome of the 2009 [Exposure Draft], in order to reflect the economic relationship between the pricing of financial instruments and credit loss expectations, while seeking to overcome the operational challenges of those proposals. (IASB, 2013a, p. 8)

> People are already calculating 12-month expected loss. Why don't you use that as the mechanism to defer some revenue? So you recognize a loss on every loan you issue but it's not the lifetime loss it's just the 12-month loss essentially based on stuff you're already doing now. There's no conceptual basis for it. It isn't actually a very good mimic for the effect you'd get from doing a proper [effective interest rate] calculation, but it was a compromise that people were willing to accept (Interviewee 21).

Not only has the theory been observed to influence the expected credit loss model produced by the IASB, a dissimilar mobilization of economics has been discerned to provide rationalization for other possible accountings. For instance, through its lack of reliance on reflecting the presumed relationship between loan pricing and initial expected credit losses, the eventual

model released by the FASB requires these amounts to be recognized immediately. This concurs with its view of the fallacious nature of the aforementioned relationship.

> Clearly, the borrower's creditworthiness is a key factor in pricing the asset. Nevertheless, given the multitude of factors that affect pricing, it is impractical (if not impossible) to reliably isolate and measure the portion of the credit spread that is actually intended to compensate the lender for undertaking the credit risk from the portion of the credit spread that results from these other factors (particularly given that credit losses are rarely expected to emerge in a linear fashion and, therefore, the portion of the credit spread that is actually compensating the lender for undertaking the credit risk may change over time). (FASB, 2012c, p. 138)

As a consequence of casting doubt on this relationship along with the linkage of its approach with actual lending practices, the FASB argues that its model – a balance sheet approach based on the present value of cash flows expected to be collected – best reflects the underlying economics of lending.[20]

> The more that you can throw some mud at an efficient market theory that says the Day 1 price is somehow sacrosanct, the more you can then start saying that well let's put lots of losses up front because things aren't very transparent or observable (Interviewee 18).

9. Discussion

The standardization of accounting has been viewed as "a process of formalizing and codifying norms in such a way as to predominantly reflect the needs and preferences of capital market actors" (Botzem, 2012, p. 19). Along these lines, previous research has pointed to the largely successful application of financial economic thought in accounting standards (Bougen and Young, 2012; Ravenscroft and Williams, 2009; Young, 2014) and conceptual frameworks (Erb and Pelger, 2015; Power, 2010; Pelger, 2016; Young, 2006). This resonates with standardization studies from sociology which associate standards with globalization movements (Timmermans and Epstein, 2010). While the 2008 financial crisis led to considerable pressure for the IASB and the FASB to produce a converged financial asset impairment model, this case demonstrates how the convergence effort failed resulting in separate solutions being rendered by the boards.

[20] According to FASB Chairman Russell G. Golden, "The new guidance aligns the accounting with the economics of lending by requiring banks and other lending institutions to immediately record the full amount of credit losses that are expected in their loan portfolios, providing investors with better information about those losses on a more timely basis" (FASB, 2016). In doing so, the FASB appears to have sided with the views of investors as opposed to preparer standpoints. "By a nearly 3-1 margin, investors and other users prefer a model that recognizes *all* expected credit losses (as opposed to maintaining a threshold that must be met before *all* expected credit losses are recognized or permitting recognition of only *some* expected credit losses)" (FASB, 2013, p. 3).

The heterogeneous and shifting nature of accounting (Hopwood, 1983) generates distinct challenges for the attainment of global accounting standards. This case illustrates that there are "both wider and more localized concerns calling upon practices such as accounting to create an ambiguous but nevertheless tethered conception of reality" (Hopwood, 1983, p. 302).

In contrast with the criticisms leveled at the consequences of fair value accounting during the crisis, critique of the incurred loss impairment model during this period placed a greater emphasis on deficiencies in the depiction of economic reality. On the surface, relative to the concerns over fair value, the IASB and the FASB were well-placed to deliver a converged approach given their agreement on valuation-usefulness as the sole objective of financial reporting. As portrayed in the joint IASB–FASB conceptual framework, the valuation-usefulness objective has been constructed from the perspective of "*the rational economic actor*" (Young, 2006, p. 592). However, whilst the IASB and the FASB have been successful in instilling this objective into the framework, the extent to which this rationale permeates accounting standards remains uncertain (Pelger, 2016). This case demonstrates that, in addition to considerations surrounding the objective of financial reporting in official pronouncements, individual standard-setting projects may be imbued with more specific aims. For instance, the calls from the G20 and the Financial Stability Forum for a more forward-looking financial asset impairment model were consistent with the hypothetical needs of the "*forward-looking individuals*" enshrined as the users of financial reporting information in the conceptual framework (Young, 2006, p. 595). However, whilst both boards adhered to the overall objective of constructing a model to promote the earlier recognition of credit losses, the objectives of the boards differed substantially at a lower level of abstraction. Although these specific objectives did not entirely determine the exact content of the eventual models, they infused the process with contrasting purposes which formed the basis for the ensuing transformations. Accordingly, the paper illustrates how different economic objectives acted in conjunction with dissimilarities in the operational and regulatory environments between the U.S. and Europe to produce a failed

convergence attempt along with the provisionally stabilized solutions subsequently reached by the IASB and the FASB.[21]

In terms of the IASB, its objective of reflecting the relationship between loan asset values and expected credit losses upon origination presumes that pricing mechanisms efficiently incorporate information in regards to the risk of default. It may be derived that this resonates with the realist standpoint towards the pricing of financial assets (Zuckerman, 2012) known as the Efficient Market Hypothesis (Fama, 1965). This coincides with the rising influence of financial economics in accounting standard-setting which has embraced a presumption of idealized markets in the valuation of assets (Power, 2010). In this sense, loan pricing is believed to reflect all available information including an estimate of the probability of nonpayment (Engelmann, 2014).

> In principle, default risk does not cause a divergence between the market and book values of a loan at the date of loan origination, since default risk is reflected in the contractual interest. (Beaver, Eger, Ryan, and Wolfson, 1989, p. 161).

This suggests that, in an ideal-type world, present values are affected "when interest rates and expected losses change" (Laux, 2012, p. 251). Therefore, according to this rationale the recognition of expected credit losses at the time of loan origination is regarded as 'double-counting.'[22] It may then be deduced that in accordance with the Efficient Market Hypothesis it is inappropriate to reduce the value of a loan asset at inception as doing so counters the validity of the theory. While this hypothesis on loan pricing is largely taken-for-granted by the IASB, the FASB has been observed to cast doubt on this purported association.

Correspondingly, while a substantial number of studies provide support for the Efficient Market Hypothesis, its validity has been challenged on several occasions (see, for example, Basu, 1977;

[21] Although it is beyond the scope of this paper, the divergence of the two boards on the relationship between loan pricing and expected credit losses may be explained with reference to the finance literature. For example, Barclay and Smith (1995) observe that firms with larger information asymmetries are more prone to issue short-term debt. This implies that in short-term lending situations, lenders may face greater challenges in incorporating expected credit losses into the pricing of financial assets. Following this line of reasoning, it may be expected that the determination of initial expected credit losses in relation to the loans of U.S. firms – with their comparatively shorter loan durations – would prove more challenging in comparison with their European counterparts.

[22] Beaver *et al*. (1989, p. 161) further elaborate as follows: "*Consider a "new" loan, where the contractual interest rate reflects the default risk. The present value of the expected payments from the loan discounted at the "risky" rate is equal to the principal amount of the loan. To discount the loan further by establishing an allowance for expected loan losses would be to "double count" the default risk and would result in a book value (net of the allowance) below the present value of the loan*."

Fox, 2011; Dempsey, 2013; Mouck, 1998). Nonetheless, the theory has demonstrated a remarkable degree of resilience irrespective of the deficiencies in the hypothesis highlighted during the 2008 financial crisis (Ball, 2009; Gendron and Smith-Lacroix, 2015; McNicholas and Windsor, 2011; Moosa, 2013). This case illuminates the capacity of actors to effectively challenge the assumptions enshrined with financial economic theory. Ironically, it was the FASB who departed from the Efficient Market Hypothesis on loan pricing while the IASB and the preponderance of its constituents upheld an objective to reflect the economic link between pricing and expected credit losses. While the objective maintained by the IASB is congruent with the Efficient Market Hypothesis at the time a loan is originated, it does not propose to continuously reflect the relationship between asset values and market interest rates over the life of the asset, as a fair value approach would have endeavored towards (Barth and Landsman, 2010, p. 416).[23] Nevertheless, this limits the acceptability of the recognition of losses at inception for the IASB; while the absence of adherence to this hypothesis widens the possibilities for the FASB in terms of immediate loss recognition.

Drawing on Mackenzie (2006, p. 12), it may be argued that financial economics potentially acts as an 'engine' which transforms accounting standard-setting processes as opposed to merely serving as a mechanical tool in the endeavor to depict economic reality. Former S.E.C. chief accountant Jim Kroeker describes the reform of the financial asset impairment methodology as an "*effort to find an approach that will satisfy accounting purists and regulators without tying bankers in knots*" (Jones, 2011).[24] Hence, unequivocally proving the significance of an economic theory on the outcome of a process is challenging because of the plethora of alternate facets that could have influenced an outcome (Mackenzie, 2006, p. 18). However, rather than attempting to isolate the effect of economics on accounting standards, this paper emphasizes the linkages constructed between economics and other elements during the standard-setting process. Whilst the Efficient Market Hypothesis on loan pricing did not survive in its idealized form, it was translated into the standard through the associations forged between accounting standard-

[23] Barth and Landsman (2010) point to the superiority of a fair value model over the 2009 version of the expected credit loss approach of the IASB because the latter does not recognize changes in the discount rate in the determination of present value. In this sense, whether the 2009 IASB model is an ideal-type model is contestable. However, it is considered an idealized model from the perspective of the IASB and from a significant portion of interviewees discussing the matter.

[24] The literature has depicted how simplified theories influence accounting practices through a process of linking together supposedly disparate fields. For instance, Miller and O'Leary (2007, p. 729) discern that "Capital budgeting, science and the economy had to be linked, and this was achieved by performing and connecting up a whole series of calculations based on Moore's Law, technology roadmaps, and cost-of-ownership models."

setting organizations and other actors. It nevertheless played a significant role in specifying a direction for the IASB's approach while concurrently restricting the possible alternatives at the disposal of the board.

10. Conclusion

This paper aspires to contribute to the literature on accounting standard-setting in three main respects. First, the case under study adds to the literature on the role played by economics in specific accounting standard-setting projects. It may be discerned that the influence of economics on the IASB's expected credit loss model was not a self-fulfilling prophecy but required significant investments resulting in numerous adaptations. In 2009, the IASB's belief in the embeddedness of initial expected credit losses in the pricing of loans rationalized its prohibition of the recognition of expected credit losses at inception. Although this version of the model was widely regarded as a theoretically sound representation of the economics of lending, it was ubiquitously rejected by constituents on the grounds of operational and prudential concerns. The IASB approach contrasted with the objective of the FASB which de-emphasized the strength of the economic relationship between loan pricing and credit loss expectations in favor of an aim of ensuring the adequacy of allowance balances in mitigating the economic cyclicality of lending. This resonates with the standpoint of Callon (2007, p. 323) on the important distinction between a self-fulfilling prophecy and performativity in regards to economic theory: "*it is not the formula itself that can cause that world, a socio-technical agencement, to exist. Other forces are involved, other interests*."

Hence, any epistemic commitment of accounting standard-setters to the domain of financial economics (Barker and Schulte, 2015; Durocher and Gendron, 2014; Power, 2010) may be regarded as a matter of identity-building (Erb and Pelger, 2015) as opposed to a self-fulfilling prophecy. The identity of the IASB as a promoter of valuation-useful information provided an important starting point from which it could embark on the project to better reflect the underlying economics of lending as opposed to countering procyclicality. However, the two boards consistently maintained different objectives throughout the process irrespective of the existence of the joint conceptual framework. In terms of the IASB, its objective to reflect the economic link between pricing and expected credit losses persevered despite significant changes in the composition of the board which consisted of a decline in board members with "strong

technical backgrounds" (Camfferman and Zeff, 2015, p. 608). Interestingly, the FASB did not adopt a similar economic rationality despite its reputedly strong alignment with the realm of financial economics (Pelger, 2016; Ravenscroft and Williams, 2009). Nevertheless, this case demonstrates that the application of economic theories of valuation may constitute vital framing devices in negotiations on proposed accounting standards across time and space. Whilst research pointing to the financialization of accounting standards has observed the influence of financial economic thought in driving standard-setting processes, few studies have discerned that the abstract nature of financial economics may lead to dissimilar mobilizations in the standard-setting arena. Furthermore, previous studies have pointed to instances in which financial economic theory has essentially driven standard-setting and conceptual framework projects. Conversely, this paper argues that the pervasiveness of financial economic thought in accounting standards is restrained not only on ideological grounds, but on a number of other facets brought forth during the process of translation. This suggests that the extent to which economic theory performs accounting standards is an important empirical question for research on accounting standard-setting.

This case shows that during the process of translation, linkages between economic theory, bank regulation and implementation concerns transformed the ideal-type expected credit loss model originally proposed by the IASB. Nonetheless, the IASB's explicitly stated objective of depicting the embeddedness of expected credit losses in the pricing of loans was maintained throughout the process and significantly impacted the formulation of the ensuing model. Moreover, it may be discerned that widespread concerns over the excessive costs of implementing idealized models in accounting standards inspired by financial economics do not necessarily result in reverting to a historical cost approach. Ultimately, economic theory was linked with operational and prudential regulatory matters of concern resulting in a unique configuration. In terms of the IASB, this was accomplished through a series of experiments in which it endeavored to maintain its economic objective by approximating the financial statement impact of the ideal-type formulation during the process of translation. Thus, economics set the premises for the standard and played a significant role in the outcome despite its inability to survive in its idealized form. This demonstrates that whilst standard-setters may draw on economic theory in their endeavors of "getting the accounting right" (Young, 1994), the application of financial economics may transform as a result of associations with the external environment.

Second, the paper highlights some of the practical difficulties involved in the realization of global financial reporting standards. As stated by one interviewee: "*[IFRS 9] is more than just an accounting standard"* (Interviewee 20). Whilst the IASB and the FASB both received a similar mandate to develop a more forward-looking approach to impairment, it may be discerned that the tentative compromise reached by the two boards during the convergence initiative was considered largely unworkable by both sets of constituents. Thus, in addition to the purported reasonability of its depiction of the underlying economics of lending, the workability of the eventual IASB model is generally attributable to the capacity of its constituents to endure it and its alignment with a prudential initiative to (moderately) increase bank reserve balances. In contrast, the FASB adopted an alternative conceptual view coinciding with an objective to escalate the comparatively high level of reserves already present in the financial system in which its constituents are situated. Essentially, the convergence of expected credit loss impairment methodology would have required a translation of wills "*in such a way that none of them can desire anything else any longer*" (Callon and Latour, 1981, p. 296). Whilst a relatively widespread acceptance of IFRS 9 has been observed in the latter stages of its development, the convergence initiative exhibited a formidable divergence of wills necessitating significant additional investments with no assurance of reconciliation. Thus, we concur with Timmermans and Epstein (2010, p. 84) in that "*standards and standardization undergird diverse social, cultural, political, and economic endeavors*." This suggests that there are limits to global standardization movements that rely predominantly on gratifying capital market requirements while failing to generate the requisite linkages with the heterogeneous environment. Moreover, the deployment of multiple standard-setting organizations upholding distinct project objectives generates considerable challenges because of the greater intricacies involved in stabilizing associations. In terms of the realization of global financial reporting standards, future research on individual convergence projects may attempt to explicate relative success or failure on the basis of how standard-setters link rational economic theories with other pertinent considerations across different jurisdictional environments.

Furthermore, the paper directs attention to important differences between the making of accounting standards in a largely secluded environment versus a more collective approach to standard-setting. In reducing the complexities of the big world to the microcosm of the standard-setting organization, it has been demonstrated that placing a primary reliance on the conceptual

framework – namely, the objective and qualitative characteristics of financial reporting – provided an insufficient basis from which to ascend back to the macrocosm. Hence, the paper points to the importance of translating the valuation-usefulness program of financial reporting into specific accounting standard-setting networks. It has been observed that this "research in the wild" (Callon *et al.*, 2009, p. 86) engrossed a relatively wide range of actors in forging the linkages between abstract economic theory and the accounting domain. This suggests that in contentious situations accounting standard-setters – operating not solely within the confines of their laboratories – essentially aim to produce standards that will *"be able to survive and live in this world"* (Callon *et al.*, 2009, p. 48) albeit on a temporary basis. In this sense, accounting standard-setting may be viewed as a process of experimentation comprising of the simultaneous reduction, measurement, and management of the macrocosm.

Lastly, the IASB's creation of a Transition Resource Group in relation to these new impairment requirements illustrates that the practical implications of the model are expected to be significant (IASB, 2014f, 2014g). Future research may analyze the effects generated by the expected credit loss impairment methodology upon implementation in the financial services industry along with its related implications on the external audit practices employed by accounting firms. Along these lines, studies may explore how "the burden of reliability" is distributed in relation to this "ambiguous calculation" grounded on future events (Huikku, Mouritsen, and Silvola, 2016, p. 12). Moreover, the deployment of an expected credit loss approach to loan loss provisioning creates opportunities to investigate the consequences of an enhanced interaction between the financial reporting function and the practices of risk management.

Appendix

Table 2: List of Documents Utilized in the Analysis

Year	Title	Board	Reference
2009	IASB Update. Board Decisions on International Financial Reporting Standards. June 2009.	IASB	IASB (2009a)
	Request for Information ('Expected Loss Model') Impairment of Financial Assets: Expected Cash Flow Approach	IASB	IASB (2009b)
	Comment Letters (Request for Information)	IASB	IASB website
	Comment Letter Summary (Request for Information)	IASB	IASB Staff Paper (2009)
	Financial Instruments: Amortised Cost and Impairment. Exposure Draft ED/2009/12	IASB	IASB (2009c)
	Financial Instruments: Amortised Cost and Impairment. Basis for Conclusions – Exposure Draft ED/2009/12.	IASB	IASB (2009d)
2010	Feedback Summary – Credit Impairment and Interest Income Recognition	FASB	FASB (2010a)
	Comment Letters (2009 Exposure Draft)	IASB	IASB website
	IASB Update. From the International Accounting Standards Board. October 2010.	IASB	IASB (2010)
	Amortised Cost and Impairment. Summary of all EAP meetings.	EAP	EAP (2010)
	Comment Letter Summary (Exposure Draft ED/2013/3)	IASB	IASB Staff Paper (2010)
2011	Supplement to ED/2009/12. Financial Instruments: Amortised Cost and Impairment	IASB/FASB	IASB (2011a)
	Comment Letters (Supplement to Exposure Draft ED/2009/12)	IASB	IASB website
	Comment letter summary (Supplement to Exposure Draft ED/2009/12)	IASB	IASB Staff Paper (2011)
	IASB Update. From the International Accounting Standards Board. May 2011.	IASB	IASB (2011b)
	IASB Update. From the International Accounting Standards Board. June 2011.	IASB	IASB (2011c)
	Summary of Outreach for Supplementary Document on Impairment	IASB/FASB	IASB (2011d)
2012	August 1, 2012 FASB Board Meeting—Accounting for Financial Instruments: Impairment	FASB	FASB (2012a)
	August 22, 2012 FASB Board Meeting—Accounting for Financial Instruments: Impairment	FASB	FASB (2012b)
	Exposure Draft. Financial Instruments—Credit Losses	FASB	FASB (2012c)
	July 18, 2012 FASB Board Meeting—Accounting for Financial Instruments: Impairment	FASB	FASB (2012d)
	IASB Update. From the International Accounting Standards Board. December 2012.	IASB	IASB (2012)
2013	Feedback Summary. Proposed Accounting Standards Update, Financial Instruments—Credit Losses.	FASB	FASB (2013)
	Financial Instruments: Expected Credit Losses. Exposure Draft ED/2013/3.	IASB	IASB (2013a)
	Exposure Draft. Snapshot: Financial Instruments: Expected Credit Losses.	IASB	IASB (2013b)
	Comment Letters (Exposure Draft ED/2013/3)	IASB	IASB website
	Comment Letter Summary (Exposure Draft ED/2013/3)	IASB	IASB Staff Paper (2013)
2014	IASB Update. From the International Accounting Standards Board. January 2014.	IASB	IASB (2014a)
	IFRS 9 Financial Instruments. Project Summary.	IASB	IASB (2014b)
	IASB completes reform of financial instruments accounting. Press Release.	IASB	IASB (2014c)
	Basis for Conclusions on IFRS 9 Financial Instruments	IASB	IASB (2014d)
2016	FASB Issues New Guidance on Accounting for Credit Losses	FASB	FASB (2016)

Table 3: Illustrative Example – Expected Credit Loss Models Proposed by the IASB

EUR 6,000,000	Nominal amount of loan	
1	Number of loans issued	
2%	Coupon interest rate	
0.99%	Effective interest rate (internal rate of return)	
3	Number of periods (payments in arrears)	

Expected cash flows (amounts unchanged in future periods):

Year	Contractual cash flow	Expected cash flow %	Expected cash flow
	(A)	(B)	(C = A x B)
0	-6,000,000		-6,000,000
1	120,000	100%	120,000
2	120,000	100%	120,000
3	6,120,000	97%	5,936,400

2009 IASB Exposure Draft: Impairment loss = Present value of negative changes in expected credit losses

Year	Opening balance	Interest revenue	Cash flow	Change in asset balance	Closing balance	*Impairment loss*	Profit
	(A)	(B = A x 0.99%)	(C)	(D = B - C)	(E = A + D)	(F)	(G = B - F)
1	6,000,000	59,402	120,000	-60,598	5,939,402	*0*	59,402
2	5,939,402	58,802	120,000	-61,198	5,878,204	*0*	58,802
3	5,878,204	58,196	5,936,400	-5,878,204	0	*0*	58,196

2011 Supplementary Document: 'Good book' impairment allowance (straight-line) = *Higher* of time-proportional amount and floor

Year	Expected credit losses over remaining life	Age (in years)	Life (in years)	Time-proportional amount	Foreseeable future (in years)	Floor	Allowance balance	*Impairment loss*
	(A)	(B)	(C)	(D = A x B / C)	(E)	(F)	(G)	(H)
1	183,600	1	3	61,200	2	183,600	183,600	*183,600*
2	183,600	2	3	122,400	1	183,600	183,600	*0*
3	183,600	3	3	183,600	0	183,600	183,600	*0*
3							0	

Year	Opening balance	Interest revenue	Cash Flow	Change in asset balance	Closing balance	Profit
	(I)	(J = I x 2%)	(K)	(L = J - K)	(M = I + L)	(N = J - H)
1	6,000,000	120,000	120,000	0	6,000,000	-63,600
2	6,000,000	120,000	120,000	0	6,000,000	120,000
3	6,000,000	120,000	5,936,400	-5,816,400	183,600	120,000
3				-183,600	0	

2013 IASB Exposure Draft: 'Stage 1' impairment loss = Expected credit losses over remaining life x Probability of default in the next 12-months

Year	Expected credit losses over remaining life	Probability of default in the next 12-months	*Impairment loss*	Allowance balance
	(A)	(B)	(C)	(D)
1	183,600	5%	*9,180*	9,180
2	183,600	90%	*156,060*	165,240
3	183,600		*18,360*	183,600
3				0

Year	Opening balance	Interest revenue	Cash flow	Change in asset balance	Closing balance	Profit
	(E)	(F = E x 2%)	(G)	(H = F - G)	(I = E + H)	(J = F - C)
1	6,000,000	120,000	120,000	0	6,000,000	110,820
2	6,000,000	120,000	120,000	0	6,000,000	-36,060
3	6,000,000	120,000	5,936,400	-5,816,400	183,600	101,640
3				-183,600	0	

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Solidifying financial accounting texts:
The EU endorsement of IFRS 9

Richard Pucci and Thomas Riise Johansen

Abstract

Building on the work of Young (2014), this paper investigates the modern endeavor to demarcate 'facts' and 'values' in the construction of financial accounting texts. Through an analysis of public documents, board meetings and interview data, the paper examines the assembly of accounting texts by EFRAG in its endorsement project on IFRS 9 *Financial Instruments*. Drawing on the notions of purification (Latour, 1993), fact-building and positive and negative modalities (Latour, 1987), a detailed analysis is provided on the making of accounting texts in regards to the assessment of a controversial standard. In addition to highlighting the production of facts and their deployment within accounting documents as positive or negative modalities (Young, 2003), a dynamic process of transformation is elucidated. With a primary focus on the interaction between IFRS 9 and IFRS 4 *Insurance Contracts*, EFRAG board members recurrently swayed the directionality of the endorsement advice by means of altering modalities. This was achieved through a process of fact-building along with the de-purification of statements deemed as unsubstantiated. This underscores the active role of the practices of purification in the solidification of financial accounting texts which has been observed to produce outcomes not solely predicated upon the influence of ideology.

Keywords EFRAG, Endorsement, IFRS 9, Purification, Fact-building, Modalities

1. Introduction

By illustrating the 'technical' functions of independence, objectivity, and due process procedures in forming the boundaries that demarcate high-quality accounting standards from the biased, subjective, and self-interested realm of the 'political', Young (2014) contributes to our understanding of the role of purification in the formulation of accounting standards. Nonetheless, although purification is reliant upon fact-building endeavors, the manner in which facts are constructed and represented within financial accounting texts is relatively unexplored in the literature. A notable exception is the work of Young (2003) which demonstrates how the inclusion of facts within positive modalities provides justification for the actions of accounting standard-setters; while negative modalities serve to justify inaction. This paper builds on Young's work by investigating the strategies involved in the construction and transformation of facts by diverse actors during the process of solidifying financial accounting texts in the making. Hence, the paper aims to shed light on the following question: *how are financial accounting texts concerning proposed accounting standards solidified?*

It is believed that the work of the European Financial Reporting Advisory Group (EFRAG) is particularly well-suited to explore this issue. While EFRAG is not a standard-setter, it engages with the International Accounting Standards Board (IASB) to provide a European view on proposed financial reporting standards and IFRS implementation issues (EFRAG, 2014e). In this sense, it is situated within an EU mechanism designed to play an active role in the financial reporting landscape (Camfferman and Zeff, 2015, chapter 4). Although the activities of EFRAG are wide-ranging (EFRAG, 2014e, p. 2), this paper focuses on the input it provides within the EU endorsement process for new IFRS which encompasses a responsibility to evaluate whether standards are "*conducive to the European public good*" (EU, 2002, article 3). This criterion has been interpreted as involving "*a political decision of how to weight the different costs and benefits of different parties*" (Bischof and Daske, 2016, p. 154). Nevertheless, the importance of "*robust evidence*" in substantiating effects analyses (EFRAG and ASB, 2012, p. 5) points to EFRAG's aspiration to base its opinions on scientific pursuits (EFRAG, 2014e, p. 1). Moreover, it is believed that the requirement for its board members to act "*in the European public interest… irrespective of the fact that they represent particular private or national interests*" (EFRAG, 2014a, p. 4) signifies a potential source of tension. Arguably, this constitutes a

fascinating setting for our exploration into the manner in which proposed accounting standards are gauged and represented within texts.

The case selected to investigate this issue is the EU initiative to consider the endorsement of IFRS 9 *Financial Instruments*. Published by the IASB in July of 2014, IFRS 9 may be regarded as the principle component of the response of the IASB to the 2008 financial crisis (Hoogervorst, 2014). Whilst the long-standing work to replace the previous international accounting standard on financial instruments, IAS 39, gained momentum with the advent of the crisis (IASB, 2014b), this research centers on the initiative to formally endorse the use of this new standard within the confines of the EU. As such, it analyzes the activities of EFRAG and the Accounting Regulatory Committee (ARC) tasked with advising the European Commission on the endorsement of IFRS 9 (European Commission, 2016). Subsequent to the receipt of a request for endorsement advice from the EC in December of 2014, EFRAG formally launched its project on IFRS 9 which led to the provision of endorsement advice to the European Commission in September of 2015. However, in contrast with the vast majority of projects in which EFRAG has recommended endorsement (Baudot and Walton, 2013) it issued 'qualified' endorsement advice on IFRS 9 which was subject to ongoing developments at the IASB (EFRAG, 2015).

The endorsement is IFRS 9 is believed to be an intriguing case in which to explore how controversial financial accounting texts are solidified. The expansive consultation activities surrounding its development (IASB, 2014c) suggest that IFRS 9 is not merely a 'technical' accounting standard. The reporting of financial instruments has historically been considered the most challenging and divisive project encountered by the IASB's predecessor organization the International Accounting Standards Committee (IASC) (Camfferman and Zeff, 2015, chapter 6). This contentiousness carried forward to the IASB as it sought to reform IAS 39 in the face of political pressure that invigorated those in disapproval of the fair value movement (Whittington, 2015). Accordingly, it may be discerned that the reform of financial instruments accounting attracted a disproportionate amount of attention from actors not traditionally situated within the standard-setting domain. For instance, the Financial Stability Board and the G20 have been observed to influence these developments along with the Financial Crisis Advisory Group established for the purpose of advising the IASB on its response to the crisis (IASB, 2014a). In addition to the rather diverse list of actors credited with shaping its construction, it is believed

that IFRS 9 will generate relatively significant implications. In this sense, it may be regarded as "more than just an accounting standard" in terms of its interaction with credit risk management practices and prudential regulation on capital requirements (KPMG, 2015, p. 3).

Considering the controversy over fair value accounting during the 2008 financial crisis (Bengtsson, 2011; Laux and Leuz, 2009), it is astonishing that the main point of contention surrounding the endorsement of IFRS 9 in the EU related to the non-alignment of its mandatory effective date with that of the future standard on *Insurance Contracts*. Ostensibly a minor issue of timing affecting a single sector of the European economy, the matter of insurance generated wide swings in the directionality of EFRAG's overall endorsement advice concluding in an unprecedented 'qualified' endorsement opinion. In comparison, the topic of fair value accounting did not rise to the level of threatening to unravel the overall recommendation of EFRAG on IFRS 9. Although the manner in which assets are to be assigned to measurement categories was a significant matter of concern for the revision of the financial instruments standard, the introduction of the 'fair value through profit or loss' category and the continued availability of the IAS 39 hedging carve-out appeared to lessen trepidations over the disproportionate application of 'fair value through profit or loss.' Nevertheless, this case demonstrates how various disagreements – including those pertaining to the effects of fair value – are represented in the endorsement advice in a lively and unstable process in which actors endeavor to separate fact from fiction.

To assist in answering our research question, the paper draws on Actor-Network Theory (ANT); in particular Bruno Latour's notion of purification (1993) along with his work on fact-writing (1987, chapter 1). According to Latour (1993), the practices of purification represent the incessant modern aspiration to separate facts and values into distinct categories. In the realm of accounting standard-setting, Young (2014) relates this practice to the efforts of standard-setters to partition the 'technical' elements – often corresponding to a central objective of depicting economic reality – from the impure 'political' elements which attempt to pollute the process with other intentions. Purification is an active process that is believed to stimulate accounting change by facilitating the advancement of certain positions (Skærbæk and Christensen, 2015). This highlights the potential importance of obtaining an understanding of how facts pertaining to accounting standards are generated and represented within accounting texts. To inform our analysis in this regard, we make use of Latour's (1987) work on fact-building and modalities to

discern how, at times, facts are deployed to induce particular actions while, at other times, facts are called into question and subsequently transformed. We also draw on Latour's (1987) outline of various strategies in regards to "[w]riting texts that withstand the assaults of a hostile environment" (p. 45).

In advising the EC on whether or not to endorse IFRS 9, EFRAG constructed two separate letters; namely, its endorsement advice on IFRS 9 and a follow-up letter on the matter of insurance. In assembling the various versions of the texts, it has been observed that much of the work of EFRAG was largely consistent with the modern endeavor to separate 'facts' and 'values'. Accordingly, this paper closely follows the construction of these documents by tracing the manner in which facts are built, represented within modalities and, at times, transformed. Although fact-building efforts were crucial in contributing to the solidification of contentious statements within the texts, it has been observed that board members were often successful in converting positive modalities into negative ones by calling the level of substantiation surrounding a fact into question. This contributes to our understanding of the fragility of facts and positive modalities within financial accounting texts during the construction process. Furthermore, the paper affords a nuanced view of how individuals and groups alter the trajectory of financial accounting texts in an evidence-informed process. As such, the paper illuminates the productive effects of the practices of purification in terms of their capacity to forge alliances across the ideological spectrum, leading to the provisional fortification of the texts by enclosing more allies within them. This suggests that the micro-politics of accounting standards may be heavily influenced by diverse attempts aimed at the demarcation of 'facts' and 'values'.

The remainder of the paper is structured as follows. First, the purification and micro-politics of accounting standards are outlined, encompassing a review of the relevant literature and the theoretical framework adopted in the paper. Next, the EU endorsement process for IFRS is delineated followed by a description of the methods employed by the study. Subsequently, EFRAG's construction of endorsement advice on IFRS 9 and a follow-up letter to the EC is examined. Lastly, the discussion and conclusion section summarizes the key findings of the paper.

2. The purification of accounting standards

Although one of the fundamental traits of ANT is that the tendency to view 'facts' and 'values' as separate and distinct domains must be eschewed (Callon, 1986; Latour, 1987), attempts to purify programs or objects by partitioning them into 'facts' and 'values' play a potentially active role in society. In the work of purification, efforts are expended to demarcate 'nonhumans/nature/facts' from 'humans/culture/values' (Latour, 1993) in an endeavor to depoliticize objects or processes (Skærbæk, 2009, p. 973). Here, "the modernist tries to purify objects by assigning them solely to one side or the other of this artificial divide, denying the existence of anything lying in the middle" (Harman, 2009, p. 31). In this sense, because of the role often played by fact-building endeavors in enrolling other actors by "funneling interests" (Christensen and Skærbæk, 2010, p. 527), purification may be viewed as an indispensable component of the process of translation (Latour, 1993).

> "To put it most simply, translation is about (dirty) politics – i.e. entities with their subjective values – whereas purification is about (apparently pure) science producing facts with reason and without politics or with minimum politics" (Christensen and Skærbæk, 2010, p. 527).

Thus, "Without [purification], the work of translation would be slowed down, limited, or even ruled out" (Latour, 1993, p. 11). This underscores the importance of obtaining a firm grasp on how facts are constructed, how they impact decisions, and how they sway the actions of others (Christensen and Skærbæk, 2010, p. 525). As such, the literature has depicted the active role of endeavors to establish boundaries between what is considered to be pure or impure. For instance, Christensen and Skærbæk (2010) examine how consultants employ practices of purification to contribute to the temporary stabilization of accounting systems. Therefore, purification may be viewed as a practice utilized to facilitate the dispute resolution process and consequently may contribute to the contentment of certain actors. Along these lines, audit reports have been observed to purify financial statements by largely removing feelings of discomfort regarding them (Pentland, 1993). Concurrently, however, such efforts may aid in the purification of wider initiatives of the firm whereby it may be implicated in the generation of repercussions (Skærbæk, 2009). Thus, not only do the practices of purification help to progress programs towards acceptance, the conversion of subjective values into objective facts may even be utilized in the allocation of blame to individuals or groups (Skærbæk and Christensen, 2015). Taken as a whole, purification may be viewed as an active process in that it temporarily affects

the actions of others which illuminates a pivotal link between these fact-building efforts and the work of translation (Andon et al., 2007; Jupe and Funnell, 2015; Tryggestad, 2005) .

This paper explores how the practices of purification have been employed in the IFRS 9 endorsement project in the EU. Following Latour (1993), it may be anticipated that actors involved in the endorsement process may endeavor to purify information pertaining to IFRS 9 by demarcating 'facts' from 'values' throughout the process of evaluation. In the domain of accounting standards, it has been argued that the construction of the financial statement user preoccupied with the perusal of information for investment and credit decisions contributes to a narrow focus in which other ends may be ignored (Young, 2006) by fact-builders; thereby facilitating the means by which to delineate the pure and the impure in standard-setting projects. Young (2014) mobilizes this conception in an examination of the successful undertaking of the Financial Accounting Standards Board (FASB) to separate 'technical' from 'political' arguments in the process of purifying the need to improve accounting standards on employee stock options. However, despite achievements such as this, the following statement by former IASB Chairman Sir David Tweedie illustrates that the efforts to purify accounting standards in this manner have been far from decisive:

> "Keenly aware that the market needs assurance and not compromise on ill-considered solutions, the IASB and standard-setters should, and will, proceed with what we believe is right. Too often in the past threats and political interference have sought to stop standard-setters from implementing their conclusions made after a deliberative process." (Tweedie, 2003, p. 722-723)

As the preceding sentence epitomizes, irrespective of the long-standing attempts to characterize accounting as removed from politics which date back to at least the 1930s (Miller and O'Leary, 1990), it may be discerned that "*in practice the world is irredeemably messy*" (Law, 2009b, p. 5). Hence, this paper argues that whilst the 'technical' and 'political' aspects of accounting standard-setting are well-understood in isolation, our comprehension of how these seemingly distinct ontological zones interact in practice is relatively underdeveloped.[1] On one hand, the aspiration of standard-setting organizations to promote the provision of neutral information –

[1] It may be argued that the stream of research known as 'lobbying studies' has engaged with both the technical and political aspects of standard-setting (see, for example, Reuter and Messner, 2015; Sutton, 1984). The theoretical presumption of rationality in these studies offers a potentially insightful mechanism to predict the behavior of individuals in the standard-setting process. However, such a view is at odds with the ANT tenet of an untidy world despite the arduous efforts of modernists to purify it (Latour, 1993).

uninhibited by political influence – to users for the purpose of facilitating economic decision-making is well-documented (see, for example, Herz, 2003; Tweedie, 2008). This has been described by Power (2010, p. 198) as constitutive of "a new 'technical' professional identity for accounting standard-setters" which has been heavily swayed by the domain of financial economics. The active role of this rationality in financial reporting may be observed in decisions regarding fair value accounting (Walton, 2006; Whittington, 2015) and conceptual frameworks (Erb and Pelger, 2015; Pelger, 2016). For instance, in explicating the inclusion of 'faithful representation' in the joint IASB–FASB conceptual framework, Erb and Pelger (2015) point to the importance attributed to the usage of language in promoting a collective understanding of the often 'misinterpreted' notion of 'reliability'. Despite these endeavors, drawing on Latour (1993) it may be expected that the modern efforts to purify the sphere of accounting standards face significant and innumerable roadblocks.

Accordingly, research has called into question the capacity of standard-setters to fully operationalize this 'technical' agenda inspired by an objective of valuation-usefulness. These studies point to the role of accounting standards in constructing reality (Hines, 1988), their potential to be determined by self-interested corporate lobbying (Watts and Zimmerman, 1978), and their linkages with the environments in which they are situated (Burchell et al., 1985). In consideration of the efforts exerted by standard-setting organizations to delimit the technical characteristics of an issue from those driven by politics (Young, 2014), this paper aspires to bridge the gap between the 'technical' and 'political' aspects of accounting standard-setting by closely examining their intricate connections. This explicates the significant role of a multitude of different fact-building endeavors in assessing the potential implications of proposed accounting standards and their capacity to influence the outcomes of standard-setting and endorsement projects. Consequently, the paper attempts to shed light on the interaction between an assortment of purification practices and the manner in which they progress, or fail to advance, proposed accounting standards towards a state of provisional stabilization.

3. The micro-politics of accounting standards

In addition to highlighting the capability of stakeholders within the external environment to determine accounting standards (see, for example, Watts and Zimmerman, 1978), research has

shed light on how differences in the characteristics of standard-setters may influence the outcome of standard-setting processes. Along these lines, a stark contrast between the 'Anglo-American' approach followed by the IASC and the 'traditional' perspective taken towards standard-setting in Continental Europe was recognized as an impending challenge towards the adoption of international accounting standards in the EU (Flower, 1997). While the high-level classifications such as 'Anglo-American', 'Continental European' and 'Anglo-Saxon' are often difficult to ascertain (Alexander and Archer, 2000; d'Arcy, 2004), this distinction has been utilized to explicate the ensuing dispute over the adoption of IAS 39 in Europe (Walton, 2004). In a more recent case, the "socialization" of board members with a U.S. background has been discerned to promote negative connotations towards an objective of stewardship in financial reporting whereas the opposite has been found for board members from the U.K. (Pelger, 2016). Accordingly, efforts to explain the role of standard-setters in standard-setting have placed an increasing emphasis on individual characteristics. These studies have illuminated that accounting standard-setting organizations are not constitutive of a homogeneous, uniform actor.

Although the capacity of individual board members to shape standard-setting decisions has been detailed in the literature (Jiang et al., 2015) there remains considerable doubt as to the motivations behind these influences and the means by which standard-setters attempt to mobilize them. As opposed to grouping standard-setters in accordance with their national backgrounds, it has been posited that the previous work experience attained by standard-setters generally affects their voting behavior. For instance, Allen and Ramanna (2013) reveal that standard-setters who have been previously employed in the financial services industry are more likely to support proposals favoring 'relevance' as opposed to 'reliability'. Coupled with the revelation that the IASB and EFRAG maintain a significantly higher proportion of ties with the financial services industry relative to other sectors (Perry and Nölke, 2006), this has led to the imputation that the standard-setting process has been ideologically captured by special-interest groups (Ramanna, 2015). Alternatively, rather than attempting to pinpoint an underlying cause for the actions of individual standard-setters, field studies in financial reporting have explicated successful strategies employed by standard-setters by closely following the standard-setting process. In this regard, the influence of "internal lobbying" in standard-setting projects, encompassing of a variety of factors including the native language of standard-setters and "group effects", has been observed to affect outcomes (Morley, 2016). Moreover, Erb and

Pelger (2015) illuminate the power of individual technical staff and board members to transform accounting concepts – irrespective of the predominant views of constituents.

Overall, while the studies described in this sub-section elucidate the potentially active role of individuals in the micro-politics of standard-setting, they largely focus on the dominance of specific groups in promoting a valuation-usefulness objective centering on fair value measurement. Arguably, the endorsement of IFRS 9 in the EU differs in that the 'fair value group' – in this case the proponents of issuing an 'unqualified' endorsement recommendation – did not consistently dominate board discussions, although they exerted a significant level of influence on the decisions of the board. Meanwhile, the advocates of the provision of 'qualified' advice have also been observed to exercise a substantial degree of persuasion over the process. Hence, the voting behavior of EFRAG board members along the numerous decision points within this protracted endorsement process is discerned to be malleable in nature. This is attributable to both the complexity of the financial instruments project and to the impact of fact-building endeavors which were mobilized by board members in attempt to produce irrefutable arguments to support their positions. Thus, this paper postulates that, particularly in controversial settings, the potentially significant role of individuals in the domain of financial reporting is complemented by fact-building endeavors which encompass both the substantiation and weakening of arguments within accounting texts.

3.1 The role of fact-building and modalities in writing accounting texts

To assist in our exploration of the practices of purification utilized in the construction of financial accounting texts, we draw on the work of Latour (1987, chapter 1) on fact-writing. In discussing the various effects produced by the treatment of factual statements during controversies, Latour (1987, p. 22) highlights the important differences instigated by the manner in which facts are embedded within sentences. For example, Latour draws attention to the following three statements.

(1) New Soviet missiles aimed against Minutemen silos are accurate to 100 metres.
(2) Since [new Soviet missiles aimed against Minutemen silos are accurate to 100 metres] this means that Minutemen are not safe any more, and this is the main reason why the MX weapon system is necessary.
(3) Advocates of the MX in the Pentagon cleverly leak information contending that [new Soviet missiles aimed against Minutemen silos are accurate to 100 metres].

Since Statement 1 is listed as a fact, it may be utilized in an attempt to lead readers downstream towards the justification of an action. If the phrase in Statement 1 is firmly established and taken-for-granted – which Latour (1987, p. 131) refers to as a "black box" – the procurement of the MX system in accordance of Statement 2 appears entirely plausible. Latour (1987, p. 23) designates this as a "positive modality" because it aims to solidify a statement of fact by directing readers away from its processes of construction and towards the necessity of other actions. In contrast, the "negative modality" presented in Statement 3 guides readers upstream towards the fact-building efforts associated with Statement 1 by attempting to weaken its authenticity. Accordingly, a conviction in the validity of Statement 3 may open up the black box of Statement 1 by adding fuel to the controversy. Thus, Latour (1987, p. 29) argues that the factualness of an assertion is established by the manner in which it is subsequently treated by other users. Within the accounting literature, Young (2003, p. 632) explicates how the FASB inserts its understanding of "*reality, usefulness, consistency and practicality*" into positive and negative modalities to justify the approaches it favors and to discredit alternative possibilities. As such, the deployment of negative modalities towards actions not taken serves to close down controversies.

Latour (1987) posits an important relationship between the 'technicalities' included in a text and the level of controversy characterized by a debate. As the degree of contention increases, it is postulated that additional resources are brought into the discussion which continually necessitate further investments in order to sustain the dispute. This occurs to the extent that people embroiled within controversies are willing to meander upstream in attempt to solidify or weaken statements of fact. One approach to accomplishing such a feat is to refer to the works of influential or abundant sources – referred to as the "argument from authority" (Latour, 1987, p. 31). According to Latour (1987, p. 33), criticizing a text not only entails a denunciation of the author's writing – it also potentially involves the weakening of references and footnotes within it. In this sense, while the fortification of a text may be provisionally achieved through the enrolment of external entities, users may still not be persuaded by many of the claims within it (Latour, 1987, p. 43).

To facilitate the temporary cessation of disagreements, Latour (1987, p. 45) describes several mechanisms of "*Writing texts that withstand the assaults of a hostile environment*." In cases where a discussion is so contentious that "*each word fences off a possible fatal blow*" an

influential tactic is to "*present the very thing you want the readers to believe in the text*" instead of referring readers to other texts (Latour, 1987, p. 46). This has the propensity to fortify the author's text by illustrating important matters in figures including an explanation regarding how it was derived. Moreover, in the process of "staging and framing" (Latour, 1987, p. 52-56), authors endeavor to influence the reaction of readers by including a mixture of positive and negative modalities within the text. Depending on the circumstances, certain black boxes remain sealed but "*When the author is on dangerous ground, understatement proliferates*" (Latour, 1987, p. 55). Thus, in a process Latour (1987, p. 57) refers to as "captation" the authors of a text aim restrain the possible reactions that may be formed by readers of a text. A provisional end to the controversy may then be reached when dissenters are faced with facts "*so unanimously accepted that in order to go on doubting he or she will be left alone*" (Latour, 1987, p. 59). Accordingly, this paper contributes to the extant literature by further explicating the manner in which facts are developed and injected within modalities in the construction of texts pertaining to the EU endorsement project on IFRS 9.

4. The 'modernization' of financial reporting in the EU

Although the EU had historically regarded international accounting standards as competition for its accounting directives, the increasing importance of comparability in global capital markets led to a growing acceptance in Europe of the standards issued by the IASC throughout the 1990s (Camfferman and Zeff, 2007). This supported the view of the EC that the application of an analogous set of accounting standards for listed firms was indispensable to help eradicate the obstacles of trading in international markets (European Commission, 2000); a perspective that was also in line with that of the International Organization of Securities Commissions (IOSCO) (Camfferman and Zeff, 2007). Shortly after the turn of the millennium, the EC announced its intention to compel the use of international accounting standards for publicly listed EU companies by the year 2005 (European Commission, 2000) which it considered to be consistent with its objective of "*modernising financial reporting*" (European Commission, 2001b, p. 2). As such, on the 26th of June of 2001, the EC issued a press release hailing the formation of EFRAG and the ARC as part of an endorsement mechanism it envisaged to confer legal status to international accounting standards in the EU (European Commission, 2001a). While EFRAG was expected to deliver "*high-level technical expertise*" emanating from the private sector, the

ARC was, and still is, composed of representatives from member state governments and was formulated to "*operate at the political level under established EU rules*" (European Commission, 2001a, p. 1). The EC has described this arrangement as "*a two-tier structure – consisting of a technical level and a political level*" (European Commission, 2000, p. 2).

The requirement for individual IFRS standards to be endorsed prior to adoption within the boundaries of the EU has been considered in a number of ways within the literature. First, while the mandated use of IFRS reflects a shift towards facilitating the functioning of global financial markets (Haller, 2002), the endorsement procedures may be viewed as the mechanism in which the EU aspires to retain a certain degree of control over accounting regulation (Chiapello and Medjad, 2009). Although EFRAG is a private body, its formation was inspired by the EC (Zeff, 2002). Accordingly, it was developed to help solidify EU influence on the IASB (Perry and Nölke, 2006) and, arguably, in an attempt to safeguard against the power of the FASB to exert excessive influence over the IASB (Alexander, 2006). Consequently, the entities associated with the EU endorsement procedures may also be viewed as a portion of a network in which the IASB is embedded (Perry and Nölke, 2006). For instance, the importance of the relationship between the IASB and EFRAG was referred to in a version of the IASB Constitution (Street, 2006). Nevertheless, the endorsement procedure has been described as relatively burdensome as it introduces delays in application along with the possibility of 'political' intervention into the standard-setting process (Zeff and Nobes, 2010).

The endorsement criteria include conformity to a "true and fair view," a public good criterion and a requirement to meet certain qualitative characteristics which facilitate the decisions of financial statement users (EU, 2002). These criteria are outlined in *Table 1* while *Table 2* details the steps involved in the EU endorsement process for new accounting standards issued by the IASB. Most jurisdictions make use of an endorsement mechanism for IFRS in some form. However, in several countries – for example, South Africa and Switzerland – IFRS is "automatically authoritative" (IFRS Foundation, 2015, p. 143). While it is often difficult to discern the impact of the proactive work that occurs prior to the commencement of formal endorsement procedures, it may be discerned that the installment of voting procedures in relation to new standards has tended not to result in significant overall variations in IFRS (IFRS Foundation, 2015, p. 27). For example, in the two countries utilizing a ballot system for endorsement, Canada has yet to modify IFRS (IFRS Foundation, 2016a) while "Australia has

not modified IFRS as applied by for-profit companies" (IFRS Foundation, 2015, p. 37).[2] In contrast, although it may be argued that the extent of alterations to IFRS in the EU is inflated (ICAEW, 2015), the active role of the EU endorsement mechanism on IFRS has been observed on a number of occasions (Camfferman and Zeff, 2015, chapter 15). Thus, the threat of non-endorsement by the EU – "by far the most important adopter of IFRSs" – may be regarded as a device to sway the IASB (Camfferman and Zeff, 2015, chapter 15, p. 543) potentially generating implications on other jurisdictions (Zeff, 2008). This suggests that the EU endorsement mechanism has the propensity to weild a relatively significant degree of influence over the IASB.

Table 1

Endorsement Criteria
Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:
• be consistent with the "true and fair" view set out in the EU's Accounting Directive
• be favourable to the public good in Europe
• meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

(European Commission, 2014a, p. 31)

Table 2

Endorsement process of IFRSs in the EU
The endorsement procedure for new standards, and interpretations of and amendments to existing standards, involves a number of steps:
1. on request from Commission officials, the European Financial Reporting Advisory Group (EFRAG) examines potential impact and advises on endorsement;
2. following receipt of this advice, the Commission decides on endorsement for the EU;
3. if the Commission decides to endorse, officials prepare a draft implementing measure;
4. this is submitted to the Accounting Regulatory Committee (ARC), composed of representatives from relevant Member State authorities, for its opinion;
5. if the ARC's opinion is positive, the Commission submits a draft implementing measure to the Council and the European Parliament for a three-month scrutiny period; and
6. finally, the Commission adopts an endorsing regulation, which is published in the Official Journal of the European Union.

(European Commission, 2016)

In light of these mechanisms, there was initially a belief on the part of EFRAG that the standards issued by the IASB would largely be recommended for endorsement without alteration (Baudot and Walton, 2013). While for the most part this expectation initially came to fruition as EFRAG recommended that the entire set of IAS be endorsed in June of 2002 (EFRAG, 2002; Howieson and Langfield–Smith, 2003; Powell, 2003), a minority of cases would serve as a reminder of the power of the endorsement mechanism to shape IFRS. For instance, in the case of the endorsement of IFRS 8 *Operating Segments*, although EFRAG and the ARC favored endorsement, the EC initiated an effect analysis of the standard before it was

[2] The influence of non-EU countries under the umbrella of IFRS has been recognized in the literature. For example, Sir David Tweedie details the implications on IFRS 9 brought on by considerations regarding corporate "cross-holdings" in Japan (Street, 2014, p. 313). Meanwhile, Camfferman and Zeff (2015, chapter 10, p. 254) highlight the compromise reached between the IASB and Australia and New Zealand during the process of IFRS adoption.

eventually endorsed by the European Parliament (Crawford et al., 2014). Moreover, the IASB withdrew *IFRIC 3 Emission Rights* subsequent to the negative endorsement recommendation provided by EFRAG (Bebbington and Larrinaga-Gonzalez, 2008; EFRAG, 2005; IASB, 2005; MacKenzie, 2009; Moore, 2011; Nobes, 2006). Most notably, however, controversy surrounding fair value accounting – in particular hedge accounting requirements – resulted in EFRAG being unable to provide advice on IAS 39 as the number of dissenting opinions nearly resulted in negative endorsement advice (Camfferman and Zeff, 2015; Walton, 2004). This points to the influence of segments of the European banking and insurance sectors who derived support from politicians such as then French President Jacques Chirac (Walton, 2004; Whittington, 2005) which led to the infamous IAS 39 hedging carve-out ratified by the ARC (Baudot and Walton, 2013; Camfferman and Zeff, 2015). Additionally, the fair value option for liabilities was carved-out of IAS 39 largely due to its incongruence with EU law (Bischof and Daske, 2016) along with concerns expressed by the European Central Bank (Camfferman and Zeff, 2015, chapter 6).

The process of endorsing new IFRS standards in the EU illustrates that an additional layer of analysis has been deemed necessary for the EU countries. EFRAG is central to this process in which a potentially broad range of effects is considered in forming the basis of its endorsement advice – particularly in light of its recent restructuring. Inspired by the 2013 Maystadt Report which identified several drawbacks associated with the configuration of EFRAG, the organization was compelled to enter into a period of reform which included the replacement of its supervisory board with an empowered high-level board and a technical expert group – EFRAG TEG – to advise the board on technical matters. Among the other concerns stipulated in the report, the reorganization attempts to address "*the fact that the role of EFRAG is limited to technical analysis and that it does not fully assess the economic impact or the contribution of the standards to the public interest is not considered satisfactory*" (Maystadt, 2013, p. 11). Although EFRAG had made assessments on the European public good of IFRS (Palea, 2015) it allegedly lacked the resources necessary to conduct extensive effect analyses and its understanding was that the ARC held responsibility for evaluating the implications associated with this criterion (Maystadt, 2013). With the advent of the reform, the mandate of EFRAG is widened as it now assumes a more formal responsibility for the assessment of the public good criterion in addition to the other 'technical' criteria (EFRAG, 2016a). Hence, to the extent that an organization should be principally responsible for only those effects that are consistent with

its primary objective (EFRAG and ASB, 2011), this expands the range of effects to be considered within the purview of EFRAG. These assessments at EFRAG include field tests – which mainly consist of structured data collection in relation to preparers – and questionnaires. The focus on effects analyses at EFRAG has been criticized by Schipper (2010) on the basis that the IASB and EFRAG may be carrying-out the same task. Nonetheless, the evaluation of the European public good criterion by EFRAG may be regarded as beyond the scope of effects analysis at the IASB (Bischof and Daske, 2016).[3] Along these lines, the European Commission has pushed for further emphasis on effects analysis at the IASB (IFRS Foundation, 2016b) while calling on EFRAG "to develop its capacities with respect to the analysis of the effects of standards including macro-economic effects" (European Commission, 2015, p. 12). In conjunction with these recent developments is the purported shift towards more "evidence-informed" decisions in regards to accounting standards (Teixeira, 2014).

> The EFRAG Board does not rely solely on its broad representativeness, it adopts well-informed positions. The EFRAG Board is taking all its decisions after having considered the advice of the EFRAG TEG and the results of EFRAG's due process. It also hears from the Accounting Regulatory Committee and makes all assessments deemed relevant from a macro-economic perspective. (EFRAG, 2016b)

Arguably, the combination of an increased emphasis on the analysis of a wider range of effects from a European public good perspective and an evidence-informed approach to decision making provides a potentially fruitful environment for our study of accounting documents in the making. Moreover, extant research on the endorsement of IFRS has not examined in sufficient details the manner in which texts are composed and the strategies by which they are transformed. Thus, it is believed that examinations of the drafting of endorsement advice by EFRAG may significantly contribute to our knowledge of how financial accounting texts are constructed.

5. Data

This section details the sources of data analyzed pertaining to the IFRS 9 endorsement process in the EU. The study primarily relies on three different research methods consisting of the scrutiny of publicly available documents, meeting observations, and semi-structured interviews.

[3] According to the European Commission (2015, p. 8), *"To date, the IASB has provided limited analysis of the effects of its standards, focussing on the quality of the information provided to users of financial statements."*

The documents examined in the study emanate from the relevant consultations originating at the EC, EFRAG, the ARC, and the European Parliament (EP). The majority of documents, however, stem from the IFRS 9 endorsement project at EFRAG which were made available in line with due process procedures. EFRAG publishes the various agenda papers discussed by the board in public sessions. Additionally, the comment letters received by EFRAG from constituents on draft endorsement advices to the EC and draft comment letters to the IASB are freely available, excluding letters received from constituents requesting confidentially (EFRAG, 2014a). In contrast, the documents made available by the ARC are typically limited to meeting agendas and meeting summaries which do not disclose the positions expressed by individuals or member states (ARC, 2001). Furthermore, a dearth of documents have been released by the EP in regards to the issue with notable exceptions including the reports commissioned by the Committee on Economic and Monetary Affairs (European Parliament, 2015a, 2015b, 2015c, 2015d). Lastly, the official letters exchanged between the EC and EFRAG were obtained through the EFRAG website (European Commission, 2014; EFRAG, 2015a, 2015b). The documents related to these projects were downloaded and read, and the specific texts utilized in the analysis are listed in *Table 6* (appendix).

A total of eight meetings have been observed in relation to the topic in two different settings (see *Table 3*). Although EFRAG retains an option to hold private sessions, its board meetings are generally held in public and a summary of the major decisions agreed upon is posted on its website (EFRAG, 2014a). Face-to-face meeting observations were carried-out at EFRAG on the 21st and 22nd of July 2015 with the remainder of EFRAG meetings being observed via conference call. As the audio recordings and minutes of these meetings are not made available to the public, the board meeting observations conducted at EFRAG necessitated extensive note-taking. Moreover, the observation of EFRAG board meetings commenced subsequent to the beginning of its official IFRS 9 endorsement project in December of 2014 and did not encompass observations of the related discussions taking place at EFRAG TEG.[4] Thus, for the period prior to July 2015, the analysis of activities at EFRAG is restricted to agenda papers and decision summaries and, in some instances, interview data. Whilst these limitations hinder our comprehension of the totality of events which took place at EFRAG, it is believed that the board meetings observed greatly enhanced our capacity to explicate the often contentious nature of decisions. Additionally, one face-to-face observation was carried-out at a public forum

[4] The composition of the EFRAG Board is delineated in *Table 5*.

organized by the FRC to inform the content of its comment letter to EFRAG regarding the draft endorsement advice on IFRS 9. Finally, as the meetings of the ARC are not open to the public (ARC, 2001), our comprehension of the particulars in this regard are correspondingly curtailed.

To supplement the analysis of public documents and board meeting observations, interviews were carried-out with relevant individuals associated with the IFRS 9 endorsement project (see *Table 4*). Overall, it is believed that the multiplicity of research methods employed in this study facilitates the attainment of a deeper comprehension of the decisions reached within the organizations (Hoque et al., 2013). Considering the scarcity of extant field work examining EFRAG board meetings – particularly in light of its post-reform configuration – this paper aspires to further our understanding of the interactions among EFRAG board members which influence endorsement decisions. This builds on recent field studies that have provided thought-provoking new insights into standard-setting at the IASB through multiple-method approaches (Erb and Pelger, 2015; Morley, 2016; Pelger, 2016).

Table 3: Meeting Observations

Meeting	Date	Organization	Meeting Location	Observation Method
1	22 June 2015	FRC	London, U.K.	Face-to-face
2	21 and 22 July 2015	EFRAG	Brussels, Belgium	Face-to-face
3	29 July 2015	EFRAG	Brussels, Belgium	Conference call
4	1 September 2015	EFRAG	Brussels, Belgium	Conference call
5	21 September 2015	EFRAG	Brussels, Belgium	Conference call
6	28 October 2015	EFRAG	Brussels, Belgium	Conference call
7	9 November 2015	EFRAG	Brussels, Belgium	Conference call
8	24 November 2015	EFRAG	Brussels, Belgium	Conference call

Table 4: Interview List

Number	Description	Date	Duration (minutes)
1	Stig Enevoldsen, EFRAG Board Member	28 March 2014	85
2	Stig Enevoldsen, EFRAG Board Member	23 November 2014	94
3	Accountant, Banking industry representative group	19 November 2014	41
4	EFRAG TEG Member (former)	19 November 2014	76
5	Stig Enevoldsen, EFRAG Board Member	30 June 2015	33
6	EFRAG TEG Member	14 July 2015	47
7	Accountant, Insurance industry representative group	24 May 2016	54

Table 5: Composition of the EFRAG Board (2015)

Name	EFRAG Role	Nominated By	Non-EFRAG Position
Roger Marshall	EFRAG Board Member - Acting President		Chairman of the Accounting Council, Financial Reporting Council, United Kingdom
Claes Norberg	EFRAG Board Member - Acting Vice-President	BUSINESSEUROPE	Director of Accountancy, Confederation of Swedish Enterprise, Sweden
Andreas Barckow	EFRAG Board Member		President, Accounting Standards Committee of Germany, Germany
Hans Buysse	EFRAG Board Member	EFFAS	Partner, Syncap Belgium,
Angelo Casò	EFRAG Board Member		President of the Executive Board, Organismo Italiano Contabilità -O.I.C., Italy
Patrick de Cambourg	EFRAG Board Member		President, Autorité des normes comptables (ANC), France
Stig Enevoldsen	EFRAG Board Member		Member, Danish Accounting Standards Committee, Denmark
Gérard Gil	EFRAG Board Member	EBF, ESBG, EACB	Member, Autorité des normes comptables (ANC), France
Benoit Jaspar	EFRAG Board Member	Insurance Europe	Executive Advisor, Assicurazioni Generali, Italy
Alphonse Kugeler	EFRAG Board Member		Chairman of the Management Board, Commission des normes comptables, Luxembourg
Jorge Gil Lozano	EFRAG Board Member	EBF, ESBG, EACB	Deputy General Manager, Global Finance & Operations Area, CECABANK, Spain
Patrice Marteau	EFRAG Board Member	BUSINESSEUROPE	Chairman, ACTEO, France
Laurence Rivat	EFRAG Board Member	FEE	Partner, Deloitte, France
Peter Sampers	EFRAG Board Member		Chairman, Dutch Accounting Standards Board, Netherlands
Anders Ullberg	EFRAG Board Member		Chairman, Swedish Financial Reporting Board, Sweden
Mark Vaessen	EFRAG Board Member	FEE	Partner, KPMG, United Kingdom

(EFRAG, 2015bh)

6. Case background

The IFRS 9 endorsement activities investigated in this paper represent one portion of a series of interactions on the replacement of IAS 39 culminating with the official adoption of IFRS 9 in the EU on the 6th of October 2016 (European Parliament, 2016). For instance, the European Commission had dramatically opted not to proceed with endorsement following the initial publication of IFRS 9 in November of 2009.[5] Despite its response to several "European concerns" raised at the time (IASB, 2009c, p. 1), the IASB was unable to quell a large portion of the animosity towards IFRS 9 in Europe. While EFRAG was prepared to endorse the standard, the European Commission opted not to proceed with endorsement due to a lack of political will including the antagonistic stances of the German and French governments towards IFRS 9 (Camfferman and Zeff, 2015, chapter 13). Nevertheless, the period from 2009 leading up to the commencement of endorsement proceedings in December 2014 would involve a number of recurring matters of concern and a shift in their relative prominence over time.

Since the 2008 financial crisis, EFRAG has written several comment letters to the IASB in relation to the reform of accounting for financial instruments (EFRAG, 2008, 2009a, 2009b, 2010, 2011b, 2011c, 2013c, 2013d) and numerous suggestions put forth in these letters have been incorporated into IFRS 9. For instance, IFRS 9 does not consist of a full fair value approach as proposed by the IASB in a 2008 Discussion Paper (EFRAG, 2008), it does not

[5] This preliminary version of IFRS 9 was confined to requirements on the classification and measurement of financial assets (IASB, 2009b).

prohibit reclassifications in all circumstances as put forward in the 2009 Exposure Draft on classification and measurement (EFRAG, 2009b) and it includes a workable impairment model (EFRAG, 2013d). Consequently, it may be argued that the proactive work carried-out by EFRAG during the development of IFRS 9 has lessened the degree of discord between the two boards on a number of key issues heading into the endorsement process. Nonetheless, a number of significant matters persisted throughout the standard-setting process which carried-forward to the EU endorsement project which was formally launched subsequent to the publication of IFRS 9 by the IASB. For example, these include concerns over the prohibition on recycling gains and losses from the sale of assets categorized as fair value through other comprehensive income, the manner in which assets are categorized under the mixed measurement approach, and issues related to the non-alignment of IFRS 9 and IFRS 4.

According to Sir David Tweedie, in developing IFRS 9 the IASB based measurement decisions on a "business model approach" and did not aspire to expand the extent of fair value measurement *per se* (Tweedie, 2010, p. 3). Resultantly, the pervasiveness of fair value metrics within IFRS 9 relative to IAS 39 and its impact on earnings is expected to vary on an entity-by-entity basis.

> Under IFRS 9, although profit or loss volatility from some assets may be reduced, other assets previously measured under IAS 39 at amortised cost may need to be measured at [fair value through profit or loss] or [fair value though other comprehensive income]. (KPMG, 2014, p. 12)

Nevertheless, the issue of categorization may be summarized as questions over "whether the [Exposure Draft]'s proposals draw the line between amortised cost and fair value in the right place" (EFRAG, 2009b, p. 4).[6] Although the IASB made a certain degree of concessions along these lines in the 2009 version of IFRS 9 (IASB, 2009b) and the 2012 limited amendments to classification and measurement (IASB, 2012), concerns were raised by EFRAG that too many assets still fell into the fair value through profit or loss category.

> In our view, the IASB's proposals to modify the contractual cash flow characteristics assessment do not go far enough. EFRAG believes that there are still many financial assets that do not pass the contractual cash flow characteristics assessment, despite the

[6] In both the 2009 Exposure Draft on classification and measurement and the 2009 version of IFRS 9, the standard comprised of two measurement categories: 'amortized cost' and 'fair value through profit or loss' (IASB, 2009a, 2009b). The category 'fair value through other comprehensive income' was introduced in the proposed limited amendments to classification and measurement in 2012 (IASB, 2012).

> fact that an amortised cost measurement – or fair value through other comprehensive income (FV-OCI) measurement – would provide more useful information than measurement at fair value through profit or loss (FV-PL)" (EFRAG, 2013c, p. 1).

As a result of such concerns, the IASB inserted additional explanations into the final standard in regards to the "hold and collect business model" (IASB, 2014a, p. 63-64). Overall, it may be discerned that the preceding discussion over measurement issues does not resonate with the extent of opposition to fair value accounting experienced at the height of the 2008 financial crisis. Although the categorization debate – including the issue of recycling gains and losses from other comprehensive income – would resurface during the EU endorsement process, this period points to a far more divisive subject that would impact the impending EU endorsement procedures relating to IFRS 9. Ultimately, this pertains to the timing issue generated by the non-alignment of IFRS 9 and the future *Insurance Contracts* standard.

In its comment letter to the IASB regarding the 2009 Exposure Draft on classification and measurement, Insurance Europe points out that the proposed eradication of the available-for-sale category contained in IAS 39 has the potential to produce a significant amount of volatility in profit or loss for insurers due to accounting mismatches. This was expected occur because while "insurance liabilities are often carried at cost," the elimination of the available-for-sale option likely increases the extent of assets being measured in the fair value through profit or loss category (Insurance Europe, 2009, p. 3). EFRAG also highlighted the significance of these classifications as they pertain to insurers.

> We also think it is important that special consideration is given to the insurance industry, which will be faced with implementing two standards that will have a fundamental effect on their financial statements (the standard developed from this [Exposure Draft] and the replacement standard for IFRS 4 Insurance Contracts). (EFRAG, 2009b, p. 5-6)

Consequently, EFRAG recommended that insurers be permitted to continue applying IAS 39 – in particular the available-for-sale category – or "the IASB could allow insurers the chance to reclassify their financial instruments on implementation of the new IFRS 4" (EFRAG, 2009b, p. 26). In response, the IASB initially attempted to ensure that the effective dates of IFRS 9 and the future revisions to the insurance contracts standard would be aligned.

> The Board moved the mandatory effective date of IFRS 9 to 1 January 2013 to align the effective date with phase 2 of the project on accounting for insurance contracts. The Board noted that if that phase is delayed (and/or other phases of the replacement of IAS

> 39 such as impairment mean a later date is needed) the effective date of IFRS 9 would be revised. (IASB, 2009c, p. 1)

Following the non-endorsement of the 2009 version of IFRS 9 in the EU – and partly to address the insurance issue – the IASB proposed limited amendments to the standard in 2012 including the additional measurement category of fair value through other comprehensive income (IASB, 2012, p. 49). While EFRAG generally welcomed the introduction of the third measurement category, it believed that this fails to adequately address the problem of accounting mismatches (EFRAG, 2013c). Specifically, Insurance Europe (2013, p. 2) considers that "eligible assets must be extended to cover a wider scope of asset classes without limitation due to cash flow characteristics." As will become evident in subsequent sections, from the perspective of the vast majority of large European insurers, the ensuing version of IFRS 9 released by the IASB in July of 2014 did not sufficiently incorporate this recommendation.

In the EC final version of the EC letter to EFRAG in request for endorsement advice, EFRAG was asked to consider the following issues raised by the ARC: the interaction with IFRS 4, the use of fair values, impairment, the availability of the IAS 39 carve-out, convergence, and prudence (European Commission, 2014). The letter also underscores the important role of effects analyses "which may include evidence already obtained by EFRAG during the course of the development of the standard or other available evidence as appropriate" (European Commission, 2014, p. 1). Along these lines, field studies carried-out by EFRAG had informed its view on IFRS 9 throughout the standard-setting process at the IASB. For instance, the potential effects of various aspects of the proposed standard were assessed by EFRAG in several ways including by means of questionnaires, interviews, telephone conversations, and workshops with constituents in Europe (EFRAG, 2011a, 2012, 2013a, 2013b). Additionally, in November of 2014, EFRAG TEG suggested that a follow-up to EFRAG's 2013 impact assessment be carried-out (EFRAG, 2014b) to which the EC expressed a clear preference for quantitative effects analyses (EFRAG, 2014b). Arguably, since the drafting of endorsement advice for IFRS 9 constitutes one of the first tasks to be considered by EFRAG subsequent to the reforms (EFRAG, 2014b), this project signifies a significant challenge for the group.

7. Solidifying the IFRS 9 endorsement advice on the use of fair values

7.1 Fact-building and modalities on fair value

Along with the EC request for endorsement advice, EFRAG was asked to specifically assess the use of fair value in IFRS 9 in comparison with IAS 39 including any implications on financial stability due to volatility (European Commission, 2014, p. 3). For example, the EC request included calls for EFRAG to investigate the impacts from the measurement categories within IFRS 9, the procedure for reclassifications between categories, the recognition of profit or loss on investments classified as fair value through other comprehensive income, and the impact of fair value on long-term investor behavior (European Commission, 2014, p. 3-4).

In regards to the prohibition on the recognition of gains and losses on the sale of investments classified in the fair value through other comprehensive income category, this represents an unresolved issue from the IFRS 9 development process. As such, the numerous versions of the endorsement advice treat this matter as a deviation within IFRS thus having negative implications on the relevance provided by the standard.

> "This may be considered as limiting the relevance of the information, especially if such gains or losses upon sale, or impairment losses, would be viewed as indicative of the performance of the investor and useful for assessing stewardship." (EFRAG, 2015b, p. 25)

The fact that this element of the standard is viewed as a deficiency and thereby inserted into a positive modality regarding the relevance of the standard is largely uncontested throughout the endorsement process. In this regard, the inability to recycle gains and losses on assets measured at fair value through other comprehensive income led some constituents to posit that IFRS 9 does not meet the technical endorsement criteria (Talanx; GDV; R+V).[7] However, whilst this modality qualifies the evaluation of the relevance of IFRS 9, it does not alter EFRAG's overall positive assessment in terms of the qualitative characteristics of the standard (EFRAG, 2015b, p. 5).

The final endorsement advice also illustrates that negative modalities may be employed to depict how alternative accounting treatments would have resulted in an inferior standard. For instance,

[7] A list of the comment letters received by EFRAG on its draft endorsement advice in June and July of 2015 are included in Table 7, appendix.

on the matter of reclassification between categories only when a change in business model has occurred, EFRAG posits that reclassifying on the basis of intent would have had negative implications on its assessment of the qualitative characteristics of the standard.

> "EFRAG assesses that reclassifications triggered solely based on a change in intentions due to market conditions would create tension in terms of reliability of the information. EFRAG is satisfied that IFRS 9 requires an entity to reclassify financial instruments if a change in business model has been decided in response to a change in market conditions. As a result EFRAG assesses the requirements for reclassification of financial assets as leading to relevant information." (EFRAG, 2015b, p. 25).

Moreover, on the matter of investor and issuer behavior, constituents expressed a number of views (EFRAG, 2015ag, p. 13-15) which resulted in the inclusion of additional statements within the draft endorsement advice (EFRAG, 2015ae, p. 72- 76). However, it has been emphasized that concerns in this regard "have not been substantiated by quantitative analysis" (EFRAG, 2015b, p. 78). For example, the final endorsement advice refers to comments rendered by the European Banking Authority on the challenges involved in isolating the impact of IFRS 9 on investor and issuer behavior given its interaction with other elements such as prudential regulation (EFRAG, 2015b, p. 76). Additionally, the alleged negative impacts of IFRS 9 may be countered by other assessments. For example, the fact that the extent of assets measured at fair value through profit and loss is not expected to substantially increase under IFRS 9 is introduced into a positive modality by EFRAG in terms of the impact of the standard on the behavior of investors and lenders.

> "The requirement to measure financial assets which do not meet the cash flow characteristics test at fair value through profit or loss may have an impact on the decisions of some lenders and investors. However, EFRAG's follow-up to field-test has shown that only a small portion of financial assets that are currently measured at amortised cost will have to be measured at fair value through profit or loss. As a result EFRAG does not expect significant impacts in this area." (EFRAG, 2015b, p. 78).

7.2 Negotiating the magnitude of negative assertions on fair value

Following the conclusion of the comment letter period on the 30th of June 2015, significant debate arose surrounding the general manner in which the use of fair values in IFRS 9 was to be depicted in the endorsement advice. Whilst this did not appear to call the overall endorsement decision into question, it represented an effort to present a more balanced perspective on the issue of fair value measurement within the endorsement advice. The movement was led by the

French Accounting Standards Authority (ANC), which views IFRS 9 as a response to the financial crisis that should not be evaluated merely from the perspective of non-turbulent economic times (ANC, p. 2).

> "The ANC considers therefore that these issues should be brought to the attention of the European Commission, even if the endorsement advice expressed by EFRAG remains positive overall" (ANC, p. 1).

Along these lines, the comment letter submitted by the ANC encompasses numerous caveats along with its generally positive assessment of IFRS 9. This includes a request to insert the potentially negative consequences arising from the use of fair values into the endorsement advice to complement what the ANC regards as the fundamentally optimistic viewpoint provided by EFRAG on the issue (ANC, p. 8). In terms of the European public good, the potential impacts of increased procyclicality promoted by IFRS 9 have been pointed out a detriment to the public good (ANC; CNP Assurances). However, EFRAG TEG does not concur with the rationale put forward by the ANC (p. 8) to recognize the potential drawbacks of fair value measurement techniques. Similarly, it rejects a call by the ANC (p. 20) for EFRAG to evaluate the procyclical effects to be produced by IFRS 9 in the assessment of whether the standard represents an improvement over IAS 39 on the basis that the 'improvements' section should be limited to an appraisal of the quality of financial reporting (EFRAG, 2015ad, p. 5). In congruence with the advice of EFRAG TEG, the Secretariat does not amend the section of the draft endorsement advice pertaining to the "use of fair value" (EFRAG, 2015ae, p. 27- 28). However, the issue is deliberated at length during the EFRAG board meeting on the 21st and 22nd of July, 2015.

In this meeting, the first contentious issue faced by the board related to the request by the ANC to include the potential consequences of fair value in the endorsement advice. Patrick de Cambourg – EFRAG Board Member representing the ANC – argues that "*we cannot go into this with our eyes closed*" because there are potentially negative elements associated with fair value. However, other board members contend that "*some of the ANC cons are not reasonable*" (Stig Enevoldsen)[8] and thus more evidence would be needed to substantiate many of these drawbacks. As such, some board members express doubt as to the alleged deficiencies of fair value in the assessment of management performance, the capacity of fair value to promote pro-cyclicality,

[8] EFRAG Board Member representing the Danish Accounting Standards Committee.

and the extent to which IFRS 9 will increase the proportion of assets measured at fair value. In terms of the latter suspicion, reference is made to the view of the European Central Bank which posits that IFRS 9 may actually lead to a decrease in the use of fair values relative to IAS 39. In addition to the supposed lack of evidence to support the insertion of the consequences of fair value in the endorsement advice, the politically-sensitive nature of such an inclusion was raised such that any revision in this regard must be mindful of the precise wording employed. Concern was also expressed as to the possible reaction to a positive endorsement advice that includes numerous cons in regards to fair value.

Nevertheless, Patrick de Cambourg affirms his stance on the importance of the proposed revisions suggested by the ANC in this regard. "*I cannot live with this, if fair value is treated so positively*." Similarly, in discussing the request made by the ANC to consider the impact of procyclicality, this possibility is called into question by board members asserting that they are unaware of studies that verify this alleged effect and that the discussion extends beyond the scope of EFRAG. Moreover, one board member posited that the insertion of statements into the endorsement advice pointing to the potential instability brought on by IFRS 9 could lead to perilous 'political' implications. "*We are getting onto thin ice if we are going to comment on procyclicality*" (Stig Enevoldsen). In conjunction with the anxieties made apparent in the preceding paragraph, this resonates with the tactic of anticipating opposition to a text in advance – an element of 'staging and framing'.

During its conference call on the 29th of July 2015, the EFRAG board discussed the modification of its draft endorsement advice (EFRAG, 2015ah) including a staff paper prepared for discussion during the meeting on the use of fair value (EFRAG, 2015aj). Accordingly, the board considered proposed amendments incorporating the criticism rendered by the ANC on the matter along with the related discussions from the previous board meeting (EFRAG, 2015aj). As such, the revisions drafted by the Secretariat reflected an assortment of possible consequences that may result from the use of fair value. These centered on the potential complexity and subjectivity involved particularly in times of stress. Moreover, the revisions underscored that "*Fair value measurements may be pro-cyclical and emphasise both upswings and downswings in turbulent markets*" and "*In extreme situations, it is possible that changes to IFRS 9 may be necessary*" (EFRAG, 2015aj, p. 2). One board member questions the appropriateness of alluding to the potential for pro-cyclicality by referring to a recent statement by an ECB representative

that "*there is no evidence for accounting standards being pro-cyclical*." However, Patrick de Cambourg articulates that since the paragraph in question commences with the words "*EFRAG has heard from constituents*" (EFRAG, 2015aj, p. 2), it is not unreasonable to indicate this constituent feedback. Roger Marshall – Acting President of the EFRAG Board – suggests that the statement be qualified by mentioning that there is a lack of empirical evidence to support it. In addition, the declaration introduced into the text indicating the possibility that alterations in the standard may be required in "extreme situations" (EFRAG, 2015aj, p. 2) is called into question. One board member refers to the addition of this statement as "scaremongering" since all accounting standards may be subjected to revisions when conditions change, while the ANC representative reiterates that considering the events of 2008 it is imperative to point out this possibility. Consequently, the statement "*In extreme situations, it is possible that changes to IFRS 9 may be necessary*" is removed (EFRAG, 2015aj, p. 2) while on the issue of pro-cyclicality it is inserted that "*EFRAG notes that empirical evidence of this is inconclusive*" (EFRAG, 2015an, p. 28). These revisions constitute a softening of the proposed amendments emanating from the ANC which were previously incorporated into the draft advice.

Overall, as confirmed by interview data collected, the matter of fair value measurement in IFRS 9 did not generate the degree of tension as may have been expected leading into the endorsement process (Interview 1, 2, 4). In a follow-up interview, one interviewee posits that this may be largely attributed to the expected continuance of the IAS 39 hedging carve-out. Along these lines, EFRAG (2015b) concluded that the European carve-out of IAS 39 pertaining to hedging would continue under IFRS 9; a view also consistent with the general standpoint of constituents on the matter (EFRAG, 2015ag, p. 22).

> "I've been pleasantly surprised because I expected the French banks to convince the other bankers, and to convince the French government to postpone it or make some trouble for it. I think the reason why they did not react so strongly as I had expected is because they are still allowed to use the hedging carve-out from IAS 39. The French banks have used that, and they're allowed to continue to do so." (Interview 5)

8. Endorsement advice on IFRS 9 and the insurance conundrum

In comparison with the nature of the aforementioned debate, EFRAG's assessment of the interaction between IFRS 9 and IFRS 4 *Insurance Contracts* as requested by the EC (European

Commission, 2014) would significantly alter the direction of its overall endorsement advice. Upon receipt of the request for advice, EFRAG subsequently contemplated this issue as part of its assessment of the conduciveness of IFRS 9 to the European public good (EFRAG, 2015b, p. 1). Specifically, the EC request underscores the importance of concerns in regards to the non-alignment of IFRS 9 and IFRS 4:

> "In general, insurance companies seek to match their financial assets to their insurance liabilities over the duration of those exposures. The accounting for financial assets will be subject to the principles in IFRS 9 whilst insurance liabilities will be subject to IFRS 4 Revised. The latter standard is not yet finalised nor has the IASB completed its deliberations on the standard, hence, it is not yet possible to understand what effects IFRS 9 and IFRS 4 would have when both applied. In particular, there is doubt whether the application of the two standards together would reflect matched positions appropriately or would give rise to some so-called artificial volatility meaning that variations in fair values of either the financial assets or insurance liabilities (or both) affect the primary statements in a way that makes them appear unmatched.
>
> There is a further issue regarding the timing of the implementation of the two standards which both involve significant changes for the insurance industry and would ideally be introduced together." (European Commission, 2014, p. 3)

Furthermore, in conjunction with its evaluation of the standard according to Regulation (EC) No 1606/2002, the letter underscores the important role of effects analyses in the determination of EFRAG's endorsement advice:

> "This advice should be supported by an effects analysis, which may include evidence already obtained by EFRAG during the course of the development of the standard or other available evidence as appropriate, in particular, on the effects of the new requirements in the area of impairment allowances." (European Commission, 2014, p. 1)

8.1 Fact building and modalities on the insurance issue

In its initial draft of the endorsement advice, EFRAG confirms that "IFRS 9 meets all endorsement criteria and therefore recommends that it be adopted in the EU" (EFRAG, 2015q, p. 2). However, the preceding fact – injected into a positive modality – was generated prior to the completion of EFRAG's assessment on the issue of insurance (EFRAG, 2015q, p. 59). Spearheaded by Insurance Europe, the insurance industry in Europe has been observed to play an active role in the endorsement process. For instance, the letter of Insurance Europe to EFRAG in March 2015 expresses the severity of anxieties within the European insurance industry regarding the non-alignment of the two standards. In particular, it is suggested that

"*applying IFRS 9 will create a temporary reporting basis which will need to be altered again, at significant cost, when IFRS 4 Phase II is adopted. This will create confusion with many users of the financial statements*" (Insurance Europe, 2015b, p. 1). As a consequence, Insurance Europe stressed the importance of implementing IFRS 9 and IFRS 4 concurrently (Insurance Europe, 2015b, p. 2). Thus, it called on EFRAG to recommend that the IASB develop a resolution to the matter to allow insurers to defer the adoption of IFRS 9, but if this global solution was not attained it should be considered as part of the EU endorsement mechanism (Insurance Europe, 2015b, p. 2). This positive modality resonates with the tentative decision of the IASB in January of 2015 not to permit insurers to defer the application of IFRS 9 (IASB, 2015). Nonetheless, whilst EFRAG declared that as a whole it is supportive of the endorsement of IFRS 9 during the ARC meeting of 23 March 2015, some ARC members raised concerns over the scarcity of quantitative data to evaluate the effects of the standard and its interaction with IFRS 4 (ARC, 2015a). This suggests that the concerns raised by Insurance Europe in its March 2015 letter failed to immediately draw attention away from its processes of fact-building.

Along these lines, in April of 2015 EFRAG received information collected by Insurance Europe which provides a preliminary quantitative assessment of the impacts of the issue on the largest European insurers.

> "Whilst the full impact of IFRS 9 on the insurance industry is yet to be determined, an initial review of the balance sheets of some of the largest and most affected continental European insurers suggests that between 8% and 20% of the assets currently accounted for at amortised cost or on an available-for-sale basis, with a value of more than Euro 250 billion, will be required to be accounted for at fair value through profit and loss. Fair value movements on these assets would be recognised in the income statement. With the measurement methodology for insurance liabilities remaining unaltered until the IFRS 4 phase II standard is implemented this will give rise to significant volatility in reported net income. For example, based on analysis by some of the larger continental European insurers for the years 2011 to 2014 there would have been volatility of up to 20 per cent from this accounting mismatch." (Insurance Europe, 2015a, p. 1-2).

This data was incorporated into the final draft endorsement advice issued to constituents for comment on the 4th of May 2015 (EFRAG, 2015h, 2015z, 2015aa, p. 72). This also served as evidence against assertions that the predicament purportedly faced by insurers is not genuine (EFRAG, 2015ab). For instance, at the ARC meeting on the 21st of May 2015, the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA) voiced that the insurance industry has yet to provide sufficient

evidence regarding its assertions on the matter (ARC, 2015b). Accordingly, the final version of the draft advice prior to its release for comment acknowledges that the attainment of a more exhaustive comprehension of the effects of IFRS 9 will be necessary – "EFRAG considers that a more in-depth understanding of the magnitude of the potential effects of IFRS 9 being implemented in advance of the future insurance contracts standard is critical to the finalisation of its endorsement advice to the European Commission" (EFRAG, 2015aa, p. 72). This inserts a negative modality into the advice by pointing to the insufficiency of the evidence collected thus far on the issue. Accordingly, whereas the two previous versions of its invitation to comment did not include specific questions on the issue of insurance (EFRAG, 2015p, 2015bk), constituents are now asked for their views on the interrelationship between IFRS 9 and IFRS 4. At this point, however, EFRAG "recommend[s] IFRS 9 for endorsement without further delay" (EFRAG, 2015aa, p. 5) while emphasizing that the EC should request the IASB to develop a solution to the insurance issue (EFRAG, 2015aa, p. 3). In this sense, a positive modality is also introduced within the text whereby the facts gathered on the insurance conundrum are deployed to stimulate action on the part of the EC and the IASB.

In response to the issuance of its draft endorsement advice on the 4th of May 2015, EFRAG received 49 comment letters including 13 replies from insurers along with 2 organizations representing a significant combination of banking and insurance activities (see *Table 7*, appendix). As such, several insurers delineated additional evidence in regards to the implications associated with the non-alignment of IFRS 9 and IFRS 4. For example, it has been asserted that the volatility produced by increases in accounting mismatches is expected to obfuscate the performance of insurers whilst diminishing comparability (ANC; FFSA). Another issue brought forward by the insurance industry relates to the possibility that EFRAG is underestimating the associated costs (ABI) of applying "*Solvency II, IFRS 9 and IFRS 4 revised at three different points in time*" (Danish Insurance Association, p. 1). These points support the assessment that the optional deferral of IFRS 9 for insurance companies is an essential element in ensuring that the standard is conducive to the public good (CNP Assurances; Insurance Europe) and that the benefits of the standard exceed its costs (Insurance Europe; GDV; Talanx).

Although the provision of additional data on the insurance issue may be deemed impractical (R+V, 2015) or unnecessary given the previous release of information from Insurance Europe

(CNP Assurances), some respondents suggested that the purported claims put forth by insurers in regards to the negative effects are currently unsubstantiated.

> "There is no widely available empirical evidence substantiating that projected incremental volatility will result from IFRS 9 requirements" (CFA Institute, p. 3).
>
> "The FRC is neither able to agree nor disagree with the EFRAG proposal to advise the European Commission as we consider that standard setting should be evidence-based and we have not seen quantitative data reviewed by EFRAG on the potential scale of any accounting mismatches" (FRC, p. 6).

As a result of such misgivings over the severity of the implications on the insurance industry, a number of insurers provided quantitative information to EFRAG. While some insurers have confidentially disclosed data aimed at corroborating the necessity of a deferral (ABI; Insurance Europe), Talanx (p. 12) reveals in its comment letter that "*[t]he high-level quantification of the P&L impact from reclassified assets to FVPL at the ratio of group profit is higher than 12 % (on a gross basis)*." Concurrently, for the purpose of attaining a better comprehension of the view of users, EFRAG conducted 28 telephone interviews in July 2015 with analysts specializing in the insurance industry (EFRAG, 2015af).[9] EFRAG determined that 89% of interviewees believed that IFRS 9 and IFRS 4 should be implemented on a collective basis, 68% were supportive of a deferral for insurers for a variety of reasons with 11% opposed, while only 25% were sympathetic towards a European carve-out with 61% against largely due to concerns over the added complexity involved (EFRAG, 2015af, p. 3-4). This information supplemented the dearth of views available from a user perspective in regards to the insurance issue as EFRAG received only two comment letters from users (EFRAG, 2015ag, p. 27).

In regards to the overall endorsement advice, a number of constituents disavowed support for a deferral altogether (CFA Institute; Barclays; Deutsche Bank; EBF; FRAC; ISDA; KBC; PASC) while non-insurers were largely opposed to a unilateral EU resolution on the matter (ESMA; FSR; ICAEW). In terms of the banking industry, most respondents disapprove of a 'carve-out' option due to the purportedly harmful implications on comparability (Barclays), transparency (HSBC), and investor confidence (Deutsche Bank, p. 6). Conversely, approximately one-half of respondents – including a vast majority of the insurers represented – expressed support for the

[9] According to EFRAG (2015af, p. 3) analysts cited a number of reasons in support of a deferral of IFRS 9 for insurers. While these individual users were selected based on their concentration on the insurance industry; the nature of their overall affiliation with the industry is unknown.

possibility of a unilateral action by the EU to resolve the matter. This may be thought of "*as a last resort*" if the IASB is unable to develop a feasible solution (ABI; FEE, p. 2; GDV; Talanx) or simply as a mechanism to facilitate the timely endorsement of IFRS 9 (Commerzbank; EAPB).[10]

8.2 Transforming modalities in the overall endorsement advice

During the EFRAG board meeting held on the 21st and 22nd of July 2015, the board discussed the feedback received on its draft endorsement advice (EFRAG, 2015ac). EFRAG TEG Chairman Françoise Flores points out that according to the current version of the draft EFRAG is recommending endorsement irrespective of any future resolution to be determined in regards to insurance. The potential problems associated with this approach were highlighted during the meeting in consideration of the realization that the outcome of the IASB's current efforts on the matter remains unknowable. Initially, Roger Marshall declares that EFRAG has two options in this regard. It could recommend to the EC that the endorsement of IFRS 9 be deferred or it could advise that IFRS 9 be endorsed and that the EC should communicate with the IASB to resolve the insurance issue. Along these lines, Andreas Barckow – EFRAG Board Member and President of the Accounting Standards Committee of Germany – suggests that EFRAG is in need of a "Plan B" in case the IASB does not produce an adequate solution to the matter.

Devoid of this information, and considering that EFRAG is expected to provide endorsement advice in September, it is startlingly put forward by Patrick de Cambourg that EFRAG could endorse "*except for*" the insurance industry so that the decision would not be "*based on thin ice.*" According to visiting IASB board member Suzanne Lloyd, the IASB appreciated the draft endorsement advice because it did not link the endorsement decision to the insurance issue, which the IASB viewed as an "*act of good faith*." In response, Patrick de Cambourg states that "*it's not a question of trust; it's a question of respective responsibility*." This represents a standpoint that views the rendering of positive endorsement advice on IFRS 9 without knowledge of the IASB solution on insurance as an uninformed decision. Meanwhile, other board members assert that the preference of constituents for a global solution and a timely endorsement should be respected and that the ARC, the EC and/or the Parliament should assume the ultimate responsibility for the decision on insurance at a later date.

[10] An interviewee representing the banking industry expressed support for a speedy endorsement of IFRS 9 without modifications to allow for sufficient implementation time (Interview 3).

On the second and final day of the July 2015 meeting, the EFRAG board decided on the directionality of its advice to the EC on IFRS 9. Roger Marshall presents the following three options and solicits additional thoughts from the board:

1. Unqualified endorsement, and a recommendation that the IASB progress towards an acceptable solution on the insurance issue.
2. Defer providing advice until the conclusion of the IASB project addressing the non-alignment of IFRS 9 and IFRS 4.
3. Endorsement, with the possibility of retrospective carve-out in 2016 if the IASB solution is found to be unworkable.

However, Patrick de Cambourg points out that in order to be assured that the future resolution on the insurance issue is acceptable, an "except for" approach is necessary. Roger Marshall then clarifies an "Option 4" as follows:

4. Qualified endorsement, due to the present inability to form an assessment of the public good criterion in relation to the insurance sector.

Commencing a vote of EFRAG board members on the matter, Roger Marshall asserts that he opposes a 'carve-out' due to legal concerns and the views of constituents and elects Option 4 because of the difficulty in providing an unqualified assessment of the standard exclusive of a resolution on the insurance issue. Remarkably, given the contentious nature of the preceding discussions, no board members in attendance were observed to explicitly disapprove of Option 4, although Stig Enevoldsen withholds his vote whilst subsequently acknowledging his preference for Option 1 or 2. As such, it is decided that EFRAG's advice on IFRS 9 is to be redrafted based on Option 4. As remarked by the European Central Bank representative observing the meeting, "*This drafting will require your best linguistic skills. You will have to be very careful with your wording*." While still maintaining that IFRS 9 satisfies the technical criteria for endorsement, it is now only conducive to the European public good "*once an acceptable optional remedy has been identified to the potential disruptions caused by the non-alignment of the effective dates of IFRS 9 and the future IFRS 4*" (EFRAG, 2015ai, p. 4). This results in a qualification of the conduciveness of IFRS 9 to the European public good through the inclusion of a negative modality which engenders a sense of uncertainty in regards to the overall endorsement advice.

8.3 Altering the tone of the endorsement advice

The fact that a significant problem exists for the insurance industry in regards to IFRS 9 was now observed to be largely taken for granted during board discussions. Nevertheless, a notable exception occurred during the EFRAG board conference call on the 29th of July 2015 when the EIOPA representative casts doubt on the predicament of insurers in terms of accounting mismatches. However, this assertion is countered by the EFRAG Board Member nominated by Insurance Europe – Benoit Jaspar – who states that the problems faced by insurers have been discussed at length and are "*not just the opinions of the insurance industry*." While this fact was generally uncontested from this point onwards, the effectiveness of other strategies in altering the endorsement advice has been observed. For instance, although the outcome of the July meetings pointed to an agreement based on 'Option 4', during the meeting of the 1st of September 2015 formidable resistance was articulated by a number of board members in reaction to the ostensibly negative tone of the redrafted advice. Accordingly, pressure was exerted to revise the wording of 'Option 4' on a more positive, unambiguous basis – further accentuating the appropriateness of IFRS 9 for non-insurers (Andreas Barckow; Mark Vaessen[11]).

As a result, Roger Marshall noted the majority view of the board that a change in the tone of the advice was warranted to emphasize the importance of endorsement for non-insurers. With the intention of providing a more positive tenor to the advice, Stig Enevoldsen recommends that the board reconsider the current placement of the deficiencies of IFRS 9 on the first page of the cover letter, which may provide further "ammunition" for those who oppose the standard. Thus, the assertion that *"IFRS 9 could have been a better standard"* (EFRAG, 2015ao, p. 1) was transferred from the cover letter to Appendix 2 of the final advice (EFRAG, 2015au, p. 18). This aims to soften what was regarded by many board members as the negative overall tone of the letter. Moreover, in an example of the 'staging and framing' of the advice, the perception of the ill effects of a potential "carve-out" contributed to several attempts to evade usage of the term in favor of alternative phrasings. As such, a number of board members voiced concerns that endorsement advice that stresses the necessity of an accounting standard for all industries except one may be regarded as a "carve-out." Notably, there was a widespread aversion on the part of board members to refer to the "except for" advice as a "carve-out." Alternatively, it may be

[11] EFRAG Board Member nominated by FEE.

regarded as a matter of timing (Andreas Barckow), a "temporary deferral" (Benoit Jaspar), or a "temporary exclusion" (Patrick de Cambourg) since the essence of the standard would remain unchanged.

In addition, during the September 2015 board meeting a minority of board members endeavored to call the qualification contained within overall advice into question. For instance, in supporting the "unconditional" endorsement of IFRS 9, a draft dissenting view provided by Stig Enevoldsen questions the overall opinion in the existing advice by means of viewing the concerns of the insurance industry as an ancillary issue in terms of the wider European community.

> "When concluding on the matter, on balance, I weigh the significance of avoiding volatility in profit or loss as well as the additional costs to the insurance industry lower than the importance of improved reporting for all other companies, and I especially consider the benefits for the capital markets and the user community in Europe.
>
> Therefore, on balance, I would have issued an unconditional, positive endorsement advice on IFRS 9 to the European Commission, because I believe endorsement of IFRS 9 will be conducive to the European public good." (EFRAG, 2015ap, p. 3)

As a result, the desire expressed by some board members and official observers to change the overall advice to the EC was met with astonishment by the board member nominated by the insurance industry. Benoit Jaspar thus asserts that this is not a minor detail affecting an insignificant industry, but a situation in which the "*balance sheets and P&L*" of "*the pillar of the European economy… [do not] even make sense!*" Option 4 had been the result of a compromise in which Benoit Jaspar had moved from Option 3 (a "carve-out") to Option 4 (a 'qualified' endorsement) "*to join the consensus which was 'except for'.*" Nevertheless, as the concerns pertaining to the insurance industry endured, the qualified opinion previously agreed upon remained largely intact albeit with several modifications aimed at solidifying the overall advice.

Firstly, concern over the "conditionality" of the advice in its current form was expressed by official observers at the meeting who believed this would overly complicate the message sent by EFRAG to the EC. Such a standpoint suggests that "*either yes you should endorse it*" or "*you should not endorse it… how the other thing works I don't know*" (Stig Enevoldsen). To address the issue of conditionality in the advice, Patrick de Cambourg suggests that the problem may be

solved by using the present tense as opposed to the future tense. While the word "*once*" implies that IFRS 9 is not yet conducive to the European public good, the words "*except for*" infer that IFRS 9 is already conducive to the European public good, minus its impact on the insurance industry. This provides an illustration of a compromise surrounding the notion of "captation" (Latour, 1987, p. 57). Whilst a qualified opinion on IFRS 9 introduces a degree of uncertainty in terms of the reception of the text, the conversion of the word "*once*" to "*except for*" endeavors to control the eventual users of the text by reducing a certain amount of this ambiguity.

Additionally, in response to concerns regarding an excessive focus on the 'except for' element at the expense of a positive assessment for non-insurers (Françoise Flores, Stig Enevoldsen), the following statement is added "*In any event we recommend that all other companies are required to use IFRS 9 by 2018*." Moreover, a request to replace the words "*will be conducive*" to "*is conducive*" (Andreas Barckow) is tentatively accepted by Roger Marshall. Therefore, the final wording of the conclusion paragraph is worded as follows:

> "We have also concluded that IFRS 9 is conducive to the European public good, except for its impact on the insurance industry. We therefore recommend that all businesses other than those carrying out insurance activities are required to account for their financial instruments in compliance with IFRS 9 in 2018 and that businesses carrying out insurance activities are permitted to do so in compliance with IFRS 9 from the same date." (EFRAG, 2015au, p. 5)

Essentially, this defers the endorsement decision by implying that the EC should not finalize the endorsement until such time as the insurance industry solution is known (Roger Marshall). Two board members conveyed a preference for an unqualified endorsement advice (Mark Vaessen, Stig Enevoldsen) but ultimately decided not to provide a dissenting view. As such, the endorsement advice was sent to the EC on the 15th of September 2015 (EFRAG, 2015at). In this advice, EFRAG (2015au, p. 4) states that it will update the EC on the ongoing developments at the IASB in regards to the insurance issue.

9. Fortifying the follow-up letter to the European Commission

Consistent with its pledge to inform the EC on the ongoing activities on the matter of insurance, during its meeting on the 28th of October 2015 the EFRAG board discussed the development of

a preliminary draft letter informed by recent deliberations at EFRAG TEG (EFRAG, 2015av). The IASB had decided on two different optional approaches to address the matter: the overlay approach and the deferral approach (EFRAG, 2015aw). The overlay approach would require firms to fully apply IFRS 9 and then transfer the profit effects due to the difference between IFRS 9 and IAS 39 to other comprehensive income. Thus, the objective of this approach is to alleviate concerns in regards to the volatility of profit or loss due to the non-alignment of the effective dates of IFRS 9 and IFRS 4 (EFRAG, 2015ax, p. 2). In contrast, the deferral approach would permit firms with a predominance of insurance activities at the reporting entity level to defer the application of IFRS 9. As of September 2015, the IASB defines 'predominance' as a proportion of liabilities accounted for under IFRS 4 relative to the total liabilities of the reporting entity that exceeds 67% (EFRAG, 2015aw, p. 4).

9.1 Soft facts and weak modalities – The overlay approach

As a majority of EFRAG TEG members were in favor of the overlay approach (EFRAG, 2015aw), the first drafting of EFRAG's letter to the EC espouses general support for this option (EFRAG, 2015ax). Nonetheless, discussions taking place at the October 2015 board meeting in regards to the overlay approach revealed concerns centering on the issues of cost and complexity. For instance, it was argued that under this option the cost of simultaneously maintaining two separate reporting regimes would *"fix the question of the volatility of the P&L, but at a huge cost"* (Benoit Jaspar) thus merely solving the issue of accounting mismatches at the expense of other matters of concern (Françoise Flores). Accordingly, the second draft of the letter prepared for the board meeting of the 9th of November 2015 includes two drawbacks of the approach; namely, pertaining to the costs of implementation and the complexity generated for users (EFRAG, 2015az, p. 3). Several suggestions are put forward during the meeting for increased evidence to support the claims being made and a general softening of the tone of the letter. For instance, one board member questions the use of strong wording such as "significant costs" when EFRAG is not able to substantiate such claims with data (Mark Vaessen). Consequently, the word "significant" is removed from the phrase "*significant concerns about this approach*" (EFRAG, 2015az, p. 3). Additionally, the statement "*Furthermore it runs the risk of being the most costly of all possible approaches*" (EFRAG, 2015az, p. 3) is replaced with *"The incremental costs need to be carefully investigated and the likelihood that the overlay approach will be applied need to be assessed"* (EFRAG, 2015ba, p. 4). Furthermore, questions

relating to the cost issue are posed to constituents in the public consultation, who are asked to "*quantify if possible*" (EFRAG, 2015ba, p. 4). Moreover, the following additional drawback of the overlay approach is included in the letter.

> "Some have suggested that whilst the effect of additional accounting mismatches would be eliminated from profit or loss, those additional accounting mismatches would continue to impact equity." (EFRAG, 2015ba, p. 4)

In the brief consultation period of ten days (EFRAG, 2015bc), EFRAG received twenty-two comment letters (see *Table 8*, appendix). While preference for the overlay approach has been uttered by one insurer (Assuralia), the vast majority of responses received from the insurance industry voiced significant concerns in regards to this option. Purportedly, the approach results in complexity from the perspective of users (Insurance Europe) whilst failing to fully remove concerns over the artificial volatility which would persist within equity (FEE). Moreover, "*insurers would face the cost of implementing IFRS 9 as well as developing the temporary systems and processes to track the Overlay Approach adjustments while incurring the cost and operational difficulties of still having to concurrently maintain their existing IAS 39 systems*" (Insurance Europe, p. 2). This explicates the widespread belief among insurers in the unworkability of the approach (Allianz; FFSA; GDV; R+V). Although quantitative data was largely absent from the comment letters submitted to EFRAG, the estimate offered by CNP Assurances (p. 3) constitutes an exception, suggesting a 40% increase in cost associated with the overlay approach.

This illustrates that, in the absence of data collected from field tests or other reports, statements perceived as "strong" are susceptible to efforts aimed at toning them down, and any exceptions to the majority opinion heard from constituents have a capacity to be injected into accounting texts. In terms of the latter, as the public consultation revealed at least one insurer expressing a preference to apply the overlay approach, it was argued that this information should be added to EFRAG's preliminary assessment to provide a more balanced perspective (Laurence Rivat;[12] Mark Vaessen). Despite a concern that the inclusion of a minority view fails to illustrate the "relative weight" put forward by the standpoint of the vast majority of insurers (Gérard Gil),[13] the following statement is added to the final letter: "*our limited public consultation has shown*

[12] EFRAG Board Member nominated by FEE.
[13] EFRAG Board Member nominated by EBF, ESBG, and EACB.

that there is at least some interest expressed, in particular by some bank conglomerates" (EFRAG, 2015bf, p. 4). Nevertheless, although the facts generated by EFRAG in this regard have been weakened to a certain extent, they have by no means been discredited. Whilst the fragility of these facts correspondingly curtails the strength of the modalities with which they may be associated, the final version of EFRAG's letter to the EC voices reservations with respect to the overlay approach.

> "Despite our assessment to date being very preliminary, on the basis of the facts explained above, we have concerns about this approach" (EFRAG, 2015bf, p. 4).

9.2 Harder facts and stronger modalities – The deferral approach

Largely analogous to the view of EFRAG TEG (EFRAG, 2015aw), the initial draft letter to the EC expresses reservations in regards to the deferral approach as stipulated by the IASB.

> "[The] predominance criteria which are at present so restrictive that we have been advised that they may run the risk of excluding a substantial number of insurance companies in Europe. We understand that the insurance industry is collecting data in order to establish the actual effect." (EFRAG, 2015ax, p. 2)

Accordingly, the letter recommends that the IASB investigates the possibility of applying the deferral approach below the reporting entity level; for instance, at the level of the regulated entity for insurers (EFRAG, 2015ax). During the October 2015 EFRAG board meeting, it was postulated that the predominance criterion as currently articulated by the IASB separates "*pure insurers*" from "*insurers within the banking industry*" (Board Member). Nonetheless, the preference for a regulated entity approach would have to be substantiated. For example, it was suggested that an impact assessment be carried out (Patrick de Cambourg; Françoise Flores) to become aware of the relative magnitude of insurance activities within banking conglomerates (Laurence Rivat). Along these lines, the insurance industry representative asserts that preliminary calculations point to the situation that many insurers would not qualify under the predominance criteria (Benoit Jaspar). Nonetheless, an overarching theme discussed at the EFRAG board conference call on the 9th of November 2015 pertained to the lack of substantiation of many of the claims being made in the letter. For instance, an observer from the EC asserted that "*It would be good if it was supported by more concrete data or figures*" particularly in terms of the question of the eligibility to apply the deferral approach as per the current proposal of the IASB.

In the letters submitted by constituents in regards to EFRAG's draft letter to the EC, insurers generally welcomed the efforts of the IASB in developing a deferral approach but highlighted the unacceptability of the proposal as it is currently articulated (EFRAG, 2015bc). In particular, it was posited that insurers operating within financial conglomerates would likely be unable to satisfy the predominance criterion leading to difficulties in terms of the comparability of insurers within Europe (Insurance Europe, FBF). The possible magnitude of this predicament is illustrated by R+V Versicherung AG. As a subsidiary within a conglomerate that does not meet the predominance test at the reporting entity level, R+V would not be able to defer IFRS 9 despite having amassed "*financial assets in the amount of around 80 billion Euros*" (R+V, p. 2). Moreover, it is argued that the issue would be especially pronounced in France due to the prevalence of bancassurers (FFSA). Conversely, reservations towards such an approach to deferral were conveyed by a number of constituents primarily from outside the realm of insurance. For instance, EFRAG is urged to fully explore the consequences of applying the deferral approach on the basis of the insurance regulation (ESMA; ICAEW). In addition to the potential implications on transparency for the investing community, the need for quantitative evidence to support the claims made by EFRAG in the letter was expressed by the CFA Institute.

On the basis that the majority of constituents were largely supportive of the draft letter, the Secretariat did not carry-out significant revisions (Françoise Flores). However, inspired by the comments of constituents and in an attempt to soften the tone of the letter (ECB Observer; Mark Vaessen) during the EFRAG board meeting on the 24th of November 2015, it was suggested that several changes be made. Along these lines, several board members argued that the draft letter did not adequately reflect the views of constituents in regards to the need for clarity on IFRS 9 and the potential for a carve-out at the European level. As such, the necessity of reiterating in the letter EFRAG's preference for a swift endorsement of IFRS 9 and that an international solution to the insurance issue be found by the IASB (Roger Marshall; Angelo Casò;[14] Mark Vaessen; Laurence Rivat) were voiced and subsequently underscored on page one of the final letter (EFRAG, 2015bf). Moreover, Stig Enevoldsen voices a concern regarding the reference to

[14] EFRAG Board Member and President of the Executive Board of the O.I.C. – "the Italian National Accounting Standards Setter" (EFRAG, 2016c).

the insurance regulation as a method of identifying insurers below the reporting entity level, drawing on the comment letter submitted by ESMA.

> "While EFRAG suggests that 'scope of insurance regulation may have a helpful role to play in identifying "insurers" for the deferral approach', EFRAG does not assess the drawbacks of this option" (ESMA, p. 3).

Consequently, the statement "*We believe that the scope of insurance regulation may have a helpful role to play in identifying "insurers" for this option and we note that the IASB has not made any use of it*" (EFRAG, 2015be, p. 3) is replaced with "*In its contribution to the IASB due process, EFRAG will make proposals on how such an option could be designed*" (EFRAG, 2015bf, p. 3). This indicates that whilst the deficiency of the predominance criterion has provisionally been established as a fact, the proposed solution to this inadequacy was unable to be carried-forward due to a lack of substantiation as well as reference to an "argument from authority" (Latour, 1987, p. 31). Hence, the reasonableness of a 'regulated entity' approach to deferral is swayed towards the realm of fiction as opposed to facts.[15]

In comparison, the undue limitation in the scope of the deferral approach is further fortified through the presentation of this fact within the text itself. As such, the analysis carried-out by the EFRAG Secretariat on the estimated applicability of the deferral approach in Europe was presented to the board for possible inclusion in the letter (EFRAG, 2015bd; Françoise Flores). As the CFA Institute (Laurence Rivat) along with numerous member states had called upon EFRAG to further substantiate its letter with evidence, it was decided that "*some of those numbers would be helpful in illustrating the problem*" (Roger Marshall). Nevertheless, Peter Sampers[16] points out that the sample – consisting solely of twenty-one members of the European Insurance CFO Forum – *"does suggest that might be biased."* This leads to an alteration in the sample of insurers which now comprises of *"the 20 largest insurers that published their financial statements in accordance with IFRS as adopted in the EU"* (EFRAG, 2015bf, p. 8). Based on the CFO Forum pool, none of the twenty-one insurers are assessed to pass the predominance test at its currently stipulated threshold of 75% (EFRAG, 2015bd, p. 2) while six out of twenty insurers satisfy the criterion under the revised grouping (EFRAG, 2015bf, p. 9).

[15] This resonates with an example provided by Latour (1987, p. 25) in regards to the conversion of facts into fiction.
[16] EFRAG Board Member and Chairman of the Dutch Accounting Standards Board.

These facts provide a basis from which a positive modality is utilized to highlight the necessity of developing a more lenient approach to determining the availability of a deferral.

> "Given the advantages of this approach and the potential restriction in its use, as highlighted above, it is worth exploring whether different criteria can be identified that support its application to as many relevant entities as possible" (EFRAG, 2015bf, p. 3).

10. Discussion and conclusion

As predicted by an interviewee (Interview 1; Interview 2), a tumultuous period has been observed leading up to the release of EFRAG's final endorsement advice on IFRS 9. While some actors were able to inject a certain amount of the possible negative consequences from the use of fair values into the final endorsement advice, the wording of the eventual statements was moderated due to a lack of substantiation and evidence that questioned the extent of such measurements in IFRS 9 relative to IAS 39. Thus, as opposed to an all-encompassing debate over fair value measurements, a large portion of the divisiveness observed in the endorsement process pertained to the non-alignment of IFRS 9 and IFRS 4 leading to the novel outcome of a 'qualified' endorsement recommendation. Initially, the factual statement that "IFRS 9 is conducive to the European public good" was inserted into a positive modality in regards to the overall advice to the EC recommending "endorsement without further delay" (EFRAG, 2015aa, p. 5). However, this fact-building endeavor was not carried forward to the final endorsement advice. First, supported by several board members, the qualitative and quantitative evidence provided to EFRAG by the European insurance sector was able to substantially reopen the black box surrounding the conduciveness of IFRS 9 to the European public good for insurers. Second, a number of board members provided convincing arguments concerning the lack of available evidence to provide an overall public good assessment due to sufficient uncertainty regarding the future IASB solution. This produced a transformation from a positive modality to a negative one whereby the 'except for' clause led to a recommendation that IFRS 9 be applied on a voluntary basis within the insurance industry. Although dissenting board members were unsuccessful in de-purifying the revised overall advice, their efforts to soften the negative tone of the letter were largely fruitful.

The construction of the follow-up letter from EFRAG to the EC on the matter of insurance also comprised of a number of evidence-based transformations. While the insurance industry

articulated several concerns pertaining to both the overlay and deferral solutions being worked on by the IASB, the general scarcity of evidence to corroborate its claim faced fierce opposition from board members. As such, with a view towards providing a more balanced view, numerous negative statements previously inserted within the letter were weakened or removed in the absence of substantive evidence. This demonstrates the capacity of board members to travel upstream to challenge the fact-building efforts of the insurance industry in regards to the two proposed approaches to resolving the insurance issue. This resulted in a persistent search for quantitative evidence from constituents that produced limited results. Nevertheless, the insertion of the internal EFRAG analysis in the letter provided a degree of fortification to the fact that the applicability of the deferral approach is rather limited and thus alternatives should be investigated to allow additional insurers to utilize it – which was further solidified by the rearrangement of the sample to preempt criticism over bias. However, the deficiency of supporting evidence in regards to the suggestion that the insurance regulation may provide a useful basis to determine insurers is contested and removed from the letter which points to the fragility of allegedly unsupported statements. This alludes to the pivotal role of evidence in swaying the trajectory of assertions within financial accounting texts.

In focusing primarily on the activities of EFRAG, the case under examination builds on the work of Young (2014) by highlighting the role of purification in the production of financial accounting texts. In its responsibility to evaluate whether IFRS 9 satisfies the EU endorsement criterion of conduciveness to the European public good, EFRAG intensely deliberated on a plethora of the standards' potential effects. In comparison with an aim of assessing the quality of financial reporting *per se*, the focus on effects raises a different set of concerns. As opposed to its ideologically-restrained evaluation of the true and fair view, EFRAG's assessments of the impacts of accounting standards are not restricted by the sole objective of valuation-usefulness. Nonetheless, it is elucidated that the evaluation of effects by EFRAG by no means eradicated the role of purification in the agreements reached on IFRS 9. Processes of purification played a central part in swaying decisions one way or another including the frequent reopening of previous agreements. This exemplifies a fundamental link between the practices of purification and EFRAG's recommendations to the EC pertaining to IFRS 9. Accordingly, this study furthers our limited comprehension of how accounting standards are assessed, negotiated, and 'purified' by a heterogeneous collection of actors prior to their endorsement.

Moreover, the paper contributes to the literature on the role of individuals and groups in the micro-politics of accounting standards by shedding light on the significance of 'fact-based evidence' in stabilizing contentious decisions. As previous studies have demonstrated, the tendency of staff or subgroups of board members to dominate the standard-setting process may be attributed to various factors including the bewilderment and disinterestedness of other board members (Erb and Pelger, 2015) along with the impact of first language and "*competing accounting ideologies*" (Morley, 2016, p. 225). On the latter point, Ramanna (2015) argues that the accounting standard-setting process has been ideologically captured by special-interest groups. This paper builds on these studies by emphasizing the role of practices of purification in the dynamics among staff and board members which influence decisions on accounting standards. Whilst this approach does not refute the existence of ideology in the standard-setting process, it posits that rhetorical strategies predicated on ideology alone may provide an insufficient basis from which to explain how consensuses are reached on controversial accounting standards. In this case, board members may be classified according to how they weigh the significance of the concerns of the insurance industry relative to the wider European community. For example, it has been observed that several board members connected the expected detrimental impact of the standard on European insurers with the overall assessment of the European public good, while other board members and official observers tended to consider the concerns of the European capital markets as paramount to evaluations of the European public good irrespective any effects on one particular segment of the economy. However, rather than underscoring the categorization of board members and official observers into ideological camps, this paper emphasizes the strategies involved in the writing of accounting texts in contentious environments. It underscores how statements are purified and de-purified in a twofold process. On one hand, the practices of purification have been observed to promote an escalation of debate by challenging assorted aspects of an accounting text; while on the other hand, this process has also been observed to provide a basis in which temporary resolutions by the board are reached. Taken together, in controversial settings purification may be regarded as a pivotal element in the gradual solidification of financial accounting texts whereby provisional resolutions are agreed upon.

Along these lines, the paper points to two elements of purification which contribute to solidifying accounting texts. First, the strengthening of accounting texts through 'fact-building' efforts has been perceived as a mechanism to provide evidence to support particular claims. This

illustrates the proposition of Latour (1987, p. 30) that "*When controversies flare up the literature becomes technical.*" For instance, EFRAG's requests to the insurance industry for quantitative assessments of the impact of the non-alignment of the effective dates of IFRS 9 and IFRS 4 provided support for its decision to issue a 'qualified' opinion on whether IFRS 9 is conducive to the European public good. Coupled with reference to the comment letters received from the insurance industry, this evidence temporarily solidified EFRAG's 'except for' opinion without a dissenting view despite fervent opposition by some board members and official observers. Moreover, the reservations expressed by EFRAG in its subsequent update to the EC were reinforced by substantiations from the insurance industry as well as an internal analysis on the availability of the deferral approach which was presented in an appendix to the letter. Nonetheless, the important role of board members in upholding these fact-building exercises has been observed in board meeting interactions whereby positive modalities within the texts were often contested. For example, the fact that the predominance criterion developed by the IASB appears to exclude several entities regarded as insurers was carried forward in a positive modality calling for the IASB to explore options that would incorporate these entities. In the face of significant resistance, the inability to wholly de-purify these facts led to near unanimous overall decisions by the board in regards to both the endorsement letter and the supplementary letter. Accordingly, this adds to our understanding of how facts are constructed and fortified within positive modalities to provisionally stabilize statements within financial accounting texts.

Nevertheless, irrespective of the capacity of fact-building efforts in relation to the insurance issue to sway major decisions reached by the board, the ability of other board members to cast doubt on certain statements within the letters produced noteworthy changes in direction in several instances. As such, the second element of purification observed in the paper relates to the identification of impure statements and their outright removal or their transformation from positive to negative modalities. This explicates how certain facts produced in regards to accounting standards become "artefacts" (Latour, 1987, p. 24) while others are significantly weakened prior to publication. An overarching element involved in these transformations relates to alleged deficiencies in the evidence employed to substantiate the representation of facts within a text. For example, a successful strategy employed to eradicate or weaken statements was observed to consist of a combination of the allusion to a lack of corroboration and an "argument from authority" (Latour, 1987, p. 31) referring to a comment letter or report produced by an influential actor. Whilst constituting a de-purification of facts, these transformations

further solidified the text by encircling additional allies within it and obstructing potential external attacks. This relates to the work of Young (2003) by illustrating how modalities are transformed by reference to evidence (or lack thereof) which strengthens or weakens factual statements within accounting texts throughout the production process. Additionally, this elucidates that whilst financial accounting texts may encompass an increasing degree of 'technicalities' as controversies deepen, the strength of factual statements may also be weakened in an effort to solidify the text when the supporting evidence is refutable.

In addition to the fact-building efforts aimed at introducing more 'technicalities' into the text and the de-purification of statements within it, another element contributing to the temporary resolutions observed in this case relates to the process of staging and framing (Latour, 1987). In this sense, EFRAG attempted to anticipate the reaction of the EC to its letters and thus placed significant emphasis on managing the overall tenor of the letters and the strength of certain statements within them. With a view towards minimizing variant interpretations of the texts, several alterations were carried-out. This included accentuating the importance of the applicability of IFRS 9 for non-insurers by the 1st of January 2018, the insistent avoidance of reference to the term "carve-out", and shifting certain negative statements to less prominent positions within the texts. Similarly, the process of toning down negative statements in the letters may be discerned; for example, in the inclusion of the views of some insurers that did not coincide with the prevailing view of the European insurance industry. The overall message was believed to be balanced to reflect the view that whilst uncertainty exists in relation to the insurance industry for which an acceptable international solution is still required, IFRS 9 should be mandatory for all other entities by its effective date. Moreover, strategy of "captation" (Latour, 1987, p. 57) was employed to manage the reaction of users of the texts by reducing the ambiguity associated with the overall endorsement advice. In sum, these efforts were designed to facilitate the agreements reached, resulting in the isolation of one dissenting board member who subsequently retracted his minority view.

As evidenced by a recent call from the European Parliament for the IASB and EFRAG to bolster their capabilities in the area of effects analysis (European Parliament, 2016), it is believed that assessments of the effects of proposed financial reporting standards are presently in their infancy. Consequently, this paper provides a preliminary exposition of the manner in which accounting standard-setting and endorsement projects grapple with the assessment of the future

implications of accounting standards. It has been observed that the future-oriented nature of such debates has the potential to produce a steadfast search for 'fact-based' evidence and contentious debate in regards to how such data is represented within official documents. The necessity of purifying these facts and inserting them into positive modalities appears to have been prevalent in the endorsement of IFRS 9, as were the de-purification of statements inserted within negative modalities or rendered to the status of an artefact. This underscores the fragility of agreements encompassing such analyses which may be partly attributed to the general instability of fact-building endeavors. As posited by Latour (1987, p. 25) "*By itself a given sentence is neither a fact nor a fiction; it is made so by others, later on*." In addition to suggesting an increasingly significant role for the procedures of fact-building in financial accounting texts, this also points to the importance of examining how actors strengthen or weaken financial accounting facts upon reception. Future research may continue to explore how facts are produced and deployed in the construction of 'effects studies' as well as the impact of such analyses on the accounting standards developed by the IASB.

Appendix

Table 6: Documents Utilized in the Analysis

Year	Title	Origin	Reference
2012	Draft Minutes. Meeting of the Accounting Regulatory Committee. 30 November 2012.	ARC	ARC (2012)
2013	Draft Minutes. Meeting of the Accounting Regulatory Committee. 22 February 2013.	ARC	ARC (2013a)
	Meeting of the Accounting Regulatory Committee. 15 April 2013.	ARC	ARC (2013b)
	Meeting of the Accounting Regulatory Committee. 2 December 2013.	ARC	ARC (2013c)
2014	Meeting of the Accounting Regulatory Committee. 23 September 2014.	ARC	ARC (2014a)
	Meeting of the Accounting Regulatory Committee. 27 November 2014.	ARC	ARC (2014b)
	Endorsement advice on IFRS 9 Financial Instruments	EC	European Commission (2014)
	EFRAG TEG Chairman's Report to the EFRAG Board	EFRAG	EFRAG (2014b)
	EFRAG Update. December 2014.	EFRAG	EFRAG (2014c)
	IFRS 9 Financial Instruments	EFRAG	EFRAG (2014e)
2015	Meeting of the Accounting Regulatory Committee. 23 March 2015.	ARC	ARC (2015a)
	Meeting of the Accounting Regulatory Committee. 21 May 2015.	ARC	ARC (2015b)
	Meeting of the Accounting Regulatory Committee. 17 September 2015.	ARC	ARC (2015c)
	EFRAG Update. January 2015.	EFRAG	EFRAG (2015d)
	EFRAG Update. February 2015.	EFRAG	EFRAG (2015e)
	EFRAG Update. March 2015.	EFRAG	EFRAG (2015f)
	EFRAG Update. April 2015.	EFRAG	EFRAG (2015g)
	EFRAG Update. May 2015.	EFRAG	EFRAG (2015h)
	EFRAG Update. June 2015.	EFRAG	EFRAG (2015i)
	IAS 39 transition to IFRS 9 and carve-out	EFRAG	EFRAG (2015j)
	EFRAG's evaluation of the costs and benefits of IFRS 9.	EFRAG	EFRAG (2015k)
	Assessing prudence in the context of endorsement.	EFRAG	EFRAG (2015l)
	Is IFRS 9 an improvement over IAS 39?	EFRAG	EFRAG (2015m)
	Potential impact of IFRS 9 on investor and issuer behavior. Note to EFRAG Board Members.	EFRAG	EFRAG (2015n)
	IFRS 9 Financial Instruments Draft Endorsement Advice	EFRAG	EFRAG (2015o)
	Draft Endorsement Advice Report on IFRS 9 Financial Instruments. Invitation to Comment on EFRAG's Assessments.	EFRAG	EFRAG (2015p)
	Adoption of IFRS 9 Financial Instruments	EFRAG	EFRAG (2015q)
	IFRS 9 Financial Instruments DEA. Dissenting opinion - draft.	EFRAG	EFRAG (2015r)
	IFRS 9 Financial Instruments Draft Endorsement Advice. Cover Note.	EFRAG	EFRAG (2015s)
	How the DEA addresses the views presented in the dissenting opinion.	EFRAG	EFRAG (2015t)
	Adoption of IFRS 9 Financial Instruments	EFRAG	EFRAG (2015u)
	IFRS 9: Financial Instruments - Draft endorsement advice - Cover note.	EFRAG	EFRAG (2015v)
	Background information to the DEA. IFRS 9 Financial Instruments. Inter-relationship between IFRS 9 and the future insurance contracts standard.	EFRAG	EFRAG (2015w)
	Adoption of IFRS 9 Financial Instruments	EFRAG	EFRAG (2015x)
	Draft Endorsement Advice on IFRS 9 Financial Instruments. Invitation to Comment on EFRAG's Assessments.	EFRAG	EFRAG (2015y)
	EFRAG Requests Comments on its Draft Endorsement Advice on IFRS 9 Financial Instruments	EFRAG	EFRAG (2015z)
	Adoption of IFRS 9 Financial Instruments	EFRAG	EFRAG (2015aa)
	Deferral of IFRS 9 for Insurers. Revised Paper.	EFRAG	EFRAG (2015ab)
	IFRS 9 Financial Instruments. Finalisation of Endorsement Advice.	EFRAG	EFRAG (2015ac)
	IFRS 9 Financial Endorsement Advice. Recommendations of EFRAG TEG after analysis of comments received.	EFRAG	EFRAG (2015ad)
	Draft Endorsement Advice on IFRS 9. Updated Based on Comments Received.	EFRAG	EFRAG (2015ae)
	IFRS 9 Financial Instruments. Individual insurance specialist user outreach on the potential deferral of IFRS 9 for insurers.	EFRAG	EFRAG (2015af)
	IFRS 9 Financial Instruments Draft Endorsement Advice. Summary of Comment Letters.	EFRAG	EFRAG (2015ag)
	IFRS 9 Financial Instruments. Cover note.	EFRAG	EFRAG (2015ah)
	Draft Endorsement Advice on IFRS 9. Revised draft to reflect "option 4" and provide a revision of the presentation of the insurance issue (cover letter, relevant extract of Appendix 3	EFRAG	EFRAG (2015ai)
	Use of Fair Value	EFRAG	EFRAG (2015aj)
	Impairment comparing IFRS 9 with US GAAP	EFRAG	EFRAG (2015ak)
	Impact on industries of IFRS 9. Proposals from the DRSC.	EFRAG	EFRAG (2015al)
	IFRS 9 Financial Instruments	EFRAG	EFRAG (2015am)
	Final Endorsement Advice on IFRS 9	EFRAG	EFRAG (2015an)
	Final Endorsement Advice on IFRS 9	EFRAG	EFRAG (2015ao)
	Dissenting view on EFRAG final endorsement advice for IFRS 9	EFRAG	EFRAG (2015ap)
	IFRS 9 Final Endorsement Advice. Input from EFRAG TEG on the IASB's July proposals.	EFRAG	EFRAG (2015aq)
	EFRAG Update. July 2015.	EFRAG	EFRAG (2015ar)
	EFRAG Update. August 2015.	EFRAG	EFRAG (2015as)
	EFRAG Update. September 2015.	EFRAG	EFRAG (2015at)
	Endorsement Advice on IFRS 9 Financial Instruments	EFRAG	EFRAG (2015au)
	Insurance: deferral and overlay approaches.	EFRAG	EFRAG (2015av)
	IFRS 9 and IFRS 4 – overlay and deferral approaches. EFRAG TEG advice to EFRAG Board.	EFRAG	EFRAG (2015aw)
	EFRAG TEG advice. DRAFT. Letter from EFRAG to the European Commission.	EFRAG	EFRAG (2015ax)
	Insurance. DRAFT Letter from EFRAG to the European Commission. Deferral and overlay approaches for insurers.	EFRAG	EFRAG (2015ay)
	DRAFT. Letter from EFRAG to the European Commission.	EFRAG	EFRAG (2015az)
	Draft Letter from EFRAG to the European Commission.	EFRAG	EFRAG (2015ba)
	Insurance: Cover note.	EFRAG	EFRAG (2015bb)
	Summary of comment letters.	EFRAG	EFRAG (2015bc)
	Analysis of Insurance companies' financial statements.	EFRAG	EFRAG (2015bd)
	Letter from EFRAG to the European Commission.	EFRAG	EFRAG (2015be)
	Further information related to the endorsement of IFRS 9.	EFRAG	EFRAG (2015bf)
	EFRAG Update. November 2015.	EFRAG	EFRAG (2015bg)
	EFRAG Update. October 2015.	EFRAG	EFRAG (2015bi)
	Expected-Loss-Based Accounting for the Impairment of Financial Instruments: the FASB and IASB IFRS 9 Approaches	EP	European Parliament, 2015a
	IFRS Endorsement Criteria in Relation to IFRS 9	EP	European Parliament, 2015b
	Impairments of Greek Government Bonds under IAS 39 and IFRS 9: A Case Study	EP	European Parliament, 2015c
	The Significance of IFRS 9 for Financial Stability and Supervisory Rules	EP	European Parliament, 2015d
	FRC Meeting on EU endorsement of IFRS 9 Financial Instruments	FRC	FRC (2015)
	European Insurance CFO Forum and Insurance Europe supplementary comments on "Views on IFRS 9 endorsement in the EU"	Insurance Europe	Insurance Europe (2015a)
	Views on IFRS 9 endorsement in the EU	Insurance Europe	Insurance Europe (2015b)
	Interaction between IFRS 9 and IFRS Phase II	Insurance Europe	Insurance Europe (2015c)

Table 7: Comment Letters on Draft Endorsement Advice (June – July 2015)

Document	Respondent	Country	Nature
1	Swedish Enterprise Accounting Group (SEAG)	Sweden	Preparer organisation
2	Federation of European Accountants (FEE)	Belgium	Accounting organisation
3	Danish Insurance Association (DIA)	Denmark	Preparer organisation
4	Association for Financial Markets In Europe (AFME)	UK and Belgium	Trade Association
5	Assuralia	Belgium	Preparer organisation
6	Local Authority Pension Fund Forum (LAPFF)	UK	Preparer organisation
7	Gesamtverband der Deutschen Versicherungswirtschaft (GDV)	Germany	Preparer organisation
8	KBC	Belgium	Preparer
9	MINFINROMANIA	Romania	National Standard Setter
10	Talanx	Germany	Preparer
11	German Banking Industry Committee (GBIC)	Germany	Preparer organisation
12	Association of British Insurers (ABI)	UK	Preparer organisation
13	European Savings Banks Group (ESBG)	Europe	Preparer organisation
14	Accounting Standards Committee of Germany (ASCG)	Germany	National Standard Setter
14A	Linde	Germany	Preparer
14B	Merck	Germany	Preparer
14C	Munich RE	Germany	Preparer
15	TFILTP	France	Preparer organisation (task force)
16	R+V Versicherung (R+V)	Germany	Preparer
17	HSBC	UK	Preparer
18	Ministerio de Economia y Competitividad – Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
19	Allianz	Germany	Preparer
20	Federation Bancaire Francaise (FBF)	France	Preparer organisation
21	KPMG	UK	Audit firm
22	FSR - danske revisorer / Danish Accounting Standards Committee (FSR)	Denmark	Audit organisation
23	European Association of Public Banks (EAPB)	Europe	Preparer organisation
24	European Banking Federation (EBF)	Europe	Preparer organisation
25	Commerzbank AG	Germany	Preparer
26	Financial Reporting Council (FRC)	UK	National Standard Setter
27	Dutch Accounting Standards Board (DASB)	Netherlands	Standard setter
28	Financial Reporting and Analysis Committee of the CFA Society of the UK (FRAC)	UK	User organisation
29	ISDA	Global	Association
30	Legal & General Group Plc (L&G)	UK	Preparer
31	European Association of Co-operative Banks	Europe	Preparer Organisation
32	Austrian Federal Economic Chamber (AFEC)	Austria	Preparer Organisation
33	British Bankers' Association (BBA)	UK	Preparer Organisation
34	Deutsche Bank AG (DB)	Germany	Preparer
35	Barclays	UK	Preparer
36	CNP Assurances	France	Preparer
37	ICAEW	UK	Accountancy body
38	SIDREA	Italy	Academic Association
39	Autorité des Normes Comptables (ANC)	France	National Standard Setter
40	CFO Forum/ Insurance Europe (CFO/IE)	Belgium	Preparer organisation
41	Polish Accounting Standards Committee (PASC)	Poland	National Standard Setter
42	FFSA	France	Preparer Association
43	European Securities Markets Authority (ESMA)	Europe	Regulator
44	European Banking Authority (EBA)	Europe	Regulator
45	European Central Bank (ECB)	Europe	Central bank
46	Crédit Agricole	France	Preparer
47	CFA Institute	Global	User Association
48	Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
49	European Insurance and Occupational Pensions Authority (EIOPA)	Europe	Regulator

Table 8: Comment Letters on Draft Letter from EFRAG to the European Commission (November 2015)

Document	Respondent	Country	Nature
1	HSBC	UK	Financial conglomerate
2	European Banking Federation	Europe	Industry association
3	CFO Forum and Insurance Europe (supported by ABI)	Belgium	Industry association
4	The Swedish Society of Financial Analysts	Sweden	Analyst association
5	The Institute of International Finance I(IIF)	Global	Industry association
6	ESMA	Europe	Regulator
7	Federation of European Accountants (FEE)	Belgium	Industry association
8	Fédération Bancaire Française (FBF)	France	Regulator
9	European Savings and Retail Banking Group (ESBG)	Europe	Industry association
10	R+V Versicherung AG	Germany	Insurer within financial conglomerate
11	Corporate Reporting Users Forum (CRUF)	Global	Analyst association
12	CNP Assurances	France	Insurer
13	Assuralia	Belgium	Industry association
14	ICAEW	UK	Professional accounting body
15	Allianz	Germany	Financial conglomerate
16	Deutsche Bank	Germany	Financial conglomerate
17	Fédération Française des Sociétés d'Assurances (FFSA)	France	Industry association
18	CFA Institute	Global	User Association
19	Association of German Public Banks	Germany	Industry association
20	KPMG	UK	Audit firm
21	German Insurance Association (GDV)	Germany	Industry association
22	Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter

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