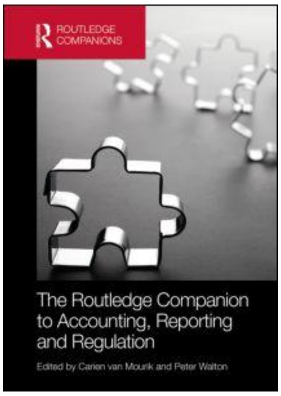

The Routledge Companion to Accounting, Reporting and Regulation

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The International Accounting Standards Board

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Part 4

Institutional Aspects of (International) Financial Reporting Regulation

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The International Accounting Standards Board

Kees Camfferman

1. Introduction

As should be clear from a perusal of the other contributions in this volume, the International Accounting Standards Board (IASB) has undoubtedly become one of the key international actors in financial reporting regulation. It is hardly possible to discuss any contemporary issue in financial accounting and financial reporting without reference to the IASB and its International Financial Reporting Standards (IFRS). But the IASB, which began operations in 2001, could not have obtained this degree of recognition without the foundations laid by its predecessor body, the International Accounting Standards Committee (IASC). A quarter-century after its founding in 1973, the steady work of the IASC resulted in the fairly complete body of International Accounting Standards (IAS), which could stand comparison with national standards in most developed countries. By 2000, IAS had obtained a distinct foothold in financial reporting practice, not only because several national standard setters were converging their national standards with IAS, but also because a few hundred listed companies, mainly but not exclusively in Europe, had adopted IAS directly in the hope of improving their access to international capital markets. But with all due recognition of the achievements of the IASC, it may be said that after the IASB took over from the IASC the significance of IAS (known since 2001 as IFRS) increased to entirely new levels, and also probably far beyond what most participants and observers expected at the time the IASB came into being.

As long as the IASC was in existence, International Accounting Standards had typically been thought of as existing side by side with national standards. They might serve as a source of inspiration for the development of these national standards (whose further development might in turn also inspire the further development of IAS), and they might on a voluntary basis be adopted as a substitute or complement of national standards by the subset of companies seeking cross-border listings. However, it was not expected that they would supplant national standards, at least not in the more developed economies. After 2000, however, the latter prospect quite suddenly became much more realistic.

The main impetus for this change in perspective came from the announcement, in 2000, by the European Commission, of a plan to require the use of IAS in the consolidated financial statements of all listed companies in the European Union (EU), starting in 2005. This was followed soon after by similar policy changes in Hong Kong, Australia and New Zealand, and later in the decade in other significant economies including Canada, Brazil and South Korea. Many smaller countries also took steps towards the use of IFRS in one form or another, with the result that the IASB could soon claim that 'more than a hundred' countries were using IFRS.[1]

Meanwhile, several major countries have drawn closer to IFRS, without yet committing themselves to full adoption. In 2007, the United States Securities and Exchange Commission (SEC) decided that it would henceforth accept IFRS-based financial statements prepared by foreign registrants without a reconciliation of the key numbers to US Generally Accepted Accounting Principles (US GAAP). The lifting of this 20-F reconciliation had for many years been the IASC's ultimate objective. Yet, as soon as it was reached, the SEC continued without pause to raise the far more fundamental question of the use of IFRS instead of US GAAP by listed companies domiciled in the US. In 2009, Japan announced that its listed companies would be allowed to use IFRS rather than Japanese GAAP in their consolidated financial statements, and that it was contemplating mandatory use of IFRS by all listed companies. And, while China has so far ruled out direct applicability of IFRS for its listed companies, it has undertaken a major convergence effort with the result that its claim that Chinese accounting standards are, since 2007, 'substantially converged' with IFRS is widely accepted.

At the time when this chapter was completed (the early summer of 2012), the US SEC had not announced its final policy decision on domestic use of IFRS, and it is clear that significant second thoughts have arisen in the US about the desirability of a radical move towards IFRS. It is also clear that US hesitation has already eroded support for mandatory use of IFRS in Japan, and that the SEC's eventual decision will have a significant impact, positive or negative, on support for IFRS elsewhere in the world. This uncertainty about the future does not detract at all from the earlier observation that the significance of IFRS has grown spectacularly over the last decade, and far beyond original expectations. The main focus of this chapter is therefore on how the IASB as an organization has responded to this rapid and profound change in the role accorded to its standards by jurisdictions around the world.

The chapter is organized as follows. Section 2 reviews the replacement of the IASC by the IASB and the basic design choices made for the new organization at that time. Section 3 discusses how the original structure of the organization has functioned and has been modified over time, in response to the changes in the IASB's environment and significance, outlined above. As will be seen, the main tension has been between the independence of the standard-setting function, ingrained in the original design, and the need for some kind of accountability following from the quasi-legal status attributed to IFRS in many jurisdictions. Section 4 essentially discusses the same question, but shifts the focus from the organizational structure of the IASB to its due process for setting standards, where one sees a similar tension between independence and the need for broad involvement and the ability to demonstrate responsiveness to constituents' concerns. Section 5 provides an impression of how the IASB's technical work has reflected its changing environment. Section 6 concludes with a brief outlook.

This chapter should be read as an overview in which most issues can only be touched upon. For further reading, the footnotes provide selective references to the voluminous literature that has developed on the IASB.

2. Reform of the IASC and the IASB's original design

One of the essential features of the IASC was that it was created and, in a sense, owned by the accountancy profession. At the initiative of the Institute of Chartered Accountants in England and Wales, professional accountancy bodies from ten countries had agreed in 1973 to create the IASC.[2] The 'committee' (subsequently referred to as the Board) was therefore composed of delegates representing these founding organizations. When these delegations voted to publish an exposure draft or standard, it could in principle be assumed that their vote represented the view of the sponsoring organization, even though in practice there was considerable variety in the degree to which the delegations consulted their home base or received instructions. This dependence on the accountancy profession was not fundamentally changed by subsequent modifications. Delegations from other than the founding organizations were admitted on a rotation basis, including, as time went by, a minority of delegations from other than professional associations of accountants, such as a delegation of financial analysts, delegations representing financial executives and (Swiss) companies using IAS. In 1981 agreement was reached that all organizations sending delegations to the Board would be appointed for fixed terms by the Council of the International Federation of Accountants (IFAC), even though the selection of the actual delegates remained the responsibility of the Board member bodies. Until the end of the IASC, a strong majority of delegations continued to come from accountancy bodies, which also financed a large proportion of the IASC's budget.

During the 1990s, pressure for reform began to build up in a way that mirrored the evolution of accounting standard setting in particularly the English-language countries represented on the Board. Generally speaking, accounting-standard setting in the US, the UK and Australia had begun as an activity of the accountancy profession, but over time the responsibility for standards shifted to bodies set apart from the profession. The archetype of this approach to standard setting was the US Financial Accounting Standards Board (FASB), created, like the IASC, in 1973. The FASB was a fully independent private-sector organization, with a Board consisting of full-time technical experts, who were expressly expected not to represent any particular interest or constituency, and who were supported by a sizeable technical and research staff.

Pressure for change of the IASC came from various directions. Some members of Board delegations believed that a further enhancement of the quality of IAS was possible only when the organization shifted away from a representational basis towards an independent expert basis. Politically, the Asian financial crisis brought reform of the global financial architecture on the agenda. Although the IASC itself did not come under fire as a result of the crisis – its standards were rather seen as part of the solution – shoring up its independence by cutting the direct link between the IASC and the accountancy profession probably looked like a good idea in this context. But, most directly, the US SEC made it increasingly clear that acceptance of IAS for purposes of listing in the US required that the standards be set in a process that the SEC could be comfortable with. And it was not a secret that the SEC was by and large comfortable with the FASB model. The European Union, which during the 1990s increasingly saw IAS as the key to its own future policies on accounting regulation, was quite happy to see the IASC cut loose from the accountancy profession, but it was among the strongest champions of a representative model in which the work of the technical experts setting the standards would in one way or the other be subject to approval by people whose authority could be traced to a clear legal and political mandate.

The end of the sharp debate was that the SEC essentially imposed the FASB's structure on the reformed IASC. At that time, late in 1999, the SEC held all the high cards. European companies were queuing up to list in the United States, and there was strong pressure to allow US GAAP to become the de facto standard for these larger European corporations. There was no political will to create a European alternative to US GAAP, and IAS was the only hope for a set of standards that might become acceptable in the US without actually being set in the US.

As a result, early in 2001 the IASB took the place of the IASC. Although the IASB was not a carbon copy of the FASB, it shared many of its basic features.[3] Like the FASB, the IASB, as described in its initial constitution, was set up as a completely independent, private-sector organization. The organization was controlled by a foundation, the International Accounting Standards Committee Foundation (IASCF), which had its counterpart in the US Financial Accounting Foundation (FAF). The IASCF was governed by 19 trustees, all of whom held or had held senior private-sector or regulatory positions. While the trustees were drawn from a range of countries with the aim of achieving a prescribed geographical balance, they were explicitly not meant to be representatives of these countries but to be committed to act in the public interest. The initial trustees were chosen by an ad hoc nominating committee. The independence of the organization was apparent in that subsequent vacancies among the trustees were to be filled by the trustees themselves, in a process of co-optation. The trustees' first chairman (2000–2005) was Paul Volcker, the former chairman of the US Federal Reserve Board. Volcker fully shared the SEC's view of the importance of independent standard setting, and his international standing made him a formidable defender of the IASB.

The IASCF trustees were responsible for raising funds and for appointing the standard setting Board itself. This Board was to consist of twelve full-time members and two part-time members. This composition had been the subject of much debate. The SEC preferred a small, purely full-time Board like the seven-member FASB. While the eventual number of IASB Board members, as well as the two part-time members, represented a degree of compromise, the SEC's fundamental preferences were clearly reflected. This was certainly true with respect to the absence of any geographical criteria for Board members, whose 'foremost qualification' was described as 'technical expertise' (IASCF constitution, para. 24). The Board's chairman during its first decade (2001–11) was Sir David Tweedie, who had been the UK Accounting Standards Board (ASB)'s full-time chairman for the preceding ten years. Although the ASB was certainly not identical to the FASB, Tweedie did represent the new breed of professional standard setters that was in the ascendant over the older volunteer approach. A large proportion of the other initial IASB Board members were also professional or semi-professional standard setters who had been active in national standard setters and/or the IASC. In that respect, the initial Board was quite homogeneous, and able to make a flying start: most members had known each other before, sometimes for many years, they shared a similar view of the issues that needed to be dealt with, and had enough experience among them to define projects quickly and move rapidly towards answers which some of them had already been considering or debating among themselves for a long time.

The Board was not left to develop its standards alone. It was assisted by a staff appointed under the authority of the Board chairman, who doubled as the organization's chief executive officer. The IASB inherited a small technical staff of about half a dozen people from the IASC. Over the years, this was built up to about 25 technical staff in 2005 and around 50 by the end of the decade. This was another point where the IASB began to resemble the FASB: whereas, prior to 2000, no standard setter in the world came anywhere near the FASB in terms of staff resources, around 2010 the IASB and the FASB had become far more evenly matched in this respect.

The trustees also appointed, according to the constitution, a Standards Advisory Council (SAC), a broadly composed consultative group which was to meet regularly with the Board to discuss its agenda and ongoing projects. Although the constitution specified a composition of 'about thirty members' (para. 42), the initial SAC had no fewer than forty-nine members. While this obviously meant that a wide range of backgrounds was present, it made the SAC a little unwieldy. The Board, the trustees and the SAC itself would struggle somewhat over the following years to find the most effective composition and role for this advisory body. While the SAC had a counterpart in the Financial Accounting Standards Advisory Council (FASAC) attached to the

FASB, any US influence in this respect had already made itself felt at a much earlier stage; the inclusion of the SAC in the initial IASB organization was seen as a continuation of a Consultative Group convened by the IASC since 1981.

Something similar was true of the final component of the IASB organization, which was the Standing Interpretations Committee (SIC), a body of part-time members charged with recommending interpretative pronouncements on narrowly defined issues, based on the existing standards. The IASB inherited the SIC (modified in 2002 to become the International Financial Reporting Interpretations Committee, IFRIC) from the IASC, which had created it in 1996. Here the US influence was a little more recent and perhaps a little more direct; at that time, it was not a secret that the SEC favoured the creation of an interpretations body for the IASC somewhat like the Emerging Issues Task Force attached to the FASB.

3. Subsequent evolution of the organizational structure

The original design of an independent, mainly full-time Board, solely responsible for setting standards and overseen by a group of part-time trustees, has not been fundamentally altered, so far. However, as the IASB's standards rapidly gained in significance, becoming mandatory or at least optional for ever greater numbers of companies in ever more countries, inevitably an almost continuous debate arose about the governance of this private-sector organization acquiring quasi-legislative powers in many jurisdictions.[4] Initially, the centre of gravity of this debate was in the European Union, as companies there began to realize that from 2005 onwards they would be obliged to apply a set of accounting standards that many of them had until then hardly considered in any detail, and which differed in many respects from existing national standards. When these companies contacted the IASB to call for changes in the International Accounting Standards which the IASB had inherited from the IASC, they soon discovered that the IASB was determined to set its own standard setting priorities. This was true in particular for the standard on financial instruments, IAS 39.[5] In 2001 the IASB began a project to make limited improvements to this standard. It left important issues, including most of the hedge accounting rules, outside the scope of this project, even though many banks and corporate preparers believed that IAS 39 contained fundamental flaws in this area. Although the IASB was willing to make more changes to IAS 39 than it had originally planned, it rejected certain demands of the banks as inconsistent with the accounting principles enshrined in its conceptual framework. The resulting conflict between parts of the European banking sector and the IASB rapidly acquired a political dimension as the decision to 'endorse' IAS 39 for use within the European Union still had to be taken. The European Commission was responsible for managing the EU's 'endorsement' process and initially had been sanguine that it, as the IASB's first and most important 'customer', would find the IASB attentive to its wishes. Now it was caught in the middle between member state governments, mobilized by their financial institutions, and an obstinately independent IASB, which refused to sacrifice what it believed to be its principles. The conflict was temporarily resolved in 2004, when IAS 39 was endorsed for use in the European Union with two 'carve-outs'.[6]

Whereas with IAS 39 the IASB was essentially criticized for refusing to act, in other early projects it was seen by some to move too far, too fast. The IASB's initial projects on insurance, performance reporting and share-based payments caused considerable concern and resentment among reporting companies that the IASB was trying to impose radical changes in financial reporting without an adequate mandate.

Meanwhile, the IASCF trustees had started their first five-yearly review of the IASB's constitution, as required by that constitution itself. Many interest groups, guided by their recently gained impression that the IASB was unwilling to listen to reporting companies and too willing to propose radical change, used the occasion to revive the central issue of the debate over the restructuring of the IASC. The question was raised whether the IASB should not move towards a more representative model, as opposed to an independent-expert model. The IASCF trustees, still chaired by Paul Volcker, continued to believe that the model put in place in 2001 was basically sound and were willing to make minor modifications only. In taking this position, they took note of the fact that the US SEC still had to decide whether to allow foreign registrants to list on the basis of IFRS, without reconciliation. The SEC did not hide its view that, apart from the quality of the standards themselves, it regarded the independence of the IASB as an essential element of the package on which it would base its decision. The SEC followed the heavily politicized debates over IAS 39 attentively, looking for signs of undue political influence on the Board's technical work.

As a result, the IASCF trustees merely proposed some fine-tuning of the constitution in their final report on the constitution review, issued in July 2005.[7] They rejected the idea of geographical membership quota for Board members, presumably to avoid any suggestion that Board members represented particular jurisdictions or regions. The trustees also reaffirmed the Board's exclusive right to set its own technical agenda, even though they strengthened the language describing their own oversight role. However, they modified the criteria for Board membership, making 'professional competence and practical experience' the primary criterion, rather than 'technical expertise'. In doing so, they presumably signalled that they had heard the recurrent complaint that the Board members were not only independent-minded, but also too intent on the conceptual purity of their standards, as opposed to the needs and possibilities of actual reporting practice. Similarly, the fact that the voting threshold to approve final standards was raised from 8 to 9 out of 14 votes could be read as a suggestion that the Board should be slightly more careful to introduce change without sufficient support. A final change was that the trustees created a high-level Trustee Appointment Advisory Group, which was to review proposed appointments of new trustees. The actual appointment decisions were firmly reserved for the trustees, and therefore the essentially private-sector nature of the organization was unchanged. Yet the Advisory Group, consisting of ex-officio members such as the managing director of the International Monetary Fund and the presidents of the World Bank and the European Central Bank, was a first small step towards formally embedding the IASB into a structure of global public accountability.

Given the relatively limited changes effected by the first constitution review, it is not surprising that the central questions surrounding the IASB's governance did not go away. The removal of the 20-F reconciliation requirement by the SEC in 2007,[8] and the fact that it immediately put the use of IFRS by domestic companies on its agenda, considerably raised the stakes as it made the prospect that the IASB might truly become the global standard setter suddenly seem much more realistic. The SEC itself began to reflect on the kind of relationship it should maintain with the IASB in order to fulfil its own responsibilities towards the US capital market.[9] In Japan, where receptiveness towards the idea of an eventual adoption of IFRS greatly increased in view of the developments in the United States, existing concerns that voices from Japan were insufficiently heard at the IASB led to demands for enhanced governance.[10] In the European Union, strident demands for more accountability and democratic legitimacy of the IASB were emanating from the European Parliament, which had gained additional powers in the process of endorsing IFRS for use in the EU.[11] All of these factors were strengthened by the fact that, as before, the IASB's technical work did not fail to provoke controversy.

In March 2008, the trustees, now under the chairmanship of the former Dutch finance minister Gerrit Zalm (2008–10) embarked upon their second five-yearly review of the IASCF constitution, but they identified two issues for priority treatment: public accountability and the composition of the IASB Board. Both issues were settled rapidly, with changes in the constitution agreed in January 2009. With respect to the Board, the kind of geographical quota that the SEC had forcefully opposed when the IASC was restructured were now introduced. In a Board expanded to 16 members, North America, Europe and Asia/Oceania were now to have four members each, with two more coming from Africa and South America (one each), and the other two from any area. That this change was now acceptable was presumably partly due to turnover among the trustees: not only had the chairmanship changed hands, but by early 2007 the terms of all but one of the original 19 trustees had ended.[12] Another factor may have been that the SEC, now that it was contemplating the adoption of IFRS in the United States, began to see merit in ensuring at least a minimum of US Board membership.

The second change introduced in 2009 was the creation of a Monitoring Board, initially composed of the chairs of IOSCO's Emerging Market Committee and Technical Committee, the commissioner of Japan's Financial Services Agency, the chairman of the SEC and the European commissioner responsible for the internal market portfolio. Compared to the Trustee Appointment Advisory Group, which it replaced, the Monitoring Board included organizations with much more direct responsibilities for regulating financial reporting. It was presented as 'a formal link between the Trustees and public authorities. This relationship seeks to replicate, on an international basis, the link between accounting standard-setters and those public authorities that have generally overseen accounting standard-setters.'[13] Also in contrast to the Advisory Group, the Monitoring Board was not a part of the IASB organization. Rather, it was an autonomous group, to which the IASC Foundation trustees ceded certain powers. As the trustees' chairman Gerrit Zalm used to joke: 'we were involved when the Monitoring Board was created, but once it's created we're lost … We created our own god'.[14] The most important power was the Monitoring Board's right to approve the appointment of new trustees. This again was a significant step, given that only a few years earlier the trustees had strongly asserted their exclusive authority to make such appointments. In addition, the Monitoring Board assumed the more general responsibility of reviewing the trustees' discharge of their duties according to the constitution.

That the Monitoring Board could take on a life of its own was suggested during 2010, when the trustees sought a successor to the IASB's first chairman, David Tweedie. Although the Monitoring Board's mandate was clearly limited to approving the appointment of trustees, it was reported that the Monitoring Board actively involved itself in the selection of the new Board chairman.[15] Also in 2010, the Monitoring Board began, at its own initiative, a review of the governance arrangements of the IASC Foundation (since 2010 known as the IFRS Foundation), around the same time that the trustees began a major strategy review for the IASB's second decade. Although the Monitoring Board and the Trustees emphasized that they were committed to coordinate their activities, there could be no doubt that the Monitoring Board had become an important actor in its own right. In the February 2012 report with which the Monitoring Board concluded its governance study, it stated, among other things, that it was seeking a formal role for itself in future Board chairman appointments, even though the actual decision would remain with the trustees. And, while reaffirming the importance of the IASB Board's independence in technical matters, the Monitoring Board clarified that, if it refers an issue to the IASB for consideration, it will expect a persuasive justification from the IASB if it were to decide not to put the issue on its agenda.[16]

Other significant changes in the IASB's setup occurred more gradually over the decade. One change related to the composition of the Board itself. This took some time, because the trustees essentially decided to reappoint all of the initial members who indicated that they wished to serve a second term. As a result, it was not until 2009 that the remaining group of original

Board members became a minority in the Board. The last three of the original Board members, including Chairman Tweedie, left the Board in June 2011. As indicated above, the initial Board was a tight-knit, fairly homogeneous group of people, representing extensive standard-setting experience. In later years, and probably reflecting the modified membership criteria introduced in 2005, the range of backgrounds in the Board became somewhat more diverse, as more users and members with a regulatory background were appointed. The appointment of Hans Hoogervorst, a former finance minister and securities regulator in the Netherlands, to succeed David Tweedie as chairman of the Board can presumably be seen as part of that trend: the Board became a broader and perhaps more politically attuned body, probably expecting to rely more heavily on its staff for technical expertise.

A second important gradual change related to the IASB's funding.[17] In its first years, the IASB had been financed by voluntary contributions. These came, foremost, from the Big-5 audit firms (as they were, before the demise of Arthur Andersen) and then from a wide range of individual contributors, mainly business entities, and mainly from Europe, the United States and Japan. These contributions were actively solicited by the trustees. This was in fact the funding model of the FASB, which since 1973 had relied on voluntary contributions, apart from revenue from publications, as its main source of income. For the FASB, however, this changed in 2002 with the Sarbanes–Oxley Act, which provided for funding through mandatory contributions from listed companies. The kind of post-Enron scepticism over accounting-standard setting underlying this change also raised questions about the IASB's approach to financing. Already at an early stage, the trustees began to consider the possibility of more stable funding mechanisms that would appear to be less prejudicial to the IASB's independence. However, this required putting collective funding schemes in place in many individual countries, where the trustees had to rely on the cooperation of local governments or regulatory bodies. Despite this difficulty, over time a variety of mandatory or voluntary national contribution schemes were set up in a number of countries, making the IASB less dependent on the willingness of individual donors to continue their contributions.

4. The evolution of the standard-setting process

The two main themes with respect to the evolution of the IASB's standard-setting process are the gradual elaboration of this process in response to the kind of pressures for responsiveness and accountability mentioned in the previous section, and the evolving relations between the IASB and national standard setters, in particular the US Financial Accounting Standards Board.

The 'due process' of the IASB, as documented in its initial constitution, largely reflected the practices of its predecessor, the IASC. At the heart of the process was the exposure draft system as developed by the US standard setter in the 1950s and adopted by most of the accounting standard setters set up in other countries from the 1960s onwards. In this system, the public circulation of exposure drafts gave interested parties at least one occasion to provide written comments on proposed standards or changes in standards.[18] The IASC had already elaborated on this basic formula by issuing, for important projects, a discussion paper as a first-stage due process document, before proceeding to a formal exposure draft. In addition, the IASC had installed steering committees for most projects, manned by volunteers drawn from a mixture of relevant professional backgrounds. The IASC in its final years had also tentatively begun to add a 'basis for conclusions' to its standards, to explain how the Board had made its decisions and dealt with comments received in the exposure stage.

The IASB continued with most of these procedures, although it dispensed with the steering committees. Under the IASC, these had sometimes played a leading role in developing and drafting the standards, but the new IASB clearly believed that this was the responsibility of the Board and its staff. The new IASB Board did form some working groups with a purely advisory role, but until 2004 their role was hardly conspicuous.

The difficulties over IAS 39, alluded to above, including the controversies over the European endorsement of IFRS, prompted the Board to take a more active role in organizing consultations with interested parties, starting with a series of roundtables on financial instruments held in March 2003. During 2004, a raft of working groups was established to advise the Board on various projects. Both Board members and trustees became conscious that a successful defence of the independence of the Board required the IASB to be able to demonstrate a high degree of transparency and responsiveness to concerns of constituents, in the context of a clearly defined and meticulously observed due process. This resulted in a number of further modifications, including the publication of a due process handbook in 2006, the establishment of a due process committee of trustees, actively overseeing the Board's adherence to due process, and improved transparency through webcasts and wider distribution of the Board's agenda papers and near-final drafts of standards. As a result, the IASB was proud to announce that in 2007 it received a top ranking in a global survey of NGO accountability.[19] Currently the IASB, in addition to holding ad hoc consultations and roundtables is going through an annual cycle of consultations which includes one or more meetings each with the Standards Advisory Council (currently known as IFRS Advisory Council), with advisory groups of users and preparers,[20] with European standard setters,[21] with the Accounting Standards Board of Japan and with an annual gathering of standard setters known as the World Standard Setters meeting.[22]

Nevertheless, demands for more due process enhancements continue to be heard. Particularly from Europe, the IASB has been pressed to justify its standards by undertaking impact or effect studies, even though the objective and methodology of such studies remain a matter of debate. Other recent due process enhancements that are still under development include the issuance of feedback statements in addition to the bases for conclusions, and the performance of post-implementation reviews of new standards.

Against this background, the IASB's most conspicuous departure from its own due process stands out as an isolated incident: in October 2008, the trustees allowed the Board to modify IAS 39 with immediate and even retroactive effect, without any exposure or formal consultation. This change was made under great political pressure from, again, the European Union, as certain European banks in the tumultuous weeks following the collapse of Lehman Brothers clamoured to be allowed to reclassify certain financial instruments and thus avoid reporting losses, in line with corresponding provisions in US GAAP. The subsequent consensus that this amendment should not set a precedent illustrated the extent to which the world had learned to accept, at least in ordinary circumstances, the principle of independent accounting standard setting.

While the previous paragraphs looked at the Board as a standard setter operating on its own, the IASB's cooperation with national standard setters formed an essential element of its technical activities. In the discussions preceding the transformation of the IASC into the IASB, the new international standard setter was conceived as a first among equals: the centre of a circle of strong national standard setters, with which it would cooperate on the further development and gradual convergence of international standards and the various sets of national standards. Such a conception was quite natural in the 1990s, given that there were few countries which had abandoned national standard setting altogether in favour of international standards. Moreover, there was an active group of standard setters from English-speaking countries, known as the G4, which at some point began to look like a potential rival to the IASC.[23] In this light, the IASB's initial constitution provided for special relationships between the IASB and a number of what came to be known as liaison-standard setters, who turned out to be the five members of the G4 (the standard setters from Australia, Canada, the UK and the US to which subsequently the New Zealand standard setter had been added) plus the standard setters from France, Germany and Japan. In the early years, these standard setters had what might be called a privileged position, in the sense that they had exclusive access to IASB agenda papers, held regular meetings with the IASB and, in the case of some of them, undertook joint projects with the IASB.

However, the position of the Australian, New Zealand and European liaison standard setters was soon substantially weakened when it became clear that listed companies in their countries would in a few years be adopting IFRS, so that these standard setters would lose the responsibility to set standards for this most prestigious segment of companies. Simultaneously, it soon became clear that the IASB intended to give the highest priority to working with the US FASB, as the IASB still had its eyes on the prize of access to US capital markets on the basis of IFRS, without reconciliation. In October 2002, the IASB and the FASB announced their so-called Norwalk Agreement, in which they indicated in rather general terms their intention to cooperate in the development of accounting standards. Despite the general tone, the Norwalk Agreement did mark a clear shift in the IASB's cooperation with national standard setters: for many years, the bilateral relationship in which the IASB and the FASB pursued the mutual 'convergence' of their standards would be the dominant factor in the IASB's technical work. For other standard setters, including the Accounting Standard Board of Japan, 'convergence' acquired the more limited meaning of adjusting national standards to IFRS, mainly on a unilateral basis.

The increasingly close cooperation between the IASB and the FASB raised both operational and fundamental due process issues. In operational terms, the Boards had to develop an effective working relationship to reach joint decisions. In doing so, they had to deal with practical complications such as the different sizes of the two Boards (seven or even five FASB members, all living near Norwalk, Connecticut, versus 14 or 15 IASB members,[24] many of whom still commuted to London from all over the world to attend Board meetings), the different meeting schedules (once a week for the FASB, once a month for the IASB), and the different sizes and degrees of experience of their staff. Some difficulties could be overcome by technology, including increasing use of video-conferencing. But this did not by itself help the Boards to cope with basically different approaches to standard setting, often characterized, perhaps with over-simplification, as rules-based versus principles-based. There was also the question of whether both Boards, by seeking consensus, were not in effect giving the other Board a veto over their decisions. Could this be reconciled with their mandates and their due process? Many of the IASB's European constituents, at any rate, were not convinced that the IASB was always giving proper attention to their needs. Particularly smaller companies, which had no interest in overseas listings, often perceived the IASB as making many changes to standards that they had not asked for, in pursuit of 'convergence for the sake of convergence'.

In the European Union, those who would seek to counterbalance or at least complement the American influence on the IASB's technical work have sometimes looked to the European Financial Reporting Advisory Group (EFRAG), which was set up in 2001 to assist the European Commission in the process of endorsing IFRS. EFRAG, while not a standard setter in its own right, has increasingly sought to play a pro-active role in the IASB's deliberations. More recently, standard setters in other regions have formed the Asian–Oceanian Standard-Setters Group (AOSSG) and the Group of Latin American Accounting Standard-Setters (GLASS), with similar aims of becoming strong regional interlocutors of the IASB. While the IASB has welcomed the creation of such regional groupings, it is too early to say what impact they will have on the future development of IFRS. At any rate, and contrary to some initial expectations, the advent of the IASB has so far not meant the end of most national standard setters, although their future role vis-à-vis the IASB continues to be a matter of debate.[25]

5. The IASB's technical work

For several reasons, it is not so easy to obtain a quick overview of the IASB's technical work between 2001 and 2012. One simple reason is that the IASB has not used a consistent numbering or coding system to identify its exposure drafts or final pronouncements, which makes it easy to lose track of the many smaller changes the IASB has continuously been making to existing standards. A more fundamental phenomenon is that the IASB has rather actively managed its agenda, frequently adding, splitting, phasing, combining, suspending or refocusing projects. For many years, the number of projects continued to grow. The IASB's initial agenda, established in July 2001, contained 9 projects, whereas the October 2008 work plan listed more than 25 active projects or separately managed phases of projects, not counting a number of planned or suspended projects and research projects. While counting heterogeneous objects such as IASB technical projects is of limited use, the numbers do indicate something of the magnitude of the task that the Board set itself and those of its constituents who felt obliged to keep abreast of all these developments.

The IASB did not start with a blank sheet of paper, but inherited the body of standards produced by the IASC. At its first meeting, the IASB passed a resolution that all the existing International Accounting Standards would remain applicable until amended or withdrawn. Although most Board members would be able to point out many deficiencies in these standards, the body of IAS already had significant features that would often be seen as typical for the IASB. The IASB has often been perceived as an advocate of fair value accounting, yet most of the applications of fair value in IFRS as of 2012 could already be found in the standards developed by the IASC prior to 2001. Similarly, the IASB's fundamental balance sheet approach was already introduced in the conceptual framework drawn up by the IASC in 1989 and which the IASB inherited unchanged.[26] As a result, the IASB's work during its first decade has oscillated between the need to maintain and improve inherited standards and the desire to develop entirely new ones.

Prior to 2004, a substantial part of the IASB's energy was absorbed by an omnibus 'Improvements' project to make minor amendments to a range of standards, as well as by a separate project to improve the financial instruments standards IAS 32 and 39. In undertaking these projects, the IASB was looking with one eye to the United States, continuing the IASC's strategy of making IFRS the passport to cross-border listings, and with the other to Europe and Australia, for whom the IASB believed it needed to provide a 'stable platform' of standards for massive first-time adoption in 2005.

As indicated above, the initial project to amend the financial instruments standard IAS 39 caused considerable difficulties, not least because of disagreement over what the scope of the project should be. The IASB maintained that it was just making limited improvements to a standard it had inherited from the IASC. Some constituents found that hard to square with the Board's proposal to introduce of a full fair value option which seemed to pave the way towards the much more radical reform of the standard which at least some Board members were known to favour. And, if the IASB was willing to do that, why did it initially refuse to discuss some aspects of hedge accounting?

In addition to making improvements, the IASB embarked from the start on more ambitious 'leadership' projects, but with limited success. Its initial project to develop a standard on insurance contracts, inherited from the IASC, was still not concluded after all the initial Board members had left the Board in 2011.[27] Similar problems befell a project to radically change the presentation of performance in the financial statements. The impression that the Board was about to abolish net income provoked such opposition, not least in Japan, that the project was effectively abandoned at the end of 2003.[28] An early success was scored with IFRS 2 (2003) on share-based payment. Where the FASB in the 1990s had succumbed to heavy industry lobbying, the IASB succeeded in issuing a standard requiring the expensing of employee stock options and other share-based payments, thus allowing the FASB to follow suit in the next few years.

Following the 2002 Norwalk Agreement, convergence with US GAAP became more and more the dominant factor in the IASB's technical work. Initially, the emphasis was on short-term convergence projects, in which both the IASB and the FASB sought 'quick wins' by adopting elements of existing standards of the other Board. This proved more difficult than expected. On the IASB side, only a few significant projects of this kind were actually finished in what might be called a short term. One concerned the removal of an optional treatment from IAS 23, on borrowing costs (2007). Two others took the form of new standards: IFRS 5 (2004), on discontinued operations, and IFRS 8 (2006), on operating segments, both of which reflected the corresponding US standards. Being a disclosure standard, IFRS 8 did nothing to reduce the reconciling differences between US GAAP and IFRS earnings and shareholders' equity, but because it was an almost verbatim copy of the US standard it did provide the occasion for the European Parliament to take a highly critical look at the IASB. By temporarily blocking the endorsement process of the standard, it asserted its right to be heard and lent its weight to demands for more accountability and improved due process at the IASB.[29]

Gradually, the IASB and the FASB shifted their attention away from short-term convergence towards joint projects to develop new standards from scratch. An early example was a project on the application of the purchase method to account for business combinations. This project actually predated the Norwalk Agreement and resulted in a set of revised standards in 2008. In 2004, both Boards agreed to work jointly on a new conceptual framework. By 2012, only one out of eight phases identified for this project had been completed. The completed phase resulted in new chapters on the relatively uncontroversial topics of the objectives of financial reporting and qualitative characteristics of financial information, leaving fundamental questions of recognition and measurement for later consideration.

To prepare the way for the SEC's dropping of the reconciliation requirement in 2007, the two Boards drew up a Memorandum of Understanding in February 2006 in which they reasserted their commitment to convergence of IFRS and US GAAP. In contrast to the Norwalk Agreement, this MoU contained an explicit agenda of existing and expected future projects, with general indications of progress to be expected by 2008. When the SEC turned its attention to adoption of IFRS for use by domestic US companies, the two Boards began work on an updated MoU, which was published in September 2008. In this version, a general target of 2010/11 began to appear for completion of most of the very ambitious convergence agenda. At that point in time, the convergence agenda included most of the IASB's active projects, including highly controversial or complex topics such as financial statement presentation (the successor to the earlier ill-fated performance reporting project), revenue recognition and leases. The target date appeared to be keyed to the SEC's 'roadmap' rule proposal, issued in November 2008, which envisaged the possibility of required used of IFRS by US issuers as early as 2014.

The financial crisis erupting with full severity in the autumn of 2008 provided the IASB both with challenges and opportunities. After surviving the initial political storm over the alleged role of its accounting standards in causing or acerbating the crisis,[30] and after satisfying some of its critics on this point by making a swift reclassification amendment to IAS 39 (see above), the IASB profited from the crisis: the G20 made a strong call for short-term action to improve accounting standards on financial instruments, and it underlined the importance of the medium-term objective of a 'single high-quality global set of standards'. This allowed the IASB to pursue its convergence agenda at full speed and to make rapid progress on developing a new standard on recognition and measurement of financial instruments to replace IAS 39. The IASB had always seen IAS 39 as an interim solution and in 2004 it had added a project to its agenda to develop a new standard. By the time of the 2006 MoU, this had become a joint project with the FASB, but until 2008 nothing more than a discussion paper had been produced. Early in 2009, however, the IASB apparently saw an opportunity to benefit from the sense of urgency caused by the crisis. It decided to move the project forward at full speed and succeeded in issuing the core of a new standard, IFRS 9, before the end of 2009. In the process it lost the FASB, which, under similar pressures as the IASB, had chosen a somewhat different course for revising its standards on financial instruments. But by the end of 2009, some of the IASB's constituents had come to the conclusion that a new standard on financial instruments was not, after all, needed immediately. Contrary to initial expectations, the European Commission made it known that it was not going to propose IFRS 9 for endorsement before the remaining components of the standard were in place. These remaining components included thorny issues such as impairment of financial instruments and hedge accounting, on which the IASB now began to work at its more usual pace. By 2012, IFRS 9 was not yet complete, and the mandatory application date of the extant part of the standard had been postponed to 2015.

The years 2009 and 2010 were years of intense activity at the IASB, not only because of the financial crisis but also because of the rush to complete the convergence agenda. Whereas the Board had traditionally met once a month, it now planned many additional meetings. The number of joint meetings with the FASB, either in person or by video-link, also increased. Nevertheless, it became ever clearer that the ambitious plans of the 2008 MoU could not all be realized. From 2009 onwards, the signs multiplied that many interested parties in the US were having second thoughts about the adoption of IFRS. The SEC missed its self-imposed deadline of coming forward with a clear proposal on the use of IFRS by domestic companies before the end of 2011. The SEC's reticence removed an important rationale underlying the target date in the 2008 MoU, which in turn may have weakened the FASB's determination to complete the MoU projects in time. For the IASB, however, mid-2011 remained an important date, as it marked the end of the terms of the last original Board members, including Chairman Tweedie.

Some projects were indeed finished in time, including one on joint ventures (joint arrangements) and one on consolidation and special-purpose entities, of which the origins could be traced back to 2002. A project on the revision of IAS 12, on income taxes, which had begun life as a post-Norwalk short-term convergence project and which since had gone through several mutations in scope and objectives, could only be finished in time by restricting it to a limited amendment. But the financial statement presentation project was essentially dropped. It had revived old suspicions that the IASB and the FASB were bent on abolishing the traditional income concept based on the realization principle in favour of comprehensive income, and the resulting resistance made timely completion unrealistic. As projects were completed or sidelined one by one, only four major projects remained on the IASB's agenda by mid-2011: leases, revenue recognition, insurance contracts and financial instruments. None of the four were completed by that time, though.

While convergence with US GAAP has unquestionably been the dominant factor in the IASB's agenda, it would be incorrect to infer that the IASB has been oblivious to the needs of other jurisdictions. For example, the IASB amended its standards on financial instruments in response to requests from Europe and New Zealand, where significant numbers of reporting entities had the legal form of a cooperative. Due to the original wording of the standards these were at risk of having to report that they had no equity at all. Another example is that the IASB undertook to undo an earlier change it had made to IAS 24, on related party transactions, when it appeared that this would cause significant problems in China due to the prevalence of state-owned entities. But perhaps the most significant project that the IASB undertook without reference to the United States was its standard for small- and medium-sized entities, issued in 2009. (See also Chapter 21 in this volume.) So far, there simply is no counterpart of this kind of 'little GAAP' in the United States, and the IASB developed the standard mainly with a view to the reporting needs of companies in developing and emerging economies.

6. Outlook

As this chapter is written, the biggest question mark hanging over the IASB is undoubtedly the long-awaited decision by the SEC on the future role of IFRS in reporting by domestic listed companies in the US. If the United States were to embrace IFRS, or commit to do so at a specified point in the future, it would seem that there is little left to stop the IASB from becoming the global standard setter. In that case, one would expect most other major economies, including Japan, to follow the lead of the US. On the other hand, a clear reaffirmation by the SEC of the continued importance of national accounting standards (US GAAP) might encourage other jurisdictions to reconsider their stance on IFRS as well. Conceivably, this could lead to a reversal of some of the harmonization and unification of accounting standards around the world achieved during the last two decades. The IASB, assuming it would survive in the process, would again become a standard setter among national or regional standard setters, not unlike the IASC of the 1990s.

Yet, regardless of what the SEC decides, the United States has in important respects already become a two-standards country. US investors in US securities markets have learned to accept foreign issuers reporting under IFRS without reconciliation. Many US subsidiaries of foreign parents use IFRS, which means that these consolidation standards are no longer exclusively a matter for highly trained specialists but are rapidly becoming part of mainstream accounting education. More generally, even if the IASB does not become the single global standard setter, it seems likely that it has already contributed to a structural reduction of global accounting diversity. One might, for instance, envisage the European Union developing its own accounting standards at some point in the future, but all the complaints about IFRS so far have not kindled any noticeable desire to revert to a situation of 27 national accounting standards for listed companies. Worldwide, the experience with IFRS seems to have brought home the advantages of having at least a common set of accounting concepts. Even though the world may not agree on the recycling of components of other comprehensive income or the usefulness of level-three fair value numbers, it has become quite easy to set up a meaningful and precise discussion of such issues across almost any set of national borders.

Another point that seems independent of the SEC's decision is that it does seem likely that the exclusive bilateral cooperation of the FASB and the IASB is drawing to a close, and that this will prove to have been an episode in the history of the IASB rather than a structural feature. The extensive agenda consultations that the IASB has undertaken in 2011 are by themselves a sign that it is looking more widely than a focus on US GAAP convergence,[31] and the responses to the consultation suggest that many of the IASB's constituents outside of North America are no longer willing to support a unique role for the FASB in developing IFRS.[32]

Beyond this negative consensus, however, there are as yet not many signs that the world has made up its mind about what kind of global standards it wants. While the IASB may have to bear some of the blame for some of the controversies its projects have instigated, sometimes its work has merely brought to light an existing diversity of views on basic questions. Should standards remain at a general level or contain detailed application guidance? Should they aim to be neutral representations of given economic phenomena or should they explicitly take the economic consequences of accounting, including perhaps the concerns of prudential regulators, into account?

With such a continuing diversity of views, which will be expressed in an already quite elaborate due process, it is hard to see the IASB making fast progress in developing new standards. In the past decade, many projects have already suffered severe delays, and in some cases where the IASB was able to act swiftly it was helped by specific circumstances (such as Enron in the case of IFRS 2 on share-based payment, and the financial crisis in the case of IFRS 9).

Finally, given the likelihood of enduring controversy around IFRS, the question of the IASB's governance will continue to be raised. The current Monitoring Board is likely to be an interim solution, if only because important jurisdictions such as China are not yet represented. As its composition broadens, its powers relative to those of the IFRS Foundation trustees will continue to be discussed.

Notes

1 In his 'Report of the Chairman' included in the IASCF's *Annual Report,* David Tweedie did not give a total number in 2001 and 2002. In the 2003 report he mentioned 'more than ninety countries' that would permit or require the use of IFRS starting 1 January 2005. The corresponding numbers in the next years were '99' (2004), 'a hundred' (2005), 'more than a hundred' (2006). Throughout the past decade, detailed information about the progress of IFRS in jurisdictions around the world has been logged on the Deloitte website www.iasplus.com, which also appears to have been the source of the numbers reported by the IASB.

2 This section draws mainly on the extensive treatments of the IASC's history, including its restructuring into the IASB, in Kirsch (2006) and Camfferman and Zeff (2007). Zeff (2012) discusses both the IASC and the IASB, including many points addressed in this chapter.

3 A discussion of the initial set-up of the IASB by its first chairman and director of operations can be found in Tweedie and Seidenstein (2005).

4 See Véron (2007) for an influential analysis of these issues. See for further extensive discussion Zimmermann *et al.* (2008) and Botzem (2012).

5 A discussion of the early stages of the revision of IAS 39 can be found in Walton (2004).

6 For a review of the evolution of the European Union's policies and processes with respect to IFRS by senior members of the European Commission staff, see Van Hulle (2004) and Schaub (2005). The latter publication also includes some comments on the carve-outs.

7 'Changes in the IASCF constitution: report of the IASC Foundation trustees', July 2005.

8 See Erchinger and Melcher (2007) for a review of the process towards the elimination of the reconciliation requirement.

9 Securities and Exchange Commission, 'Concept Release on Allowing US Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards', 7 August 2007, pp. 23–4.

10 E.g. 'Future directions of accounting standards in Japan: the next step towards a single set of accounting standards', report by Nippon Keidanren, 14 October 2008 (English summary accessible at www.keidanren.or.jp).

11 See the report to the European Parliament by Alexander Radwan, MEP, 'Report on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB)', 5 February 2008 (A6-0032/2008) and Parliament's related resolution of 9 October 2008 (T6_PA(2008)0469), both accessible at www.europarl.europa.eu.

12 The one exception was Philip Laskawy. His term was effectively extended to allow him to serve as acting chairman when Volcker's successor, Tommaso Padoa-Schioppa, resigned in May 2006, after just five months in office, to become Italy's Economy and Finance Minister. Zalm took over from Laskawy in January 2008.

13 IASC Foundation constitution, February 2009, paragraph 18.

14 Transcript of Monitoring Board and IASCF trustees meeting, 1 April 2010, accessible at www.iosco.org/monitoring_board.
15 'New Chairman for IASB', *World Accounting Report,* November 2010.
16 IFRS Foundation Monitoring Board, 'Final Report on the Review of the IFRS Foundation's Governance', 9 February 2012. Accessible at www.iosco.org/monitoring_board.
17 See Larson and Kenny (2011) for a more extensive discussion of the IASB's funding.
18 Studies of the IASB's due process in action have tended to focus on comment letter analysis. Examples include Jorissen *et al.* (2006) and Hansen (2011).
19 According to the 2007 *Global Accountability Report* issued by One World Trust. See IASB press release of 2 December 2007.
20 An 'Analyst Representative Group' with which the IASB began meeting in 2004 has developed into the current 'Capital Markets Advisory Committee'. Similarly, meetings with a group European CFO's beginning in 2004 eventually led to the current Global Preparers Forum. Neither group is formally part of the IASB organization.
21 The IASB meets periodically with the chair of the Technical Expert Group of the European Financial Reporting Advisory Group (EFRAG) together with the chairs of the French, German, Italian and UK standard setters who are non-voting members of EFRAG.
22 The World Standard Setters (WSS) have been meeting since November 2002, and are convened by the IASB. In addition, there has been since 2005 a separate cycle of meetings known as National Standard Setters (NSS). The IASB attends, but does not convene, the NSS meetings.
23 See Street (2005) for a more extensive discussion of the G4.
24 In 2008, the size of the FASB was reduced to five members. It was restored to seven in 2010. The IASB had, by mid-2012, not yet reached its full complement of 16 members as allowed by the constitution revised in 2009.
25 See Stevenson (2010) for the views of the Chairman of the Australian Accounting Standards Board. Stevenson had also served as the IASB Technical Director. Contrasting examples of how national standard setters are redefining their roles can be found in the 'Plan stratégique 2011–2012' of the French Authorité des normes comptables (accessible at www.anc.gouv.fr) and the UK ASB's January 2012 proposals on 'The future of financial reporting in the UK and Ireland' (accessible at www.frc.org.uk).
26 Whittington (2008) contains important reflections on the IASB's use of its conceptual framework by a former Board member. For another Board member's perspective on the framework project see McGregor and Street (2007).
27 For a review of the early stages of the insurance contracts project, see Dickinson (2003).
28 Barker (2004) is a review of some of the issues by the IASB project manager for this project.
29 See Crawford *et al.* (2010) for a discussion of the IFRS 8 episode.
30 On this discussion, see for instance André *et al.* (2009).
31 See the IASB's 'Request for views: agenda consultation 2011' (July 2011).
32 See the analysis of comment letters on the agenda consultation by the IASB's staff, agenda paper 5A for the IASB meeting of 25 January 2012, paras 48–51.

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