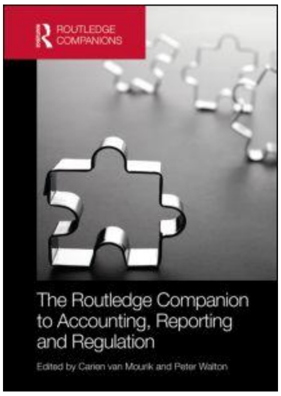

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Turf Wars or Missionary Zeal: IFRS, IFAC, The World Bank and the IMF

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Turf Wars or Missionary Zeal: IFRS, IFAC, The World Bank and the IMF

Rachel Baskerville

1. Introduction

In 1829, Daniel Tyerman and George Bennet arrived back in London after an eight-year trip around the world, having been ordered to report to the London Missionary Society on gospel observance, standards and conditions of a worldwide network of missionary stations. The importance of the adaptation of the missionary workers to local cultures and political conditions was key to each local success. Yet their comprehensive report (39 pamphlet volumes) was largely forgotten a decade after completion (Hiney, 2001, p. 313).

In 1999, two bodies with a similar evangelical zeal, but for a worldwide markets gospel, and standards of market behaviour, launched assessments of observance of standards relevant to 'private and financial sector development and stability'. This initiative, by the IMF and the World Bank, peaked at 148 reports in 2003, down to 85 per annum by 2005. The bundle of 'Reports of the Observance of Standards and Codes' (ROSCs)[1] had mixed results, as expressed in the views from users and market participants. By the end of 2011 most of the IMF's 188 member countries had completed one or more ROSC assessments, 1,273 ROSCs had been produced, of which about 63 per cent were published.[2] There was often an eight-month or so period after completion before agreement on the ROSC, if at all, and the 'shelf-life' was sometimes only one year (IMF and the World Bank, 2005, 2011).

The tepid response by users of the benefits of these ROSCs is not unexpected. Such global initiatives to support the operations of quasi-integrated international financial markets move inexorably over a range of unique cultural landscapes: countries where tax laws are idiosyncratically distinctive; countries where the EU and others support retention and growth of local languages; countries seeking self rule and respect for choices of political structures and operations.

The utility of the ROSC project has not been unquestioned in the past decade; for example, Rojas-Suarez (2002) asked why it was that Argentina, with four official ROSCs and four self-assessments published on the IMF website, and therefore one of the developing countries most involved with the ROSC's process, was experiencing what appeared to be one of the deepest and lengthiest crises in recent history:

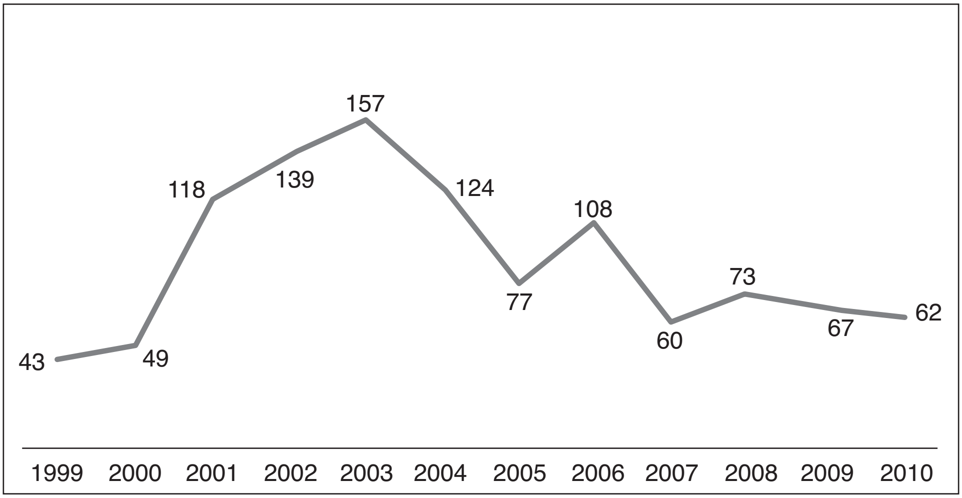

Figure 23.1 ROSC completion per annum, 1999–2010

> [W]hy did a positive assessment by the IMF/World Bank about progress in the implementation of four standards not shield the country against the eruption of a financial crisis? . . . [I]t is not difficult to predict that this episode will be used over and over again by those who are skeptic about the usefulness of the standards (Rojas-Suarez, 2002, p.12).

It is not clear to any educated reader whether or not the governance boards of global entities such as the World Bank and the IMF believe that a common good of humanity is achieved in increasingly efficient operations of financial markets. However, it is clear that there are ardent views held by staff members in such entities who appear to fervently believe that relief from poverty can be best achieved though efficient operations of financial markets. A more cynical gloss on the increased involvement of the World Bank and IMF in standard setting activities might suggest 'market capture' of these institutions by standard setting and monitoring organisations (such as IFRS.org[3]), which are in need of more diverse funding sources. Perhaps they seek capital from the IMF and the World Bank in exchange for their steady advocacy and monitoring of accounting and auditing standards to enhance the operations of financial markets to ensure financial stability and growth; funding movements will be further discussed in this chapter. The last decade of progress on this shows little sign of the desired standardization and there are repeated calls for better monitoring and regulation to support IFRS, as documented in other chapters in this book.

The imperative towards a scheme of international financial architecture with the involvement of the IMF and the World Bank had its roots in the mid 1990s, when questions arose about how to prevent the financial chaos which developed as a result of Mexico's devaluation of the peso in 1994. Then the widespread financial crisis in Asia in 1997/8 lead to more direct action (Wade, 2009). 'Financial stability' began to be seen as a potential problem in a rapid globalizing world. There were varying explanations of the Asian crisis and many different ideas as to how such a crisis could be prevented in the future' (Humphrey *et al.,* 2009, p. 811 referring to Muchhala, 2007, and Rahman, 1998). Some blame was laid at the door of the IMF for having exacerbated the crisis (Weisbrot, 2007) but the need to improve financial capital flows worldwide led to the establishment of the Financial Stability Forum in 1999, its key mandate being to 'set up this system of standards' (Humphrey *et al.,* 2009, p. 811).

According to Hegarty *et al.* (2004, p.15), suggested impediments to successful implementation included a lack of globally consistent quality of audit by the big audit firms, and the lack of a 'comprehensive framework of principles for the regulation of accounting and auditing'. In many countries what was required was an institutional framework into which standards could fit. 'The "standards–surveillance–compliance" regime was to be seriously applied on a global basis, and not 'just' for emerging and developing economies' (Humphrey *et al.,* 2009, p. 812). With the G20 increasingly involved in many aspects of governance of global economies, the old dichotomy between emerging economies that were 'clients' of the IMF and international standard setters, and the developed industrial states, especially the UK and USA who were the 'masters' of the system, appeared to be breaking down (ibid.).

This chapter offers some analysis of the historic role of the UN, the educational activities of the OECD, and current level of activities of the World Bank and the IMF with regards to standard setting. In order to do this, this chapter describes some details of these four organizations (Section 2), and then offers a brief review of:

- spheres of influence: existing sources of a variety of standards, and a brief reflection on the accountability of trans-national actors (Sections 3 and 4);
- 'under the radar': that some in-house IFRS and research publications appear to ignore the World Bank and IMF (Section 5);
- five observed levels of involvement in standard setting activities by these international actors (Section 6);
- IFAC and IFRS organizational relationships with IMF and World Bank as observed from their annual reports (Section 7); and
- the chapter concludes with Discussion (Section 8).

2. The international organizations

The United Nations

The United Nations (UN) is an international organization founded in 1945 after the Second World War by 51 countries committed to maintaining international peace and security, developing friendly relations among nations and promoting social progress, better living standards and human rights. The UN has four main purposes and, with the World Bank, shares a primary mission, being the relief of poverty. These purposes are:

- to keep peace throughout the world;
- to develop friendly relations among nations;
- to help nations work together to improve the lives of poor people, to conquer hunger, disease and illiteracy, and to encourage respect for each other's rights and freedoms; and
- to be a centre for harmonizing the actions of nations to achieve these goals.[4]

The involvement of the UN in accounting standard issues was in earlier years through the activities of UNCTAD (the United Nations Conference on Trade and Development), which included the earlier work of the Commission on Transnational Corporations. In 1973 the

United Nations Economic and Social Council had charged a 'Group of Eminent Persons' with the task of advising on matters related to transnational corporations. After seeking stakeholder views this body recommended:

- permanent programme of work and a Centre be established to study transnational corporations and related policy issues; and
- the creation of a Commission on Transnational Corporations, to which the Centre was to report. The Commission provided the intergovernmental forum on transnational corporations while the Centre undertook a programme of information gathering, research and policy analysis, technical assistance, and consensus-building to support the work of the Commission.[5]

Thus the UN Commission on Transnational Corporations (TNCs) began functioning in 1974 with three objectives:

- to further understanding of the political, economic, social, and legal effects of TNC activity, especially in developing countries;
- to secure international arrangements that promote the positive contributions of TNCs to national development goals and world economic growth while controlling and eliminating their negative effects; and
- to strengthen the negotiating capacity of host countries, in particular the developing countries, in their dealings with transnational corporations (ibid.).

This body lasted for 17 years. The UNCTC was dissolved in 1993 as part of the reorganization of the UN's economic sector, and the programme on TNCs was transferred to UNCTAD. A snapshot of its subsequent activities can be observed from looking at the agendas and work papers, e.g. at the meeting on 1 July 1996, representatives of 50 member states of UNCTAD were present, including all major economic powers, but the only standard setters present were from the Accounting and Auditing Organization for Islamic Financial Institutions, two Canadian professional bodies (from CICA and CGAC), the Chartered Association of Certified Accountants (now known as ACCA) and the International Accounting Standards Committee.[6] The elected governing body did not include any Anglo-Saxon delegates. It appears to have continued to work in various projects to encourage the use of IFRS in countries outside the Anglo-Saxon/Western power blocs.

For example, a 2008 report suggested that it is likely that the IFRS for SMEs may not be suitable for smaller enterprises, as such enterprises may not produce general-purpose financial statements, and proposed that a three-tiered structure be followed to reflect user needs and the cost–benefit assessment of the optimal level of reporting. This did not refer to the IFRS for SMEs but instead jumped from a second tier (applying to 'significant' but non-issuer business enterprises) to their third tier:

> This level would apply to smaller enterprises that are often owner-managed and have no or few employees. The approach proposed is simplified accruals-based accounting, closely linked to cash transactions. National regulators may permit a derogation for newly formed businesses or new entrants to the formal economy to use cash accounting for a limited time (UNCTAD, 2008, p. 2).

The Organization for Economic Cooperation and Development (OECD)

The OECD, formed in 1960, currently has twenty-nine of the world's most developed, industrialized countries as its members. A valuable contribution of the OECD is its surveys of accounting practices in member countries and its assessment of the diversity or conformity of such practices. Its Working Group on Accounting Standards supports efforts by regional, national, and international bodies promoting accounting harmonization. In 1998, the OECD issued 'Principles of Corporate Governance' that support the development of high-quality, internationally recognized standards that can serve to improve the comparability of information between countries.

The OECD appears to be involved by organizing conferences on accruals, government financial statistics and IPSASB standards, e.g. the 12th annual OECD public sector accruals symposium was held on 8–9 March 2012 in Paris. The meeting was chaired by Michel Prada, President of the Public Sector Accounting Standards Council of France and included reports from the:

- International Public Sector Accounting Standards Board;
- International Accounting Standards Board;
- Statistics Department of the International Monetary Fund (IMF);
- Statistical Office of the European Commission (EUROSTAT); and
- accounting standard setting boards in individual countries.

The OECD 50th anniversary vision statement noted that it would:

> continue to help countries develop policies together to promote economic growth and healthy labour markets, boost investment and trade, support sustainable development, raise living standards, and improve the functioning of markets ... The 2008–09 financial and economic crisis underscored the increased complexity and interconnectedness of today's world, the on-going central importance of growth and employment, as well as the need for more effective regulation of the financial sector and enhanced co-operation to address common concerns.[7]

The World Bank

The World Bank, created in 1944, appears initially to have consisted of the IBRD and the International Development Association (IDA). Its objectives used to be stated as a broad portfolio's focus on 'social sector lending projects, poverty alleviation, debt relief and good governance' ('About Us', www.worldbank.org in 2011). This has more recently been simplified to: 'At the World Bank, we have made the world's most pressing development issue – to reduce global poverty – our mission.'

However, on the Home page the heading: 'Five Agencies, One Group' is used by the World Bank to explain its structure. The World Bank Group consists of five organizations. A user may click on any of the icons at the bottom of the home page and move to the different websites. The earlier 'WorldBankGroup.org' URL no longer exists, and a web-surfer is automatically taken to worldbank.org (which also contains annual reports for the IBRD and the IDA). The function of these five bodies as described on the World Bank home page is as follows:

- The International Bank for Reconstruction and Development (IBRD; aka the World Bank) 'lends to governments of middle-income and creditworthy low-income countries'. It was established in 1946 with 32 shareholding countries, $7.7 billion in capital, and headquarters in the USA in its first year.

- The International Development Association (IDA) established in 1960, 'provides interest-free loans—called credits— and grants to governments of the poorest countries'. In time, IDA countries became the IFC's main focus.
- The International Finance Corporation (IFC), established in 1956, 'provides loans, equity and technical assistance to stimulate private sector investment in developing countries'.
- The Multilateral Investment Guarantee Agency (MIGA) was established in 1988. Its purpose, as described on the World Bank home page, is to provide guarantees against losses caused by non-commercial risks to investors in developing countries. On MIGA's own home page its mission is to promote foreign direct investment into developing countries to 'help support economic growth, reduce poverty, and improve people's lives'.
- The International Centre for Settlement of Investment Disputes (ICSID) Convention was established in 1966 'inspired by the desire to increase cross-border flows of private capital' (ICSID, About Us). It is described on the World Bank home page as 'providing international facilities for conciliation and arbitration of investment disputes'. The Administrative Council, the governing body of ICSID, is comprised of one representative of each of the 157 ICSID Contracting States that are signatories to the Convention. Although the income statements appear to invariably result in zero earnings (neither profit nor loss), it is noted that:

  > After the completion of an arbitration/conciliation proceeding, if it is determined that there is an excess of advances and investment income over expenditures for the proceedings, the surplus is refunded to the parties in proportion to the amounts advanced by each party to the Centre (ICSID Annual Report 2011, p. 59).

The World Bank advances to the ICSID were $US1.57 million in the 2011 financial year, relative to total assets and liabilities both being $US 22.4 million (i.e. no equity component on the Balance sheet). In addition to the above five entities, the World Bank/IBRD includes the three-member World Bank Inspection Panel, formed in 1993, and described as:

> an independent, 'bottom-up' accountability and recourse mechanism that investigates IBRD/IDA financed projects to determine whether the Bank has complied with its operational policies and procedures (including social and environmental safeguards), and to address related issues of harm (www.worldbank.org/inspectionpanel, Home page).

While there is much mention throughout the annual report of accountability, there is none specifically in relation to financial reporting accountability to stakeholders; it is more in relation to processes and procedures.

The IBRD, the IFC and the IDA have one Board for governance, whereas MIGA has a separate Board. However, the representatives of the USA, Japan, Germany, France and the UK are the same on both bodies. There are a further twenty directors presenting various collations and voting blocks. In addition to the five executive directors shared with the IBRD, the IDA and the IFC, MIGA adds a representative for China. In MIGA, the other voting coalitions are much smaller, there are 19 other directors, and Russia and Saudi Arabia do not form a coalition with anyone else, unlike their coalitions operational in the World Bank and IFC. The integrated nature of these other entities to the operations of the World Bank is noted by other writers, e.g. Annisette, 2004, although her analysis focuses on the IRBD alone. She noted:

> The IDA was established to make 'soft' loans to the world's poorest countries unable to afford the IBRD's terms. Although it has a different source of funds, and country

> eligibility for its loans is not the same as the IBRD it is not a separate institution, but rather, a separate account managed by the officers of the IBRD. The IFC on the other hand makes loans exclusively for private enterprise in Bank borrowing countries. In addition to providing credit to local companies the IFC has helped many transnational corporations to establish themselves in developing countries. Finally the MIGA was established for the purpose of encouraging direct foreign investment in developing countries (Annisette, 2004, p. 305).

The size of financial activities of four of these largest entities is described in the MIGA annual report as:

> The World Bank Group committed $57.3 billion in fiscal year 2011. The World Bank, comprising IDA and IBRD, committed $43 billion in loans and grants to its member countries. Of this, IDA commitments to the world's poorest countries were $16.3 billion. IFC committed $12.2 billion and mobilized an additional $6.5 billion for private sector development in developing countries. $4.9 billion of the total went to IDA countries. MIGA issued $2.1 billion in guarantees in support of investments in developing countries (MIGA Annual Report 2011, p. 7).

The IMF (International Monetary Fund)

The IMF has two well-differentiated roles:

> First, a regulatory role, which comes from its capacity to design conditionality, exercise surveillance on the economy of its members and oversee compliance with members' obligation to collaborate with the Fund to assure 'orderly exchange arrangements and to promote a stable system of exchange rates'. Second, a lending role, which comes from its capacity to serve as a multilateral pool of reserves meant to 'give confidence to members by making the general resources of the Fund temporarily available', so as to help them correct their [balance of payments] problems while promoting 'high levels of employment and real income' and 'without resorting to measures destructive of national or international prosperity' (Torres, 2007, p. 17).

The IMF came into existence in 1945, and now describes itself on its website as:

> The International Monetary Fund (IMF) is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

However, Woods and Lombardi (2006) find it astonishing that there are virtually no mechanisms to hold accountable elected directors of the IMF (those representing 'constituencies' of countries that gather to have a seat at the Board). The situation for appointed directors (those appointed by countries that enjoy their own seat at the Board, i.e. the USA, Japan, Germany, France, the UK, China, Russia and Saudi Arabia) is somewhat different, as in some cases (e.g. the USA) their appointment has to be approved by the legislature. The European Union countries act individually within the IMF, but 'coordinately'. As Woods and Lombardi (ibid.) note, the EU countries form a coalition with a Brussels permanent sub-committee on the IMF. Together they hold 32.18 per cent of the votes.

The IMF's capacity to influence its key members' policies through its advice, and to give confidence to potential borrowers by offering opportune and meaningful financial assistance in case of trouble, was questioned by Torres (2007). He suggested that the governance structure appears inconsistent with its multilateral nature, is dysfunctional to its purposes, and there is an ideological bias in its policy advice. This prevents the IMF from being responsive to stakeholders; the current reform process is 'tinkering on the margins' and might well fail to bring the desired additional credibility and effectiveness to the IMF. Similarly, Tan (2006) offered an analysis of the IMF's operational framework and political programme at what he terms 'the most crucial juncture in its institutional history'. This view was derived from his analysis of four recent publications on the Bretton Woods institutions, and focused on how commentators perceive and address the current 'crisis of legitimacy' affecting the IMF and the World Bank, a crisis which may be one driver to more involvement with other transnational actors.

3. Spheres of influence

In the decade since the 2002 'Conference on Financing for Development: Regional Challenges and the Regional Development Banks at the Institute for International Economics' there has been an increase in co-ordination only between those involved in international standard setting processes and developments, with the ROSC activities offering a detailed country-by-country assessments. After that 2002 Conference, analysis by Rojas-Suarez (2002) indicated the extant regulatory institutions shown in Table 23.1.

Table 23.1 Key standards for sound financial systems

Subject Area	*Key Standard*	*Issuing Body*
Macroeconomic Policy and Data Transparency		
Monetary and Financial Policy Transparency	Code of Good Practices on Transparency in Monetary and Financial Policies	IMF
Fiscal Policy Transparency	Code of Good Practices on Fiscal Transparency	IMF
Data Dissemination	Special Data Dissemination Standard (SDDS) General Data Dissemination System (GDDS)	IMF
Institutional Market Infrastructure		
Insolvency	Principles and Guidelines on Effective Insolvency and Creditor Rights Systems	World Bank
Corporate Governance	Principles of Corporate Governance	OECD
Accounting	International Accounting Standards (IAS)	IASB
Auditing	International Standards on Auditing (ISA)	IFAC
Payment and Settlement	Core Principles for Systemically Important Payment Systems	CPSS
Market Integrity	The Forty Recommendations of the Financial Action Task Force on Money Laundering	FATF
Financial Regulation and Supervision		
Banking Supervision	Core Principles for Effective Banking Supervision	BCBS
Securities Regulation	Objectives and Principles of Securities Regulation	IOSCO
Insurance Supervision	Insurance Core Principle	IAIS

Alan Richardson offers an analysis of a part of the networks of these organizations, and suggests that:

> among the international bodies, the Basel Committee emerges as holding a pivotal role linking the IFAC committees and the organizations centred on the World Bank and IOSCO. The Basel Committee was the first of the World Bank cluster of organizations to liaise with the accounting standard-setting bodies when they asked the IASC to develop standards for bank financial statements in 1976 (Richardson, 2009, p. 584).

In his analysis of Canadian standards setting networks, Richardson described this network as consisting of '61 organizations clustered into four 'factions',' i.e. a group of densely interconnected bodies, consisting of:

- a domestic securities regulator's cluster (linked to the Canadian Securities administrators);
- an IOSCO/World Bank cluster;
- an IFAC/Basel cluster; and
- a domestic accounting and auditing standard setting cluster (linked to the CICA).

Richardson's analysis thus expanded the conceptions of accounting and auditing standards setting process in Canada to include a diversity of 'centers of calculation' linked together in 'networks of rule' (Rose and Miller, 1992). Standard setting can thus be observed to be embedded in a network structure with multiple influences (Richardson, 2009, p. 585). This is similar to the analysis by Humphrey *et al.* (2009) of global auditing regulation in which they described three, rather than four, influential entities/groupings. However, they move the Basle Committee into the IOSCO/WORLD bank cluster. Their clusters are:

- IFAC;
- international regulators: World Bank, IOSCO, the International Association of Insurance Supervisors, the Basel Committee on Banking Supervision and the European Commission; and
- the large multinational audit firms.

All three groups have interlocking relationships with each other (Humphrey *et al.,* 2009, pp. 813–4).

It is noticeable that the majority of such entities are essentially private institutions. As asked by Jonsson (2008), who is entitled to hold such powerful entities accountable? He notes the soft blurring of the public/private boundaries, and the need to conceive of democracy in novel terms. It is observed by many specialists in this field that the engagement of international actors in, for example, standards setting activities may lead to more cumbersome and less responsive decision making (Jonsson, 2008, p. 88). Much literature on private authority in global governance takes as its common point of departure the notion

> that authority has to do with legitimized power, which is not monopolized by state actors . . . regulatory tools outside the state-centric sphere are not legally binding regulations (hard law) but rather variants of soft law, such as standards, rankings and monitoring frames and codes of conduct (ibid.).

Because we are now in the area of the global 'soft law' for standards in accounting, this may require higher levels of accountability by those setting these standards than in earlier eras when each local professional body was accountable to its members and the state for the standards and financial market development.

4. Accountability

Categorization of these spheres of influence, and the roles of transnational actors, both draw attention to the nature of accountability by multinational bodies, the World Bank and IMF in particular. Woods and Narlikar (2001) observed that many such global entities are trying to bolster that accountability through enhancing transparency and accounting. Eight years ago the websites and links to their annual reports on line were always slow, indirect at times, and even obscure in some cases (Baskerville and Huckstep, 2009). There has certainly been an observable shift in access to online financial reporting by these entities in the past five years.

But whether or not there has been a more fundamental shift in accountability since the Woods and Narlikar (2001) study remains to be analysed. They had concluded that there are still gaps between the World Bank, the IMF and the WTO regarding their accountability, due to their structure not being suited to new stakeholders, their work programmes expanding faster than their accountability efforts, and possibly due to a gap between 'legitimacy and accountability in international economic governance' (ibid., p. 582). And as Barnett and Finnemore (1999, p. 700) pointed out, the same rules that define bureaucracies for such entities, and make them powerful, can also make them 'unresponsive to their environments, obsessed with their own rules at the expense of primary missions, and ultimately lead to inefficient self-defeating behavior'. Given such a range of studies in these entities, and the understandings of accountability or lack thereof, it is surprising that their importance is overlooked.

5. Under the radar

In contrast to research described so far in this chapter, there is another surprisingly large body of research pertaining to the activities of IFRS and IFAC which does not refer at all to the involvement of the World Bank and the IMF. For example in the IFRS (2006) 'Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters' they did not consider the World Bank or the IMF. Instead they suggested that 'other accounting standard-setters' refers to organizations that have responsibility for setting accounting standards at a national level, including those whose responsibilities include but are broader than convergence with or adoption of IFRSs, and at an international level, specifically the International Public Sector Accounting Standards Board. It also includes those organizations that have responsibility for, and those with a direct role in facilitating, the setting of accounting standards across a number of countries in a region. It was instead addressing timing, feedback, agenda setting, education, etc., between the IASB and national standard setters or those implementing and monitoring application of IFRS.

More scholarly articles, such as the examination of IFRS diffusion by Chua and Taylor (2008), have documented the inexorable rise of IFRS standards and offered an alternative explanation for the origin and diffusion of IFRS that incorporates social and political factors, but contain no consideration of the role of the World Bank and the IMF. Another recent piece of scholarship by Donna Street, when she interviewed those most closely involved in the events in the decade before the establishment of the IASB, concluded the G4 served as a key catalyst for change, but did not consider the role of the IMF and World Bank. Given that such sterling research ignores connections or spheres of influence of the World Bank and the IMF, an analysis was undertaken examining the annual reports and websites of both these bodies.

6. Five levels of involvement

The following analysis postulates five levels of involvement by the World Bank and IMF in standard setting policies. First, when large entities such as the World Bank and the IMF issue their own guidance. Choi and Mueller (1978) noted that the International Finance Corporation (IFC), part of the World Bank Group, was in the practice of issuing special instruction booklets on the format of financial statements presented to the IFC, as well as guidance on the appropriate underlying accounting standards and principles (ibid., p. 105).

Second, supporting monitoring implementation of IFRS and IAS either by themselves or by proxy. The role of the ROSCs has already been discussed in this chapter, whereas monitoring of the proper application of IFRS is essentially an audit function. Therefore one might anticipate a focus of activity on the regulation and proper functioning of audit. The regulation of audit is undertaken by the IAASB, funded through IFAC.

Third, noting their own compliance in the adoption of accrual accounting with the appropriate standards. For example, the United Nations with its 193 member states is the most representative of all the global bodies and, in terms of its own reporting, has adopted accrual accounting and International Public Sector Accounting Standards. This is paralleled by the IFAC 2011 Annual Report: they note their financial statements have been prepared in accordance with International Public Sector Accounting Standards. This is in contrast to:

- the World Bank (2011) Annual Report, which noted that their financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America (US GAAP); and
- both the IFRS 2010 Annual Report (who note their financial statements have been prepared in accordance with International Financial Reporting Standards), and the IMF 2011 Annual Report, who note their 'consolidated financial statements of the General Department are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)'.

Fourth, enhancing the profile and/or the legitimating of IFRS and IFAC by cross reference on websites. In order to get an indication of this exercise, a count was undertaken (April 2012) using search engines on each of the websites, as indicated in Table 23.2 and Figure 23.2. This method of indicating stakeholder salience is a simple indicator to offer a snapshot of the extent to which the stakeholder relations are or are not reciprocated. For example, searching for the acronym IASC turned up 990 results in the World Bank URL, but none on MIGA.

In the reverse process, when a search was made for reference to the acronyms representing these stakeholders on the IFRS and IPSAS websites, the results were as shown in Table 23.3, Table 23.4 and Figure 23.3.

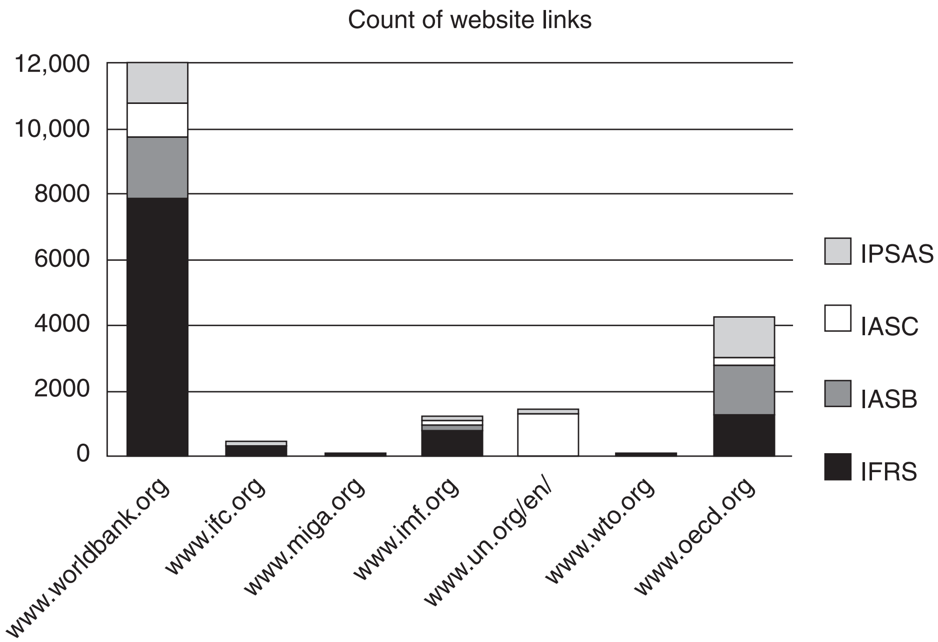

Figure 23.2 Cross referencing on website URLs as at April 2012

Table 23.2 Cross referencing on website URLs as at April 2012

	IFRS	*IASB*	*IASC*	*IPSAS*	*Total:*
www.worldbank.org	7910	1870	990	1200	11970
www.ifc.org	407	40	17	0	464
www.miga.org	55	22	0	0	77
www.imf.org	855	168	55	126	1204
www.un.org/en/	23	45	1250	168	1486
www.wto.org	24	7	16	3	50
www.oecd.org	1280	1540	211	1270	4301

Table 23.3 Cross referencing on IFRS and IFAC websites as at April 2012

	World Bank	*IFC*	*MIGA*	*IMF*	*United Nations*	*WTO*	*OECD*
www.ifrs.org	595	7	0	48	81	10	21
www.ifac.org	99	1	0	9	44	0	17

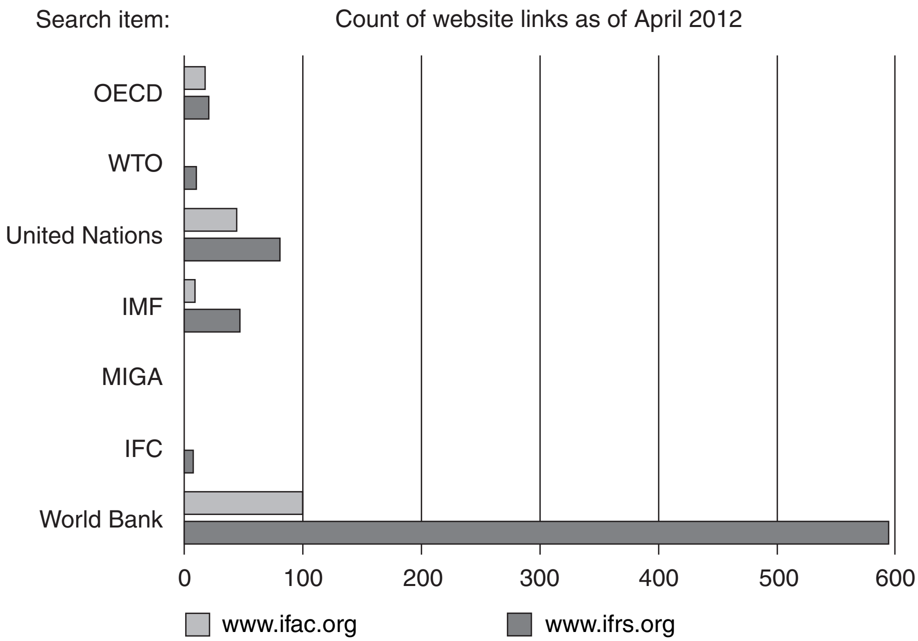

Figure 23.3 Cross referencing on IFRS and IFAC websites as at April 2012

It is clear from these two tables and figures that the most cross referencing occurs on the World Bank linkages, even though the ROSC was a joint IMF/World Bank programme.

This now leads to the fifth level of involvement, that of funding support. The World Bank and the IMF do not have representatives on the IFAC and IASB Boards. However, it can be observed from an inspection of the Annual Reports of the IFAC and IFRS/IASB that there is involvement in that direction as reported by the IFAC and IFRS/IASB. This is covered in Section 6.

7. IFAC and IFRS foundation's relationship with IMF and World Bank

The relationship of IFAC with IMF and World Bank from annual report disclosures

For at least the past five years, the IMF and the World Bank are listed as organizations with which IFAC has 'regulatory relationships' in the IFAC annual report. However, there is no detail about the money coming from them to IFAC. Total revenues for IFAC for 2011 were $25.9 million, of which 52 per cent is from 'membership dues', but there is no breakdown, i.e. it is not possible to determine the amount provided from the World Bank exactly. A further 37 per cent is from the Forum of Firms.

IFAC has a long history of cooperation with the World Bank, for example in 2005 it developed a strategy that emphasized the commitment to the public interest, a mandate to build an 'investment climate of trust', and a role in contributing to economic growth and stability.

In 2002, IFAC and a group of six international financial institutions – the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank (the Monitoring Group) – began a dialogue about 'the importance of high-quality audits of financial statements and the need to restore and enhance public confidence in financial reporting and auditing. The result of this dialogue was the 'IFAC Reforms'. The IFAC Reforms changed the structure and processes for the auditing, ethics, and education standard-setting boards supported by IFAC, and called for the Monitoring Group to perform a five-year review of their implementation' (IFAC Annual Report).

The manner in which IFAC aimed to meet these commitments has, for a long time, been through Auditing and Public Sector (including governmental reporting) standards. In the 2004–6 report by the president of IFAC, Graham Ward, he noted that IFAC had sponsored a Workshop for both the government and corporate sectors, funded together with the World Bank and African development bank. The World Bank and African development bank contributed $261,819 to this Workshop.

During 2005, the funding support for the Public Interest Oversight Board (PIOB) of IFAC included monies from the World Bank and USA Federal Reserve Board (USA) with support to the PIOB totalling $478,289. In 2006 the figure had more than doubled to $1,047,363 (IFAC Annual Report 2006, p. 47). In the 2007 Annual Report, IFAC supported the PIOB to the tune of $1.56 million which included $90,000 from the World Bank and others.

From 2010, IFAC began acknowledging in its Annual Report its input into the World Bank Reports on Observance of Standards and Codes (ROSCs); these ROSCs had been undertaken on 14 countries that year. In 2010, the Monitoring Group issued its 'Review of the IFAC Reforms:– Final Report', which stated that virtually all of the changes called for by the IFAC Reforms had been implemented. It also acknowledged that the initial implementation of the IFAC Reforms had been a significant undertaking, and recognized the 'numerous achievements with respect to their implementation'. Finally, the Report identified a number of near-term actions for IFAC and the standard-setting boards it supports, focused on further enhancing diversity, transparency, and accountability (IFAC 2010, p. 19, n.1).

The IPSASB (International Public Sector Accounting Setter Board) also conducted a survey to determine the level of implementation of IPSASs (International Public Sector Accounting Standards) by World Bank list of economies. Initial results from the survey showed that of 209 World Bank economies, approximately one third were either adopting or making plans to adopt IPSAS or have standards in place that are broadly consistent with IPSASs.

The relationship of the IFRS foundation with the IMF and the World Bank from annual report disclosures

It is clear from the IFRS Annual Reports as to the identity of stakeholders who have long-term funding commitments to IFRS, e.g. specific countries in the EU, as well as an EU commitment of €4 million a year for 2011–13. Both the World Bank and the IMF were identified separately, 10 years ago, as supporting organizations. But their support more recently is unclear. In the 2008 Annual Report the organizations and individuals consulted during the IFRS Constitution Review proposals mentioned that the president of the World Bank was a member of the monitoring group, but there is no mention of the IMF.

In 2010 the large 'International Accounting firms' donated $US8.4 million a year to core funding of FIRS.org, whereas the amount from various 'Central banks and International organizations' is only $US.5 million a year (IFRS Annual Report 2010). So from the Annual Reports of IFRS, there is apparently little direct involvement, and the lack of research based on their involvement may be unsurprising.

8. Discussion and conclusion

There are at least three understandings or interpretations of the above data, whilst bearing in mind that the current equilibrium could be undermined quite easily, almost as a sleight of hand, if those in charge of global financial architecture see it as important that IFRS should move from being controlled by high level accounting technicians, and use their financial muscle to affect a shift in the ultimate control of IFRS. The largely unsubstantiated claim that IFRS caused the Global Financial Crisis is one nail in this coffin. Alternative readings may include that the above evidence points to:

- a successful and gradual merging of objectives and monitoring outputs whereby the IMF, World Bank, IFAC and IFRS all gain from synergies. Funding support for IFAC and IFRS is continued and may increase as their missions and objectives morph through consanguity with the large global entities, although remaining seemingly independent to outsiders; or
- a turf war, with IFRS and IFAC wishing to remain in control of the development of standards. They may allow the World Bank and IMF a 'tolerable' level of observer or voting rights in lesser activities, but remain wary of being any more a part of the World Bank/IMF grouping; or
- the World Bank and the IMF eyeing the apparent successful distancing from the Global protest movement and Occupy Wall Street events by IFAC and IFRS, and the World Bank and IMF are wishing to align to smaller, less politicized bodies. IFAC and IFRS, meanwhile, are careful to steer clear of claiming any panacea for financial instability and lack of economic growth, and advocate IFRS adoption as a process, not a solution.

As Tamm Hallström (2004) points out, the quest for authority is an imperative for private standard setters. But the extent to which this needs to be accompanied by a missionary-like zeal for worldwide compliance with one set of financial standards to ensure maximum market efficiency remains a belief, rather than a fact. For IFRS, reliance on approval and acceptance by private actors such as preparers, users, or third parties (e.g. banks or rating agencies) is not enough. International standards need to be permitted and usually endorsed by public actors, especially the EU and IOSCO. That explains not only the powerful role of IOSCO, but also the relevance of coming to terms with the EU (Martinez-Diaz, 2005). Contrary to the self-regulatory rhetoric dominant in the accounting field, state recognition remains a central requirement for the IFRS success. Even the early diffusion of IAS in developing countries is to be attributed to the World Bank's development agenda and less to the convincing content of the standards (Camfferman and Zeff, 2007, pp. 441f.). But passing the 'chokepoint of public recognition' requires a broad approach and Tamm Hallström (2004, p. 138ff.) distinguishes four general strategies to achieve compliance with the standards: positive self-marketing, establishment of suitable procedures, cooperation with reference organizations, and ultimately the persuasion of private and public authorities. The latter two of these strategies can be observed within the foregoing analysis in this chapter.

Tamm Hallström identifies organizing principles that Camfferman and Zeff have also elaborated on without, however, identifying them in analytical terms. Each of these principles refers to an actor group 'important in the standard-setting activity' (ibid., p. 141). She sees the organizational structure as reflecting the relative weight of interest groups and the necessity to secure external recognition for the enforcement of privately drafted standards in the global arena (Botzem and Quack 2009, p. 994).

> In addition, the openness of the IASB to regulatory, supervisory and business communities is also becoming an issue of debate (FSF, 2009). The severe challenges the IASB is facing today would come as a surprise to many readers who rely only on Camfferman and Zeff's account of the IASC as a success story. In fact, these events could have been hardly foreseen if one would follow the others in their uncritical stance towards professional self-regulation (Botzem and Quack 2009, p. 997).

The IFRS strategies are not wholly driven by an attempt to provide coordination solutions for the global allocation of capital and a belief in maximizing the efficiency of capital market operations. The need to ensure proper application, widespread support among accounting firms, and monitoring through transparent audit reporting are all essential to the continuation of the IFRS brand.

The ongoing evolution of a relationship between the IMF, World Bank, IFAC and IFRS will no doubt be further energized by financial cycles and collapses. It is hoped that the zeal attached to the mandated adoption in World Bank conditions will, in fact, prevent the worst effects of economic downturns on second and third world economies, or at least offer some protection. Unfortunately, we can be sure these downturns will happen again even after the current cycle has passed. But those most interested in accounting regulation do need to be clear to themselves whether we need to accept the missionary zeal for worldwide IFRS adoption and increasing World Bank involvement regardless of cultural specificity and regulatory landscapes, or to observe it as a turf war of major consequences if not separated out for analysis and informed debate. This chapter offers a starting point to some such considerations.

Notes

1 www.worldbank.org/ifa/rosc.html, accessed 12 May 2012
2 www.imf.org/external/np/exr/facts/sc.htm, accessed 12 May 2012
3 IFRS.org is the moniker by which the IASB decided to promote its 'brand' from 2010
4 www.un.org/en/aboutun/index.shtml, accessed 20 June 2012
5 www.benchpost.com/unctc/ accessed 5 July 2012
6 http://unctad.org/en/Docs/tbitncac1d10.en.pdf accessed 5 July 2012
7 www.oecd.org/dataoecd/36/44/48064973.pdf accessed 30 April 2012

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