Accounting in Europe

Accounting and Politics in Europe: influencing the standard

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Third draft October 2019

1.0 Introduction

The scope for interventions in financial reporting regulation in Europe is considerable. This includes determining the machinery for issuing regulations, influencing who participates, what kind of organisations have to apply the regulations being produced and what system is available to enforce the regulation. All that is before one even comes to the content of the regulations themselves. All these interventions might be described as ‘political’ in one sense or another. In this paper, the intention is to focus on one strand of the political activity: the scope for interventions in the content of the standards which emerge from the International Accounting Standards Board (IASB) and are endorsed for use in the European Union (EU).

While there is a literature on the formal processes of lobbying by constituents of the International Accounting Standards Board (IASB), there is very little published research in the area of less formal processes and indeed on the effects of lobbying. This is presumably because it is impossible to connect cause and effect in any clear and objective way in this context. It is also difficult to interview those involved in standard-setting, and when one does get an interview, it is not always clear what use can be made of it. At one extreme, some standard-setters, and particularly chairmen, make use of the wider financial press as another way of intervening in their relations with constituents. At the other extreme, many standard-setters will not be interviewed on the record at all. In the middle, there are the frustrating cases where an interview is done and then permission to use the material is withheld.

It is not surprising that the literature is thin, and I have been asked on this occasion to write about my first hand experiences rather than research. My professional activities as a researcher, as editor of World Accounting Report, as publisher of IFRS Monitor and as a director of the ESSEC-KPMG Financial Reporting Centre have given me the opportunity to monitor closely the creation of IFRS and the European endorsement system for a number of years. They have also given me privileged access to some private comments and insights from some of the people involved in these activities. This paper is based on these experiences and comments and is designed primarily to inform colleagues.

Unlike many national rule-making systems, due process for creating International Financial Reporting Standards (IFRS) is transparent, as to a lesser extent are the workings of EFRAG. It might be thought therefore that actors concerned by financial reporting in Europe can easily make their voices heard by decision-makers, and have no appetite for supplementary activity to attempt to influence the outcomes of standard-setting. However, this does not seem to be the case, and the European endorsement system introduces multiple opportunities for organisations to attempt to intervene outside of the formal consultative channels of the standard-setter and the Commission’s IFRS adviser.

The rest of the paper falls into two broad sections: the first presents the IASB standard-setting system with the European endorsement process and points to areas where lobbying can take place; the second examines a number of issues that relate to the process of lobbying.
2.0 Standard-setting and endorsement of standards

2.1 The IASB Agenda

A number of studies focus on lobbying and other representations during the process of formulating a standard, however, the IASB itself probably experiences the most lobbying (as compared with formal consultation) around the choice of subjects for its agenda. It could be argued that the most effective lobbying would be that which kept a contentious subject, such as leasing or insurance contracts, off the agenda in the first place, or one which brought a desired subject onto the agenda. In the early days of the IASB, commentators were of the view that Sir David Tweedie had a good deal of freedom in this area. The FASB, or more accurately the Financial Accounting Foundation (FAF) which oversees the US standard-setter, has changed its own stance several times over the years. When Bob Herz was FASB chairman (2002-2010), he was given decision-making power, but Russell Golden (chairman 2013-2020), preferred the subject to be debated by his board and also initiated an agenda consultation process.

EFRAG did for a long time campaign to have a more systematic method of choosing the international agenda topics and the IFRS Foundation now has a highly structured approach to this. Sir David Tweedie initiated a process of having a regular agenda consultation with constituents. Chairman Hans Hoogervorst took the view early in his first term that the agenda was too cluttered, and installed a system which split the visible agenda into three areas: (a) active standard-setting; (b) research into the need for and feasibility of a new standard; and (c) a waiting list of topics. The aim was to focus standard-setting on a limited number of topics and progress those more quickly, while at the same time testing proposed topics to see if a new standard on a specified topic would be likely to pass a cost/benefit test.

The agenda of the IASB has to be agreed with the Trustees of the IFRS Foundation, and they are themselves subject to oversight from the Monitoring Board. This means that anyone wishing to influence agenda decisions could always try to do so by lobbying the Trustees and the Monitoring Board which consists of financial market regulators. It is possible that this is a route more likely to be taken by governments.

2.2 IASB Due Process

It could be argued that the whole of the IASB due process is designed to encourage lobbying. Over the years since 2001 the IFRS Foundation has extended its outreach activities to make board members and staff as available as possible to discuss standards with constituents. However, one could point out that in addition to the formal steps, interested parties do have private meetings with standard-setters to discuss work in progress. This was particularly evident during the long drawn out process of formulating IFRS 17 Insurance Contracts. No other individual standard has had the potential to completely change the way many major companies measure assets, liabilities and profits, and therefore it is not surprising that it always attracted a high degree of attention from insurance trade organisations and insurance regulators.

Possibly one of the most difficult parts of being a member of the IASB is to assess the validity of the views expressed by respondents to due process documents. It is a given of the process that most respondents will reject a proposed change in accounting requirements. Generally it is the case that companies take the view that analysts and the market generally have worked out how to value the enterprise based on its existing financial statements (amongst other issues) and as a consequence they fear that a change in the financial reporting rules will lead to a change in market valuation,
despite the fact that there has been no change in activity. In other words, the value will be changed by the accounting not the economic activity. Corporates have other good reasons to oppose change, such as the cost of having to change financial reporting software and procedures, retrain staff, rewrite accounting manuals etc.

They will tend therefore to oppose change, with the attendant risk that they will exaggerate the possible effects of the change. Each board member has to reach a view about how seriously to take these assessments of damage. Senior standard-setters such as James Leisenring (FASB and IASB) would note that respondents claim the ‘world will come to an end’ if such and such a change is made, but the world in fact absorbs the change and carries on. This assessment of the likely outcome is a key focus of political activity by lobbyists.

One of the backdoor means of trying to stop a standard used to be to claim that due process had not been followed in formulating the standard. The Foundation eventually addressed this by setting out a due process rule book, creating a due process oversight committee to which staff report systematically and requiring the staff to assess whether due process has been correctly followed before issuing a due process consultation document. There is now a paper trail that documents the application of the rules.

2.3 IFRS Foundation committees

In 2001 the Foundation ran to one major advisory committee, the IFRS Advisory Committee, and an Interpretations Committee. Since then the evolution of outreach activities and the need to liaise more closely with national standard-setters have led to a proliferation of committees. Notably the Accounting Standards Advisory Forum seeks to involve national standard-setters closely in discussing the work in progress of the IASB, but there are regional groups of standard-setters, and consultative committees of preparers and users. Membership of these committees offers the opportunity to lobby both formally in meetings and informally in conversation outside the meetings. A side issue is that many organisations are very interested to be represented on such committees, partly for the lobbying opportunities which they convey but conceivably also because of the professional standing that is implicit in membership.

This is one of the areas which is also impacted by resource issues. A national standard-setting or financial reporting advisory group has to compete locally for resources; membership of key Foundation committees enables the national group to support its claim that it is effective in representing its constituents in the IFRS process, while actually calling for resources to enable members to attend meetings.

Nonetheless, this sort of access can be double-edged. The French national standard-setter was restructured after 2005 to enhance its impact on the IFRS creation process. Following this a senior civil servant, the late Jérôme Haas, was appointed as chairman. He consulted widely in France and came to the view that French positions were not reflected in IFRS and IFRS were not well regarded in the French financial reporting community. He took the view that France should therefore be more aggressive in its relations with the IASB in order to have more impact. Amongst other things, although he was part of the EFRAG liaison group with the IASB, he did not follow the agreed line his colleagues had worked out before liaison meetings with standard-setters (interview with another national standard-setter) but forcefully stated his own views. He quickly acquired a reputation in international circles as an agitator.

In due course, an article (Les Echos 15 Oct 2013) by a partner in PricewaterhouseCoopers claimed that the French standard-setter’s image on the international stage was a disaster and that nobody
would any longer cooperate with the chairman (including the French chairman of the Trustees of the IFRS Foundation), which was extremely problematical for French influence. One can draw from this that the nature of the lobbying is also important.

2.4 Endorsement

Not all countries which use IFRS have an endorsement system to scrutinise new standards as they are introduced, but many do. This is a delicate issue in that the import of foreign financial reporting rules inevitably implies loss of national sovereignty, and that generates a desire for a process for giving national approval in some way. At the same time, not to approve an IFRS, or to modify one on the way through, negates the perceived advantages of using a high quality international comprehensive basis of accounting – and potentially weakens IFRS generally.

Of all the IFRS endorsement systems currently in place, the EU endorsement system is the only one that approves IFRS on behalf of a number of countries. The EU itself has a highly complex political structure, given that it is still a work in progress. In theory the European Parliament should replace the Council of Ministers. Its IFRS endorsement process is similarly complicated and offers a number of significant opportunities for organisations wishing to block or modify a standard. The system itself is analysed in Walton (2009) and the development of EFRAG in Van Mourik & Walton (2018).

EFRAG is a collective European body which acts as the official adviser on IFRS to the European Commission, and in effect represents Europe in IFRS Foundation due process. It is a key member of the Accounting Standards Advisory Forum. It now has a significant staff and carries out a great deal of work in relation to IFRS. National standard-setters are a key part of its governance structure and technical staff from the four large national bodies sit on its main committee, the Technical Expert Group (TEG).

The TEG and the staff of EFRAG do a great deal of outreach with their constituents and much of its work is transparent. It therefore offers many opportunities for interested parties to lobby overtly for outcomes which they seek. Inevitably there will be opportunities for organisations to lobby informally as well. The members of the TEG are volunteers who receive no remuneration or reimbursement of expenses. This does therefore offer an opportunity for interested parties with sufficient resources to fund individuals to sit on the TEG. In 2006 the European Commission did fear that the TEG’s decisions might be unduly influenced by interested parties and set up a review committee (Standards Advisory Review Group) to assess this on a continuing basis. However, this was wound down in 2011 as not necessary. Since 2014 the TEG’s comments on the IFRS Foundation due process documents and its advice to the European Commission have been subject to approval by an enhanced EFRAG Board.

2.5 Accounting Regulatory Committee

The EU endorsement process is complex and long. Part of the issue is that detailed accounting rules are enshrined in law in many member states, and also therefore in EU legislation. Consequently, the EU determined that it required its own process to take rules formulated by a foreign private sector body and turn them into EU law. In effect a two-thirds majority of member states have to approve every line of an IFRS, and the standard also has to pass the scrutiny of the European Parliament.

In essence the European Commission (in practice the directorate general for financial stability, financial services and capital markets union: DG-FISMA) has to send new standards to the Accounting Regulatory Committee (ARC) on which sit permanent representatives of each member
state) for initial approval. The start of the process is that DG-FISMA asks EFRAG for its opinion on a specific proposal, and may add a request for consideration of specific issues related to the proposal. EFRAG will have been working on this already, during the time the standard has passed through IASB due process, and issues an opinion. Other organisations may, of course, have been lobbying FISMA officials directly.

DG-FISMA then consults ARC, usually providing a copy of EFRAG’s opinion. ARC consists of representatives of the 28 member states, but the nature of each state’s representatives is not always clear. The UK used to be represented by a civil servant from the ministry responsible for financial reporting (Department of Business) who might have in attendance a senior technical person from the UK standard-setter. The anecdotal evidence is that budget cuts over time have reduced the civil service capacity in this area and the representative now may actually be a senior staff member from the UK national standard-setter. This contrasts with the German experience, where the Department of Justice takes part in ARC; at one time the civil servant who actually went to Brussels would assiduously avoid having any input from the national standard-setter in order to preserve independence.

From a political viewpoint it might be said that ARC allows the old pre-IFRS arrangements to be preserved, where companies can lobby the appropriate national civil service department about changes in the accounting requirements. However, in practical terms it is far too late in the standards formulation process. Nonetheless, this has not prevented the ARC being used by some organisations to attempt to block IFRS modifications. Notably Spanish concession operators mounted an (ultimately unsuccessful) attempt to block the Interpretation (IFRIC 12 Service Concession Arrangements) that would change some of their tangible concession assets into intangibles. It is always open to organisations as well to threaten during the IFRS Foundation due process that they will block a proposal in the endorsement system.

The ARC is also an area where the issue of resources comes into play. There are 28 member states, but relatively few of them provide the home base for a multinational company or have to regulate a significant stock exchange. This means that accounting standards are likely to be a low priority in allocating government resources and they do not maintain a significant government staff with knowledge of the accounting needs of multinational companies and investors. Given that 18-20 states need to vote in favour of an IFRS within ARC, there is scope for political activity.

### 2.6 The European Parliament

After approval by the ARC, an IFRS is sent to the European Parliament (EP) for scrutiny. This puts the document into an overtly political arena, and one where hardly anyone has any knowledge of financial reporting. In practice the document is sent to the Economic and Monetary Affairs Committee of the EP who will prepare a report on it for submission to the EP. This use of the word committee is somewhat misleading, since it has about 50 members, and there are also alternates, so ‘committee meetings’ can involve anything up to a hundred people. The committee is chaired by a ‘rapporteur’ and its remit covers anything economic or financial that affects the EU. The range of subjects is so broad that necessarily there are few if any specialists in any relevant area.

The Members of the European Parliament (MEPs) who make up the Economic and Monetary Affairs Committee each have a personal staff of research assistants whose job it is to scrutinise the agenda papers and provide detailed advice to their MEP who is not expected to have direct knowledge of the area. Where the research assistants have no knowledge, they will often go outside, sometimes

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11 The process of delegating the power of approval of modifications to EU law to a committee of civil servants is known as comitology and was introduced to facilitate change which is otherwise slow and cumbersome.
to academics, to get information and advice. I was myself asked to brief the staff of Sharon Bowles, then rapporteur of the Economic and Monetary Affairs Committee, during the debate on the Commission’s green paper on statutory audit. As far as I could tell, none of her staff had any significant technical knowledge in the area of financial reporting by listed companies. This means that there is potentially a significant opening for lobbyists to obtain a sympathetic hearing from an MEP and influence the debate in the committee. Of course, MEPs are aware of this risk and are typically cautious, but it is unlikely that they know a great deal about the context. MEPs can also commission studies to help them assess a particular issue, although this is relatively rare. Bischof & Daske (2015) is an example of an academic analysis commissioned by the EP.

In some senses the EP is the joker in the endorsement pack. As an institution it sits rather artificially in the EU system because the planned transfer of power to it remains a work in progress. The right to initiate is reserved to the European Commission; the EP can only agree or disagree with what the Commission proposes. This means that there is a tendency for MEPs to disagree rather more than they agree because only by disagreeing can they gain traction. If they disagree, they are then in a position to negotiate gaining something they want against endorsing the Commission’s proposals. This can also result in gaming, with the Commission proposing more than it wants so that it can subsequently reduce its demands in negotiation. This is of course a tactic not open to the IASB.

A well-known example of EP intervention occurred in 2007 when it attempted to block endorsement of IFRS 8. This was the IASB version of the US segment reporting standard. British financial analysts lobbied the EP to oppose the standard on the grounds that it would lead to loss of comparability. The Commission countered the EP’s opposition by asking for its own report which eventually found that IFRS 8 would improve financial reporting.

From the lobbyist’s point of view, the EP and the ARC offer interesting downstream opportunities if they have failed to achieve the modifications they desire during the IASB due process. However, the problem is that this is too far downstream: the decision to go ahead with the standard has already been made by the IASB, and any attempt to induce a modification is going to have to persuade the EU that it is worth not endorsing the IFRS and causing the furore that would be likely to ensue.

In practice EFRAG officers have remarked that historically the ARC and EP have been left out of the process until endorsement starts. As a consequence, they are unaware of all the work that has been done and the different viewpoints explored. In particular the EP has in the past had no exposure to the material virtually until it is handed over by the ARC, a point also made in the 2013 Maystadt Report. Consequently, EFRAG and the IFRS Foundation have both taken political initiatives to involve these institutions earlier in due process with the aim of making them better informed and possibly less susceptible to outside influence. The chairman of the IASB and the chairman of the Trustees of the Foundation currently appear at regular intervals before the Economic and Monetary Affairs Committee of the EP, although the questions sometimes underline something of how the members lack technical knowledge.

2.7 The Council of Ministers

The last stage of the endorsement process is approval of the IFRS by the EU Council of Ministers, the supreme executive authority of the EU. The council is actually a series of related councils of ministers of member state governments. The Economic and Finance Council (ECOFIN in the jargon) consists of the finance ministers of member states and it gives the final seal of EU approval to IFRS. This is theoretically another opportunity for vested interests to lobby, if they have access to the relevant national ministry. In practice ECOFIN tends to endorse IFRS that have passed through the rest of the
process. If it intervenes at all it is more in the area of making statements that it needs this or that improvement to financial reporting.

Nonetheless it did make a significant intervention in 2008 when it forced the IASB to amend IAS 39 to allow reclassification of some financial instruments (see Andre et al 2009 for a detailed account). The French minister produced a paper suggesting that US companies could re-classify and that therefore IAS39 was unfair to European companies. This was at the height of the financial crisis and the Commission was concerned about the stability of European banks during the initial period. A Commission official told me that after that ‘There was peace in the valley’ but it was followed up by demands for an urgent re-think on financial instruments, leading ultimately to IFRS 9.

2.8 Stock Market Enforcement

A relatively recent change in the European landscape was the creation of the European Securities and Markets Authority (ESMA) which started work in 2011. ESMA was part of the Commission’s response to the financial crisis of 2008. The Commission had previously established a principle of enforcement through organisations in each member state, coordinated by a central committee. ESMA was a firming up of the coordination mechanism and establishment of the right of the EU to intervene in national markets if necessary. ESMA is much more vocal on financial reporting matters than its predecessor and occasionally gives guidance such as on the implementation of IFRS 9.

The organisation usually participates in IFRS Foundation due process, is a member of the IFRS Advisory Council and an observer at the Interpretations Committee. It is also an observer at the EFRAG Board (having refused to be a voting member on the grounds that it wished to preserve its freedom to hold a different position to EFRAG). However, it does not have a place on the Monitoring Board of the IFRS Foundation. Although jurisdictions who are members of the Monitoring Board are usually represented by their stock exchange enforcer (e.g. the SEC for the US), the EU is represented by the Commission. The Monitoring Board is supposed to have members who are responsible for mandating and enforcing financial reporting rules in their jurisdiction. The Commission argues that ESMA does not mandate accounting rules, and the Commission enforces through ESMA.

ESMA’s chairman at the time of writing is Dr Steven Maijoor, a former professor of accounting and audit who has previously headed the Dutch enforcement mechanism. The organisation has a significant staff based in Paris. Its system provides for consultation with experts and in effect therefore also gives room for lobbying. ESMA’s work on financial reporting rules (as opposed to enforcement) takes place through its Corporate Affairs Department. The staff of that department formulate positions and guidance which are submitted to ESMA’s Corporate Reporting Standing Committee. This consists of representatives of member states. However, the committee also has a Consultative Working Group of self-financing volunteers from the wider world of financial reporting. The members of this group, who include representatives of the international audit firms, academics and interested professional bodies, meet with the Committee to discuss current proposals. The Committee then meets without the advisers to make decisions. Clearly membership of the Consultative Working Group offers opportunities to attempt to influence decisions, as does the opportunity to exchange with Committee members and staff.

3.0 The lobbying process

3.1 The private communication

The first point which must be made is that the most successful political intervention could be defined as that which is not visible. There must be many interventions taking place regularly which
are not subject to any scrutiny, are not visible to the outside world and therefore are not researched or even commented upon. In that sense the rest of the paper is about ‘unsuccessful’ political interventions – those that leave a trace. One can only assume that the successful interventions do take place. These may well take the form of behind the scenes conversations and telephone calls that leave no evidence but are intended to influence the standard-setter. Although these interventions are unobserved, they do occasionally come to light.

An example of this in the UK occurred when a committee was put together by accounting professional bodies to consider whether to recommend a change to differential reporting. This was a ground-breaking change in approach to accounting rules at that time. It was strongly held up until then that companies of all sizes and objectives should follow the same accounting rules. The slightly revolutionary nature of the idea of introducing different rules for different companies led to the formation of this ad hoc technical committee, probably to give the standard-setter the opportunity to test opinion without being committed.

The committee was supposed to prepare a report for submission to the standard-setter and to inform the profession. It eventually wanted to recommend that UK standards should differentiate between entities on the basis of size. It is understood that its chairman was summoned to an off-the-record meeting with the chairman of the standard-setter and government officials to present the committee’s view. In this case the chairman was given clearance to go ahead. We will never know what would have happened had the opinion been negative, but it is clear that the report was only published after hidden political clearance. The standard-setter did in fact then move to a differentiated system of financial reporting.

One has to assume that this sort of intervention happens frequently and there is much anecdotal evidence that it occurs in the US, particularly concerning relations between the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB). A member of the International Accounting Standards Board (IASB) commented once that part of the difficulty of working with the FASB during convergence was that IASB members, FASB members and technical staff would be making progress together on developing a particular topic, and then suddenly, from one meeting to the next, the FASB would shift position. This shift was attributed by insiders to be the result of the FASB updating the SEC on the work and receiving a negative reaction from the regulator.

One has to presume that the IASB is also subject to this kind of intervention, albeit the IASB is insulated to a degree by its international status, even if that does also expose it to a larger number of actors. It is likely that both the IASB chairman and members receive such communications from governments, standard-setters, auditors, companies and others. One can point, as an example, to an intervention outside the consultation process early in the IASB’s life when it published an amendment to IAS39 to provide a fair value option. The European Central Bank wrote to Sir David Tweedie to say that they could not accept the amendment – having failed to comment or make any sign during the normal public consultations. The amendment was subsequently modified.

3.2 The lobbyist

An insight into the lobbying process has been provided by Douglas Barnert (Walton 2007). Mr Barnert is a professional lobbyist based in New York and specialising in the insurance industry. During several years of the IASB’s long deliberations on its insurance contracts standard Mr Barnert represented a number of US insurers, attended all IASB meetings where insurance was discussed and lobbied on behalf of his clients. He said:
Lobbying has always been a question of information and education ... one works on the hypothesis that the standard-setter does not have all the information necessary, particularly when it is a question of a specialist area. One attempts to be a supplier whose quality is guaranteed...

You have to talk to people, you have to be present at the meetings of the standard-setter, to know on what points they need more information. You should anticipate their needs if possible. Then you must work with your client to find useful information. In this way you build confidence between yourself and the Board, and also with the technical team at the IASB. You can then convey your client’s point of view and organise meetings between your client and the standard-setter.

People who write regulations are more and more reluctant to take a position on technical issues which they have not mastered. Above all since Enron in the US, decision-makers are afraid of being criticised if their decisions have negative consequences. The members of the Board are very busy. They would like to speak to lots of companies but they do not have the time. By being available at any moment, you have the opportunity to interact with them.

(p20/21 PW translation)

Mr Barnert is the only professional IFRS lobbyist that I have ever encountered. However, many organisations that may be touched by IFRS keep a watching brief on board meetings. The insurance standard is again the most obvious case. International and regional organisations concerned with the insurance industry often attended the board’s deliberations, two of them coming steadfastly every month from the US. Financial instruments also used to attract observers from the banking industry, but given that the IASB meetings can now be viewed on the internet, the identity of those taking a close interest is no longer easy to spot. Jorissen et al (2012) provide an analysis of the different ways in which interested parties give input within the IASB’s formal due process that relate to their motivation and resources.

The international audit firms do employ professional lobbyists but these are more likely to be found trying to influence the non-technical elements of the process. They will stay in touch with MEPs, Commission officials and national government officials. As much as anything this is probably to keep open channels of communication in order to be aware of possible future changes in law and to have the opportunity to comment before there is a concrete proposal. The main input to the standard-setting process from the audit profession is rather done by technical staff.

3.3 The international firms

The relationship between the international audit firms and the Foundation is deep and the Big Four firms in particular devote enormous resources to their interactions with the standard-setters and the technical staff at the IASB. Each maintains a dedicated IFRS department in London, usually known as its IFRS desk. Many of the IASB’s permanent technical staff started out professional life in a Big Four technical department, possibly being seconded at some point to the IASB and often not returning.

Aside from that kind of link, the IASB rely heavily on the firms to review draft standards and to identify potential problems in their application. Firms participate in the Foundation’s different advisory and consultative bodies, the Interpretations Committee and eventually the IASB itself (of course IASB members are required to sever all formal links with past employers). The IFRS desks of the international firms also meet privately with each other.
The international firms have their own internal pressures coming from the interaction between the IFRS desk in London, national audit partners and their clients. In order to ensure international consistency of application of IFRS with the network, the IFRS desk in London is supposed to provide technical rulings on application issues encountered by national firms during audit (see Tokar 2007). This generates resentments when an audit partner in (say) Paris has to refer a query from an audit client to London and await a response. The national firm’s clients do not like the idea that their audit partner is not in charge of the process and the national firms are not happy that relations with its clients are being compromised by the international firm efforts to achieve international consistency of application.

3.4 Resources

A constraining factor throughout is the amount of resources available to a potential actor and the extent to which the actor considers that financial reporting justifies the deployment of resources. This is particularly significant in the European Union (EU) where although there are 28 states (at the time of writing) who have an equal vote in the governing councils of the EU, only four states have national standard-setters with sufficiently well-resourced staff to be able to contribute in depth to debates about financial reporting. EFRAG was seriously inhibited by lack of resources in its early days and had to rely heavily on the staffs of the big national standard-setters (a detailed analysis is to be found in Van Mourik and Walton 2018) until its funding was increased significantly.

The same constraint is evident amongst the companies that apply IFRS. Very few consider it worthwhile to have senior accountants participate in the debate about future standards. When Hans-Georg Bruns, formerly of Daimler Benz, was a member of the IASB, he commented that most company accountants are focused on managing the current year. They might have a brief thought about the next year, but they had no time to spare for a change that might happen in five years’ time.

If corporates do intervene, they tend to do so through collective industry associations. Organisations such as the European Banking Federation and CFO Europe (insurance) make representations to the IASB, not the individual companies. The use of a representative body shares the costs, both in time and money.

The international audit firms are clearly in a different position: expertise in IFRS is central to their offer. They represent the only significant pool of expertise in IFRS, with knowledge of their application and the staff to work on improving them. However, even here the resources are not infinitely flexible. Typically the funding for the IFRS desk comes from the international head office of the firm, only indirectly from the national partnerships. There is continual tension between the centre and the national firms for resources, and then within the central unit for a share of the budget. Only the Big Four firms have significant central staff devoted to IFRS. A proxy for the degree of resources allocated by different firms could be the contribution that firms make to the IFRS Foundation. In 2018 the Big Four each contributed $1,650,000, while BDO and Grant Thornton contributed US$300,000 and Mazars contributed $200,000. It can be seen that financial support tails off rapidly even amongst audit firms.

4.0 Conclusion

The paper seeks to set out the anecdotal evidence of lobbying that takes place in the complex systems for preparing, issuing and endorsing standards for use by listed companies in Europe. It has attempted to identify the multiple points within the systems where there are opportunities for interventions. It has also considered how a lobbyist works. It suggests that the main inputs are from
Big Four firms, who also have the greatest resources to devote to the process and the need to be involved in the regulatory process. Clearly the availability of resources is a major constraint, and one consequence of this is that companies are more likely to intervene through industry associations or informal groupings than individually.

References