

Three Essays on EFRAG

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Abstract

English: This cumulative doctoral thesis consists of three papers that deal with the role of one specific European accounting player in the international accounting standard-setting, namely the European Financial Reporting Advisory Group (EFRAG). The first paper examines *whether* and *how* EFRAG generally fulfills its role in articulating Europe's interests toward the International Accounting Standards Board (IASB). The qualitative data from the conducted interviews reveal that EFRAG influences the IASB's decision making at a very early stage, long before other constituents are officially asked to comment on the IASB's proposals. The second paper uses quantitative data and investigates the formal participation behavior of European constituents that seek to determine EFRAG's voice. More precisely, this paper analyzes the nature of the constituents' participation in EFRAG's due process in terms of representation (constituent groups and geographical distribution) and the drivers of their participation behavior. EFRAG's official decision making process is dominated by some specific constituent groups (such as preparers and the accounting profession) and by constituents from some specific countries (e.g. those with effective enforcement regimes). The third paper investigates in a first step who of the European constituents choose which lobbying channel (participation only at IASB, only at EFRAG, or at both institutions) and unveils in a second step possible reasons for their lobbying choices. The paper comprises quantitative and qualitative data. It reveals that English skills, time issues, the size of the constituent, and the country of origin are factors that can explain why the majority participates only in the IASB's due process.

Deutsch: Die vorliegende kumulative Doktorarbeit umfasst drei Arbeiten, die sich mit der Rolle der Europäischen Beratungsgruppe zur Rechnungslegung (European Financial Reporting Advisory Group (EFRAG)) beschäftigen. Die erste Arbeit untersucht, *ob* EFRAG ihre Rolle bei der Beteiligung am Standardsetzungsprozess des International Accounting Standards Board (IASB) erfüllt. Da EFRAG konkret Europäische Sichtweisen beim IASB nicht nur vertreten, sondern auch dafür Sorge tragen soll, dass diese beim IASB berücksichtigt werden, ist die zweite Fragestellung dieser Arbeit *wie* EFRAG ihre Rolle erfüllt. Die qualitativen Daten aus den durchgeführten Interviews zeigen, dass EFRAG den Standardsetzungsprozess des IASB in einer sehr frühen Phase beeinflusst, lange bevor die interessierte Öffentlichkeit offiziell zur Stellungnahme aufgefordert wird. Die zweite Arbeit untersucht mit quantitativen Daten das formale Teilnahmeverhalten von Europäern am Meinungsbildungsprozess der EFRAG. Hier wird insbesondere untersucht, welche Interessengruppen und welche Länder in dem Konsultationsverfahren der EFRAG vertreten sind und was jeweils Gründe für ein intensives (bzw. weniger intensives) Teilnahmeverhalten sind. EFRAG's offizieller Meinungsbildungsprozess ist von Teilnehmern bestimmter Interessengruppen (wie z.B. Erstellern von Jahresabschlüssen und Vertretern aus der Wirtschaftsprüfungsbranche) und von Teilnehmern aus bestimmten Ländern (z.B. solche mit effektivem Enforcement-Systemen) dominiert. Die dritte Arbeit untersucht zunächst die Nutzung verschiedener Lobbyingkanäle der Europäischen interessierten Öffentlichkeit (Teilnahme nur beim IASB, nur bei der EFRAG oder an beiden Kanälen) und im zweiten Schritt werden mögliche Gründe für deren Wahl ergründet. Diese Arbeit umfasst quantitative und qualitative Daten. Sie zeigt, dass Sprachdefizite, zeitliche Engpässe, die Größe bzw. Sichtbarkeit eines Teilnehmers sowie das Herkunftsland erklärende Faktoren sind, warum der Großteil der Europäer nur am Due Prozess des IASB teilnimmt.

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An Introductory Summary

The International Accounting Standards Board (IASB) was established in 2001 to develop international accounting standards (denoted as International Financial Reporting Standards, IFRS) with the aim to standardize accounting practices around the world. Since then, several major jurisdictions, among them the European Union (EU), decided to abandon national accounting standards for its listed companies and adopted IFRS. As of today, more than a hundred of countries have adopted IFRS as claimed by the IASB. The variation of the ‘adoption decision,’ however, varies from an almost immediate adoption without any formal endorsement process to a stated intention to initiate an IFRS converge program. Nevertheless, according to several authors, the globalization of accounting standards is one of the most important phenomena in corporate governance today (e.g. Véron 2007; Ramanna 2013; Leuz/Wysocki 2016; Camfferman/Zeff 2017).

According to Zeff (2012), some of the IASB’s success has been due to good timing because the IASB was the only competent international accounting standard setter when the EU was seeking for an alternative to the U.S. General Accepted Accounting Principles (GAAP). Although the EU was not the first jurisdiction that adopted IFRS, the EU’s adoption decision triggered a series of IFRS adopters around the world (Camfferman/Zeff 2007, 2017; Véron 2007). Zeff (2012) fairly asks whether the IASB would have been successful without such a base of support from Europe. Consequently, the related literature scrutinizes whether the IASB’s core political identity is European (Ramanna 2013; Zeff 2012). Besides several anecdotes which highlight that the EU was an IASB customer “that was difficult to please” (Camfferman/Zeff 2017, 6), there are a few empirical papers that document how EU’s political actors

have sought to influence the IASB's standard-setting process (Bengtsson 2011; Crawford et al. 2014).¹

This cumulative doctoral thesis ties up with this body of literature and examines the role of one specific European accounting player, namely the European Financial Reporting Advisory Group (EFRAG), which operates in the IASB's environment. According to the Working Agreement between EFRAG and the European Commission (EC), EFRAG's first role is to ensure that there has been a proper European input in the IASB's standard-setting process from the very beginning on (EC/EFRAG 2006). Thus, lobbying the IASB's decision making process is politically desired. At the time the IASB publishes a new IFRS, this standard needs to be incorporated into European law. In this regard, EFRAG's second role is to provide advice to the EC on whether a new (or revised) IFRS meets the criteria in the IAS Regulation for endorsement for use in the EU (EFRAG 2016). Whereas prior studies focus on the interplay between the IASB and the EU's political actors, this thesis sheds more light on whether and how European interests are represented at the IASB, inter alia, via the EC's technical advisor EFRAG.

So far, the examination of the effectiveness of EFRAG's role in the IASB's environment has been received little attention to date in the academic literature. Quite the contrary occurred in the political context around the Maystadt reform in which EFRAG's role was scrutinized leading to several 'enhancements' of EFRAG. Maystadt (2013) especially claims the effectiveness of EFRAG's role and thus recommends restructuring EFRAG's governance in order to strengthen EFRAG's voice in the IASB's decision making process. The potential of this research gap has also been recently considered by Camfferman/Zeff (2017). They call for further

¹ In this regard, influence over the standard setting (lobbying) is defined as a "purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve other self-interested purpose inconsistent with the [standard-setter's] mission." (Gipper et al. 2013, 4)

research regarding—among other topics—how the EU, who gives EFRAG a greater prominence at the IASB, influences the IASB’s standard-setting process. This dissertation responds to this recent call from Camfferman/Zeff (2017) by shedding more light into the effectiveness of EFRAG’s role in the IASB’s standard-setting. The first paper thereby analyzes whether and how EFRAG influences the IASB’s decision making process. The second paper examines the participation behavior of European constituents, who are involved in the development of EFRAG’s voice which claims to be “the European Voice in financial reporting” (EFRAG 2016, 2). Finally, the third paper investigates who of the European constituents choose which lobbying channel (only IASB, only EFRAG, or both) and unveils the reasons for their choices. Thus, all papers give new insights into how European interests are represented in the IASB’s standard-setting process.

The first paper “*EFRAG’s Role in the International Standard-Setting Process*”², which is coauthored with Ulfert Gronewold, examines how Europe’s view in the IASB’s decision making process is perceived. As EFRAG has to represent Europe’s interests at the IASB, we particularly investigate whether and how EFRAG generally fulfills its role in articulating Europe’s interests at the IASB. Thus, we take a broader look at the standard-setting process itself and focus on the interplay between the IASB and EFRAG. To do so, we conduct 13 in-depth interviews with experts from both institutions.

We assume and find that EFRAG influences the IASB effectively because it operates permanently and early in the IASB’s decision making process. Our documented interactions between both players occur before the IASB even starts a due process, namely in the so-called

² This paper has been presented and discussed at the American Accounting Association (AAA) Midyear Meeting of the International Accounting Section in Tampa (U.S.) as well as presented at the European Accounting Association (EAA) Annual Congress in Valencia (Spain).

research programme stage of the IASB. Consequently, it seems that there is already an ‘EFRAG flavor’ in each IASB proposal.

Concerning our second question (how EFRAG influences the IASB), we find that EFRAG directly influences the IASB not only through submitting a comment letter during the IASB’s due process but also through attending monthly IASB meetings. Moreover, EFRAG members cooperate very closely with the IASB members (both at staff and board level). According to our interviewees, having such a strong relationship is especially crucial in informal meetings.

Furthermore, EFRAG seems also to indirectly influence the IASB because EFRAG’s public available draft comment letters are used as a source of inspiration by other constituents worldwide. Similarly, EFRAG’s (negative) endorsement advices may signal potential difficulties and thus may also likely influence other jurisdictions’ adoption decisions around the world. Irrespective of exerting direct or indirect influence, EFRAG particularly appears to be such an influential key player because EFRAG’s comments are perceived as being of high quality and balanced due to its transparent consultation process. Having good technical arguments is not only considered to help to persuade the IASB but also other IFRS jurisdictions. Finally, our interviewees highlight that having an endorsement process is not only important from a legal perspective but also from a political perspective as it puts a lot of pressure on the IASB. In that sense, EFRAG’s role in the endorsement process seems to strengthen EFRAG’s influence in the IASB’s decision making process. This paper advances our understanding of lobbying behavior apart from the formal due process of the IASB.

In contrast, the second paper “*Formal Participation Behavior in EFRAG’s Due Process*”³ explicitly analyzes the formal way of lobbying via the submission of comment letters.

³ This paper has been presented at the EAA Annual Congress in Glasgow (UK).

As EFRAG carries out a consultation process that is similar to the IASB's due process, European constituents can directly participate at the IASB as well as indirectly by articulating their views on the IASB's proposals to other parties, such as EFRAG. Since the first paper could document that EFRAG's voice is crucial for the IASB, the second paper is motivated to investigate who of the European interest participates in the development of this influential voice. More precisely, this paper seeks to investigate the nature of the constituents' participation in EFRAG's due process in terms of representation (constituent groups and geographical distribution) and the drivers of their participation behavior.

The sample is based on hand-collected data and consists of 152 constituents who submitted 804 comment letters to EFRAG during the time period of 2009-2013. I document that the submissions to EFRAG have significantly increased in these years compared to the Jorissen et al. (2012) study that documents 293 EFRAG submissions during the period of 2002-2006. I attribute the increase to a higher participation intensity by preparers of financial statements (hereafter preparers), accounting profession, and (to a lesser extent) by users of financial statements (hereafter users). The increase of submissions from various interested parties indicates that EFRAG was successful in improving its visibility as an international accounting body. Moreover, there is a distortion in the geographical distribution observable, indicating that there might be heterogeneous participation costs that appear on the country level that may lead to unequal access for various European constituents.

In the multivariate analyses, I examine factors that are related to the participation behavior of European preparers. First, I predict and show that preparers from countries with strong enforcement regimes participate more often in EFRAG's due process compared to preparers from countries with low enforcement mechanisms. The letters from those preparers are not necessarily written in a more detailed way, these letters are even significantly shorter than the

comment letters from preparers in countries with weak enforcement systems. These results remain robust to different model specifications. Second, I hypothesize and find that preparers from countries with substantial differences between IFRS and national GAAP participate more often in EFRAG's due process compared to preparers from countries with less substantial GAAP differences. Third, due to this rather specific setting of Europe, I also explore whether the participation in the IASB's due process is also related to the participation behavior at EFRAG. I predict and provide evidence that EFRAG's preparers who participate at both IASB's and EFRAG's due processes submit more often and longer comment letters to EFRAG than preparers who participate less frequently at both due processes.

This paper contributes to the literature regarding the participation behavior of constituents writing comment letters. Whereas a bulk of papers analyzing comment letter submissions at the IASB (e.g. Jorissen et al. 2012, 2013; Cortese/Irvine 2010; Hansen 2011; Giner/Arce 2012; Larson/Herz 2011, 2013; Kosi/Reither 2014), not much is known about the participation behavior of European constituents who seek to shape EFRAG's voice. The study provided by Jorissen et al. (2012) is the only study that addresses the participation behavior of EFRAG's constituents in some way. This paper differentiates from the Jorissen et al. (2012) study by examining not only the representation of European constituents involved in EFRAG's due process in a more recent time period, but also the drivers of their participation behavior, which has not been explored so far. Moreover, this paper reveals who of the European constituents participate and why some participate more frequently than others in EFRAG's (public) decision making process. As EFRAG's voice is quite influential for the IASB, this paper gives new insights into the indirect lobbying behavior at the IASB. In this regard, this paper also responds to the broader call of the literature to better understand the whole process of the IASB's decision making (Barth 2000; Cooper/Robson 2006; Luthardt/Zimmermann 2009).

The third paper “*Participation at IASB, at EFRAG, or Both? – Lobbying Choices of European Constituents*”⁴ examines the use of different lobbying choices of European constituents who seek to influence the IASB. Especially, European constituents can choose between different channels to articulate their views on the IASB’s proposals: They can participate in the IASB’s due process or in EFRAG’s due process or they can decide to participate in both processes. In that sense, European constituents are officially asked twice, namely to submit comment letters to the IASB and to EFRAG. The aim of this paper is to examine who of the European constituents use which lobbying channel(s) and to unveil the underlying reasons for their choices.

Being aware of the limitations of relying purely on comment letters when investigating lobbying behavior at the standard-setting process, this paper seeks to address this issue by using a mix of quantitative and qualitative data. Therefore, first, I analyze (hand-collected) comment letters that have been submitted to EFRAG and IASB in response to the same projects during 2009-2013. Then, in a second step, I include qualitative data from 13 interviews that have been conducted with IASB and EFRAG members. The analysis of comment letters helps to understand who of the European constituents choose which lobbying channel(s) to influence the IASB’s decision making whereas the interview evidence reveals the underlying reasons for their choices.

This study reveals that the majority of European constituents submit only to IASB and that the frequency of letters that has been only submitted to EFRAG is negligible. Interview evidence unveils factors such as time issues, English skills, the size of the constituent, and the country of origin which explain their lobbying choices. The quantitative analysis further reveals that more constituents participate at both IASB and EFRAG than in earlier years and that these

⁴ This paper has been presented at the EAA Annual Congress in Milano (Italy).

constituents submit significantly more letters than those who use only one channel. Interviewees allude that those constituents (who use both channels) are very well prepared and informed. Their decisions to approach also EFRAG seem to depend on whether they perceive that EFRAG's voice is important for the IASB or/and whether they expect that they won't have success in convincing the IASB directly.

This paper contributes to the existing literature in two ways: First, it relates to the use of quantitative and qualitative research methods to detect not only the use of different lobbying choices but also to unveil reasons for this observation. Previous literature already claims that the political character of standard-setting cannot completely be captured by analyzing comment letter submissions (Sutton 1984; Erb/Pelger 2015). Therefore, this paper responds to a call in the literature by showing the complementarities between quantitative and qualitative research methods for the analysis of lobbying behavior in the standard-setting (Morley 2016). Second, it helps to better understand the specifics of European constituents who have different lobbying choices to participate in the IASB's decision making process (Jorissen et al. 2012).

Taken together, this cumulative doctoral thesis gives new insights into how European interests are represented in the IASB's standard-setting process, first, by investigating the interplay between the IASB and EFRAG, who is responsible to represent European interests at the IASB. Second, by examining the participation behavior of European constituents who are involved in EFRAG's decision making, and finally, by shedding more light into the use of the different lobbying choices of European constituents who seek to influence the IASB.

Overall, EFRAG's role in the IASB's environment seems to be very effective: The first paper could document that EFRAG's influence at the IASB is quite effective as it occurs very early in the IASB's standard-setting process. Whereas using a different research method, the second paper could similarly document that EFRAG's perceived role at the IASB seems to be

increased because EFRAG receives remarkably more comment letters than in earlier investigations. However, the second paper also highlights that the (public) development of EFRAG's voice is dominated by some specific constituent groups, such as preparers and the accounting profession. Moreover, the findings of the second paper show that country-specific factors seem to be drivers why some constituents are more engaged in EFRAG's due process than others, indicating that the development of EFRAG's voice is likely to be determined by constituents from specific countries. Additionally, the third paper reveals that the majority of the Europeans skip EFRAG and only participate in the IASB's due process. However, interviewees allude that approaching EFRAG seems to be very crucial for relative small and less visible constituents. EFRAG's smaller network is one of the big advantages why some constituents may perceive that EFRAG is more reliable than the IASB. In this regard, European interests might be even more balanced represented in EFRAG's voice as comment letter analyses could reveal. All in all, this cumulative thesis reveals that European interests are well represented in the IASB's decision making process, especially via EFRAG who seems to be a key player of the IASB.

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I EFRAG's Role in the International Standard-Setting Process

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Abstract:

The international standard-setting process has ever been perceived as a political process, determined by self-interested parties that aim to influence the outcome of the International Accounting Standards Board (IASB). Although Sutton (1984) notes that the possibility to influence the regulator's thinking is more likely at an earlier stage, empirical work that examines lobbying activities before the IASB starts a due process has received little attention to date. As the European Financial Reporting Advisory Group's (EFRAG's) role is to articulate Europe's interests toward the IASB from the very beginning on, we examine whether and how EFRAG influences the IASB's decision making. To do so, we conduct 13 in-depth interviews with experts from both institutions. We assume and find that EFRAG influences the IASB's decision making at a very early stage, long before other constituents are officially asked to comment on the IASB's proposals. According to our interviewees, EFRAG is able to directly influence the IASB not only in formal but also in informal meetings because EFRAG members cooperate very closely with the IASB members (both at staff and board level). EFRAG also indirectly influences the IASB as EFRAG seems to play a pioneer role for other IFRS jurisdictions in their decision making.

KEYWORDS: EFRAG, IASB, lobbying, standard-setting

We greatly appreciate the interviewees' willingness to share their time and insights with us. This paper has benefited from comments by Tami Dinh, Sebastian Hoffmann, and Christoph Pelger. We thank conference participants at the 2017 AAA IAS Midyear Meeting in Tampa and the 2017 EAA Annual Meeting in Valencia. We thank our student assistants Robin Block and Celina Rauscher for their assistance in transcribing the interviews.

1 INTRODUCTION

This paper is motivated by the contention in the current literature whether the International Accounting Standards Board's (IASB's)⁵ core political identity is European (Ramanna 2013; Zeff 2012). Several authors document that the European Commission (EC) significantly strengthened the legitimacy of the IASB from the beginning on as the EC was always a constant promoter of the International Financial Reporting Standards (IFRS) (Camfferman/Zeff 2007; Dewing/Russell 2008). The mandatory IFRS adoption in Europe that triggered a series of IFRS adopters around the world is an often-quoted example for Europe being a pioneer in international accounting standard-setting (Véron 2007b). Zeff (2012) fairly asks whether the IASB would have been successful without such a base of support from Europe. While the European Union's (EU)'s influence over the IASB might have been significant in the earlier years of the IASB, this, however, might not be justified anymore as the IASB has received much more attention by a wider audience in recent years (Zeff 2012). This seems to be notified on the political level as well because EU political decision-makers recently took action to “reinforce” and “enhance EU's role” in the international accounting standard-setting process (EC 2013), indicating a perceived need to improve EU's influence on the IASB. This position is connected to the debate whether fair value accounting exacerbated the severity of the financial crisis. Although the literature shows that fair value accounting has not contributed to the crisis (Laux/Leuz 2009, 2010), EU politicians still claim an economic impact of the international accounting standards on the European capital market and even the *raison d'être* of the IASB (Bengtsson 2011). Therefore, in order to protect the European capital market and to reinforce EU's influence on the IASB, the EU Commissioner Michel Barnier mandated Philippe Maystadt in March 2013 to examine ways of strengthening EU's voice toward the IASB. Maystadt

⁵ For a list of abbreviations, see Appendix.

held a series of interviews and consultations before drafting his report, which he presented to the Finance Ministers at the ECOFIN Council meeting on 15 November 2013. His recommendations are manifested in the ‘Maystadt Report’ and are effective since 31 October 2014.

This paper examines how Europe’s view in the IASB’s decision making process is currently perceived by experts. According to the Working Agreement between the European Financial Reporting Advisory Group (EFRAG) and the EC, Europe’s view is represented through EFRAG in the IASB’s decision making process. More precisely, EFRAG has to ensure that there has been a proper European input from the very beginning and that all arguments have been properly discussed to prevent a possible rejection of a standard by the EU (Van Hulle 2008). Therefore, EFRAG participates in the IASB’s standard-setting process and advises the EC on all issues relating to the adoption of IFRS. Maystadt (2013) especially claims the effectiveness of EFRAG’s roles and thus recommends restructuring EFRAG’s governance in order to strengthen EFRAG’s voice in the IASB’s decision making process. In this regard, we investigate how both EFRAG and IASB experts actually perceive EFRAG’s role in the IASB’s standard-setting process and whether these experts support or oppose the (political) claim that “EU influence is reduced” and needs to be reinforced via a stronger EFRAG (Maystadt 2013, 5). Moreover, we are not only interested in *whether* EFRAG fulfills its role but also *how* EFRAG seeks to represent European interests at the IASB.

Besides these political occurrences, this paper is also motivated to tie up with the well-established body of literature that draws attention to the political character of standard-setting. Quantitative studies have analyzed the geographic origins and/or composition of constituents writing comment letters to the IASB (e.g. Jorissen et al. 2006, 2012, 2013; Cortese/Irvine 2010; Chatham et al. 2010; Georgiou 2010; Hansen 2011; Giner/Arce 2012; Larson/Kenny 2011; Larson/Herz 2013; Larson/Myring 2013; Kosi/Reither 2014). Hence, this research stream fo-

cuses on the determinants of participation behavior regarding the submission of comment letters, which is a kind of influence that occurs very late at the IASB's decision making, namely after a standard has been published. Besides, some recent studies that examine lobbying at the IASB do not only consider comment letters but also all publicly available IASB documents, recordings of board meetings and interviews with key players (e.g. Morley 2016; Pelger/Spieß 2017). However, these studies focus on single cases (e.g. liabilities project, agenda consultation project). Our study extends this research by investigating whether and how EFRAG generally fulfills its role in articulating Europe's interests at the IASB. To do so, we take a broader look at the standard-setting process itself and focus on the interplay of these two key players.

According to Hopwood (1994), international accounting policy-making and regulation is a very active political process which is characterized by several international accounting institutions (e.g. IFAC, IOSCO, FEE, IASB, and EFRAG), where "relatively few people are involved with the key regional and international accounting institutions, many serving on several of them, sometimes even representing seemingly different interests on each" (Hopwood 1994, 242). Based on these insights, there are two recent empirical studies focusing on the dynamics between the EU and the IASB: both, Bengtsson (2011) and Crawford et al. (2014) document the EC's and European Parliament's (EP)'s attempts to influence the IASB and how the IASB has responded to that pressure. This paper adds further to that body of knowledge due to the following: first, whereas both studies focus on the interplay between the IASB and the political decision-makers, we seek to better understand the interplay between the IASB and the technical advisor of the EC, namely EFRAG. Whereas the EC or the EP could occasionally influence the IASB's outcome at the latest stage of the whole international accounting standard-setting process, we are interested to investigate whether there is a permanent European influence. Since EFRAG ultimately provides advice to the EC as to whether an IFRS meets the IAS Regulation endorsement criteria (EFRAG 2016), it has to analyze every single IASB proposal on

a technical level. Therefore, we particularly assume that EFRAG influences the IASB more effectively compared to the political actors as it operates much earlier in the process and more on a technical rather than on the political level. Second, while Bengtsson (2011) focuses on the political interactions around the financial crisis using data collected on the internet and Crawford et al. (2014) conduct interviews to analyze the political game around the adoption of IFRS 8 Operating Segments, our study expands the examined time span beyond these rather specific settings. Consequently, in order to better understand the perceptions of experts about whether and how EFRAG generally fulfills its role in articulating Europe's interests in the IASB's decision making process, we conduct in-depth interviews and examine a wider time span that covers the time from the financial crisis until the Maystadt reform.

Our findings indicate that EFRAG's role in the IASB's decision making is perceived as quite influential. According to our interviewees, EFRAG influences the IASB effectively and likely more effectively compared to political actors as it operates permanently and much earlier in the process. While the European political players might influence occasionally the IASB's outcome, our documented interactions between both players occur before the IASB even starts a due process, namely in the so-called research programme stage of the IASB. Consequently, it seems that there is already an 'EFRAG flavor' in each Exposure Draft (ED) or Discussion Paper (DP), respectively.

Concerning our second question (*how* EFRAG influences the IASB), we find the following: First, EFRAG *directly* influences the IASB not only through submitting a comment letter during the IASB's due process but also through attending monthly IASB meetings. Moreover, EFRAG members cooperate very closely with the IASB members (both at staff and board level). According to our interviewees, having such a strong relationship is especially crucial in informal meetings. Second, EFRAG seems also to *indirectly* influence the IASB. Our findings

support the assumptions in the prior literature that EFRAG seems to be a pioneer for other jurisdictions: First, our interviewees allude that EFRAG's draft comment letter (DCL) is an important document for other constituents worldwide as it is frequently used as a basis for their own decision making. Furthermore, our interviewees highlight that Europe's adoption decisions (and in that sense EFRAG's endorsement advice (EA)) may also likely influence other jurisdictions' adoption decisions around the world. Third, irrespective of exerting direct or indirect influence, EFRAG particularly appears to be such an influential key player because EFRAG's comments are perceived as being of high quality and balanced due to its transparent consultation process. Having good technical arguments is not only considered to help to persuade the IASB but also other IFRS jurisdictions. Finally, our interviewees highlight that having an endorsement process is not only important from a legal perspective but also from a political perspective as it puts a lot of pressure on the IASB. In that sense, EFRAG's role in the endorsement process seems to strengthen EFRAG's influence in the IASB's decision making process.

Our paper contributes to the literature as follows: First, we respond to the calls for studies examining the political processes and power relationships that are needed to better understand the whole IASB's decision making (Barth 2000; Arnold 2009; Kothari et al. 2010; Luthardt/Zimmermann 2009). While previous studies carefully examine the observable lobbying behavior during the IASB's due process,⁶ our study reveals the lobbying behavior at the very early stage of the whole IASB's decision making process, namely before the IASB even starts a due process. Since the interviewees' perceptions reveal that even most of the lobbying occurs before the official due process, our study supports theoretical considerations that more effective lobbying occurs in an early stage and behind the official scenes of the overall political processes

⁶ Notwithstanding the contribution by Pelger/Spieß (2017) who document lobbying during the agenda setting.

(Sutton 1984; Walker/Robinson 1993). Thus, we add to the literature on the politics of standard-setting by providing qualitative evidence on the internal processes of EFRAG and the IASB, and especially the relationship between both institutions. Besides, this paper further contributes to the recent call of Camfferman/Zeff (2017, 6) that “EFRAG, its various ‘enhancements’ and the perennial quest to make Europe ‘speak with one voice’ are awaiting further research.”

Despite the calls of the literature, this paper might also contribute to the recent debate about EFRAG ‘enhancements’ among politicians and other practitioners. Our findings suggest that the Maystadt reform is unlikely to help to achieve the political objective of increasing Europe’s influence on the IASB given that EFRAG was actually very influential with its original setup. Thus, this paper might help politicians to better identify the real key factors that help to implement the concept of ‘Europe speaking with one voice.’ Furthermore, the evaluation of EFRAG’s role might also be important for (potential new) constituents involved in this process. If more actors are aware of EFRAG’s roles, its perceived voice and legitimacy, further potential actors would be attracted to participate in EFRAG’s decision making which may also help to implement the idea of speaking with one voice.

The paper proceeds as follows. Section 2 provides the institutional background of EFRAG’s roles in the international accounting standard-setting processes. Section 3 reviews the related theoretical, anecdotal and empirical literature and describes the development of our expectations. Section 4 describes the methodology. Section 5 presents the findings. Section 6 concludes.

2 INSTITUTIONAL BACKGROUND

2.1 EFRAG's role in the IASB's due process

According to the working agreement between the EC and EFRAG, one role of EFRAG is to ensure that European interests are properly and clearly articulated in the international standard-setting process (EC/EFRAG 2006). This means that EFRAG has to proactively participate in the IASB's due process. More precisely, EFRAG shall "participate in the early phases of debate in all issues related to the standard-setting process" by attending working groups, liaise with national standard setters and consult advices from different constituents (EC/EFRAG 2006, 2). EFRAG pursues "the objective of Europe speaking with one voice" by carrying out a due process (similar to the IASB's due process) (EFRAG 2016, 18). In order to do so, EFRAG publishes a DCL quite soon after the IASB has published an ED or DP, respectively (EFRAG 2016). In this DCL, EFRAG asks European constituents to articulate their views on the proposals expressed and calls to submit a comment letter. After reviewing all comment letters EFRAG has received, it develops a final comment letter (FCL) and submits it to the IASB. In order to formulate one opinion expressed in its FCL, EFRAG seeks to encourage constituents from a wide and diversified (in cultural and professional aspects) European community to provide input for consideration (EFRAG 2016). Apart from the written submissions that EFRAG receives through its due process, EFRAG seeks to achieve input through very different channels, such as organizing working groups, roundtable meetings, outreach events, field tests and also inviting constituents to present their view. After receiving different views on the accounting issues, EFRAG strives to coordinate different national and stakeholder interests in order to form a European view (Dewing/Russel 2008).

EFRAG' due process is operated through the Technical Expert Group (TEG) and, since the Maystadt reform, comprises currently of 16 voting members where four of those experts come from the national standard setters. The Maystadt Report especially claims that EFRAG

is currently not successful in formulating one coordinated view because European stakeholders often adopt different or opposite views on the IASB's proposals. Therefore, Maystadt (2013, 5) calls for "a better coordination of the European positions in this field." In that sense, EFRAG's reorganization includes the establishment of a 'high-level Board' (also called 'Board') that is now in charge to approve EFRAG TEG's work, and thus seeks to increase the credibility of EFRAG speaking in the interests of Europe rather than of individuals. According to the Maystadt Report, "IASB board members have stated clearly that the European influence would be strengthened if they could be sure that the position taken by EFRAG is a coordinated European view" and that "developing a European version of IFRS could result to be counterproductive regarding to achieve more influence over the IASB" (Maystadt 2013, 11, 9).

From an institutional perspective, there is no reason why the EU political decision-makers around Maystadt seek to improve EFRAG's influence in the IASB's due process: EFRAG participates in the early phases of debate on all issues related to the standard-setting process. EFRAG members attend working groups of the IASB and other IASB bodies (such as ASAF), IASB members observe EFRAG meetings as well, EFRAG partially organizes outreach events in cooperation with the IASB, and there are also regular meetings between the chairmen of the IASB and EFRAG (EFRAG 2016). Moreover, an even closer (perceived) relationship with EFRAG might also endanger the IASB's credibility regarding the IASB's goal to implement global accounting standards that are accepted worldwide.

Since EFRAG's role is to ensure that there is a proper European input in the early stages of the IASB's decision making, we expect that EFRAG influences the IASB in the very early stages of the standard-setting. Besides, EFRAG has to participate in every single accounting debate and thus, we assume that EFRAG plays a crucial role for the IASB as EFRAG does not only participate earlier compared to other stakeholder but also permanently in the IASB's decision making process. In this regard, we are particularly interested in the relationship of both

institutions. According to the institutional background, it is very likely that both members of both institutions share and discuss their views often basically because it is EFRAG's *raison d'être* to represent Europe's interests at the IASB.

2.2 EFRAG's role in the European endorsement process

International standards published by the IASB will only be endorsed for adoption if they are judged by the EC to meet the required criteria that the IAS Regulation 1606/2002 stipulates. According to Regulation 1606/2002 (10) an accounting technical committee should provide support and expertise to the Commission in the assessment of international accounting standards. This role is the second one fulfilled by EFRAG. Also set in the working agreement between EFRAG and the EC, EFRAG provides advice to the EC on all issues relating to the application of the specific IFRSs (EC/EFRAG 2006).

To achieve the political objective of increasing EFRAG's influence, Maystadt raised the question whether the EU should opt more flexibility on endorsement in authorizing the EU to change the text published by the IASB (carve-in). He emphasizes that several European stakeholders consider that a more flexible endorsement process would result in a stronger influence toward the IASB as the threat of modifying an IFRS should improve Europe's position in the IASB's due process (Maystadt 2013). The endorsement process currently functions as a 'partly open-ended' process where the EC can either adopt, withdraw or partially endorse an accounting standard. However, there are also three other theoretical outcomes possible: first, as Maystadt suggested, the so called 'fully open-ended process' where the EC could not only adopt, withdraw or partially endorse an accounting standard but could also carve-in requests. The second option could be a binary outcome where the EC can only endorse or not endorse (so called 'yes or no endorsement'). According to the FEE (2014, 3), moving toward a more flexible endorsement of IFRS would be detrimental to Europe as "the IASB might be less inclined

to take Europe's concerns into account if Europe can freely modify the standard itself." Third, the endorsement process could factually function as a 'nodding through.' The underlying argument is that European constituents (including EFRAG) have had already the possibility to influence the IASB's outcome and that after the IASB has published a new standard, the EC should endorse the standard immediately in order to mitigate the risk of a divergence. Other jurisdictions such as Canada, South Africa or Brazil have already implemented such an endorsement procedure.

In the course of the endorsement process, EFRAG advises the EC whether the proposed IASB standard is not contrary to the true-and-fair view principle, whether it is conducive to the European public good and whether it meets the criteria of understandability, relevance, reliability and comparability (Regulation (EC) No 1606/2002, Article 3 (2)). Some authors criticize that the European public good condition is more based on individual discretion rather than on accounting knowledge and professional judgement as, for example, it is not defined in the IAS Regulation what is meant by 'European public good' (Van Hulle 2004; Dewing/Russell 2008). In case of having a 'fully open-ended process,' Maystadt (2013) concedes that carving things in implies that the EU must provide more specific criteria for the drafting of EU-adapted IFRS. Therefore, he urges that the Commission should issue guidelines for the interpretation of the 'European public good' criterion. However, so far, the current 'partly open-ended' does not allow carve-ins that therefore, Maystadt recommends modifying the 'European public good' condition, namely that "the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the Union" (Maystadt 2013, 10).

Whether or not the current version remains or the endorsement process will be modified to a 'fully open-ended process' someday, EFRAG will play an important role in European

adoption process in any case. However, as there are also other options theoretically possible in which EFRAG might play a less crucial role (e.g. nodding through process), we are interested in the perceptions of experts. Furthermore, regarding EFRAG's role in the IASB's due process, it seems likely that EFRAG's role in the European endorsement process might strengthen EFRAG's position in the IASB's due process. Therefore, we examine the (perceived) relevance of the existence of both roles of EFRAG with regard to EFRAG's overall influence.

3 LITERATURE REVIEW

3.1 Theoretical framework

From a theoretical perspective there are several explanations for the regulation of the accounting standard-setting process. Most of these theories are drawn from the political economy literature (Stigler 1971; Kalt/Zupan 1984; Olson 1965; Akerlof 1970).⁷ Among them the ideology theory of regulation, relying on the premise of market failure such as information asymmetries⁸, delivers a behavioral model of regulators. This theory suggests that a regulator is exogenously endowed with 'ideologies' and thus lobbyists must persuade the regulator with their specific knowledge in a way that it frames with the regulator's ideology (Kalt/Zupan 1984). Lobbyists who have their own pure ideologies are either the publicly interested constituents or their representatives (Kalt/Zupan 1984). Based on the fundamentals of pure ideology, Sunder's (2002) model of regulatory competition reveals that competition among standard setters can "integrate the relevant information from various sources and use it to set standards in

⁷ Kothari et al. (2010) summarize three theories that aim at the explanation of regulation of accounting standard setting: public interest theory of regulation, capture theory of regulation and ideology theory of regulation.

⁸ See Akerlof's (1970) explanation for the adverse selection problem.

an efficient and incentive-compatible fashion” (Sunder 2002, 223). Thus, competition can minimize the effects of lobbyists exercising too much power.⁹ Conversely, if a regulator is perceived as considering interests from a specific interest group in particular, it will lose credibility (Kothari et al. 2010).

Given the social nature of accounting standard-setting, which involves interactions among many parties, sociological theories also deliver fruitful insights when studying accounting standard-setting (Dowling/Pfeffer 1975; Meyer/Rowan 1977; Mezias 1990; Elbannan/McKinley 2006). According to institutional theory organizations have to remain acceptable within their social environment in order to survive. In that sense, legitimacy is the key. Scott (1987, 496) compares the different versions of institutional theory and concludes that the common of all is that “institutionalization is viewed as a social process” by which an organization explicitly considers—independent of its own views—influences and interactions from external social influences and changes itself to adapt shifts in its environmental setting. Consequently, organizations such as IASB and EFRAG have to rely on lobbyists in order to achieve legitimacy, whereas being cautious of lobbyists exercising too much power at the same time.

Applying these theoretical insights, we argue that both ideology theory and institutional theory hold for the IASB and for the EFRAG environment—at least from an outside perspective: First, both institutions consider views from the interested and informed constitution. Competition among standard setters exists in the IASB and in the EFRAG setting, given that both operate across jurisdictions. In both settings, there exists not only competition among various local accounting standard setters but also with various other interested groups that all coexist in a competition situation in order to persuade the IASB/EFRAG with their own views. Kothari

⁹ In this regard, lobbying the regulator is defined as a “purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity’s economic value or wealth or achieve other self-interested purpose inconsistent with the [standard-setter’s] mission” (Gipper et al. 2013, 4).

et al. (2010), applying economic theories of regulation in a more general accounting setting, argue that regulators are open for lobbying from constituents both in the form of direct lobbying (e.g. comment letters) or indirect lobbying through other institutionalized bodies. Second, since the IASB's goal is to develop globally acceptable international accounting standards of high quality, the IASB has to ensure its legitimacy so that IFRS will be accepted and applied worldwide. Although EFRAG is not a standard setter and thus does not have to develop globally acceptable standards, it has to ensure to represent a European view in the IASB's standard-setting process. And in this regard, EFRAG has similarly to ensure its legitimacy so that EFRAG's view is not perceived as an idiosyncratic view. Therefore, both the IASB and EFRAG invite the interested accounting community to participate in their due processes, e.g. through submitting comment letters. Tandy/Wilburn (1992) also state that participation in the due process from a wide and diversified (in cultural and professional aspects) community is a necessary condition to ensure legitimacy of accounting standards. By ignoring the demands from a specific country, for instance, both institutions would face a deficit of legitimacy in this specific country. Following these insights, we assume that both institutions seek to strengthen its input from a wide and diversified community. Therefore, we are interested to investigate the perceived legitimacy of both institutions from an inside perspective.¹⁰

3.2 Debate about Europe's influence on the IASB

The literature about the EU's influence on the IASB is quite controversial. On the one hand, there are some rumours that scrutinize whether the EU can really exercise a powerful influence on the standard-setting process of the IASB. For example, Haller (2002) question

¹⁰ We acknowledge the work from Pelger/Spieß (2017) who examine the three different dimensions of legitimacy (input legitimacy, throughput legitimacy, and output legitimacy) during the IASB's agenda consultation project. While the examination of these dimensions are beyond the scope of this paper, we are particularly interested in the perceived input legitimacy of both institutions and, thus, use for the following the notion legitimacy instead input legitimacy. According to prior literature, input legitimacy is achieved if the decisions of IASB/EFRAG represent the will of their constituencies.

whether the EU can really afford to diverge from IFRS as a divergence between full-IFRS and EU-IFRS would jeopardize the harmonization project of achieving standardization in accounting: “IFRS as global standards only make sense if they are accepted worldwide” (Haller 2002, 180). Whittington (2005) also stresses out that the IASB has to develop standards which meet the needs of the capital markets, not specifically those of the EU, and should not be susceptible to political pressures from the EU. Although Botzem (2008) admits that the EU claimed direct authority in the IASB’s standard-setting due to its carve-out versions, he finds that the EU merely influenced the IASB’s outcomes at the last stages of the standard-setting process.

On the other hand, there are anecdotal evidence and a few empirical papers that show the EU attempting to contest the authority of the IASB. For example, some authors document that the EC significantly strengthened the legitimacy of the IASB from the beginning on as the EC has always been a constant promoter of the IFRS ever since (Camfferman/Zeff 2007; Dewing/Russell 2008). Ramanna (2013) also emphasizes that the EU’s interests (British’s in particular) were central to the IASB’s foundation and that these interests continued to shape the IASB’s development through its first decade. Zeff (2012, 824) asks: “Had the IASB begun its operations in 2001 without such a base of support, how enduring and significant would its influence have been?” In a report from 2007, the EC underlines its interests in helping the IFRS to become global standards by forcing the progress of IFRS adoption worldwide (EC 2007a). Königsgruber (2010, 289) concedes that the IASB is not willing to compromise with the EU interests in all instances but the EU is seen as “the IASB’s most important ‘client.’” Chiappello/Medjad (2009, 465) also argue that due to the EU’s activism, the “US FASB is no longer the main contender in the race for the imposition of universal standards.” Another often-quoted example to show the importance of the EU’s decisions in the global accounting setting is the mandatory IFRS adoption in Europe which triggered a series of IFRS adopters around the world (Véron 2007b). Dewing/Russell (2008) also highlight that the EU is seen as precedent

for other jurisdictions, such as China and Japan. Thus Europe's IFRS adoption decisions might influence the processes of adopting IFRS in other economies (Dewing/Russell 2008). On the contrary, Zeff (2012) highlights that a few countries, especially Japan and China, are watching the SEC's next move which is interpreted as a signal that the SEC's activities (and not the EU's per se) could influence the future direction and scope of their own commitment.

This anecdotal evidence is partly based on a few occurrences: the first case supports the assumption of the alleged power game between EFRAG and the IASB: in 2005, EFRAG recommended the EC not to endorse IFRIC 3 which finally caused the IASB to withdraw IFRIC 3. According to some authors, this case shows that EFRAG's views had been considered by the IASB (for more details see Königsgruber 2009; Brackney/Witmer 2005). The second case is IAS 32/IAS 39 that illustrates the power over the IASB when member states of the EU expressed strong opposition. Besides the critics from several European banks and the ECB, the French president joined the debate in 2003 and stated that adopting IAS 32 and IAS 39 would be harmful to EU banks and national economies (Walton 2004; Whittington 2005; Véron 2007b). Zeff (2012) states that such an expressed opinion from the French president carries weight in the corridors of the EU policy-making. According to the related literature, these debates have caused the IASB to react in favor of EU's interests: firstly, the IASB board issued an amended version of IAS 32 in favor of EU's interests in 2008. Secondly, in case of IAS 39, EU partially endorsed IAS 39 that initially yielded into two carve-outs (full fair-value option and hedge accounting). Especially the first carve-out prompted the IASB to withdraw the fair-value option, another indication of the successful shift of accounting standards toward EU's interests (for more details see Whittington 2005, 2008; Brackney/Witmer 2005; Hitz 2007; van Hulle 2008; Dewing/Russell 2008; André et al. 2009; Luthardt/Zimmermann 2009; Königsgruber 2009). This power game is not only perceived in the academic literature but also in the press. For example, the Economist (2004, 83) wrote:

“It had been the subject of a row between the IASB and the EU for months and was accepted only after the Commission won over the most vocal critics, including the European Central Bank and much of Europe’s financial industry, by deleting passages of IAS 39 to create a looser version of the rule.”

Although Enevoldsen/Oversberg (2008, 103) concede that these amendments to standards made by the IASB “were tailor-made for Europe,” the authors also conclude that the EU had only limited success in influencing the IASB so far. The chairman of the IASB, Hans Hoogervorst, also highlights that the (optional) European carve-out version of IAS 39 is only used by a handful companies; 95.5% of European companies are using full IFRSs as issued by the IASB (Hoogervorst/Teitler-Feinberg 2012). Nevertheless, the fundamental debate surrounding the concept of fair valuation of financial instruments has risen again during the financial crisis. Some authors re-scrutinize the IASB’s independence since the outbreak of the financial crisis due to a rebalancing of power in favor of the EU (Selling 2008, 2013; Chiappello/Medjad 2009; Burlaud/Colasse 2011).

Besides the bulk of anecdotal evidence, there is limited empirical literature that provides some support for the alleged influence of the EU toward the IASB. First, in a recent study, Bengtsson (2011) documents how European political actors sought to gain control over the IASB and how the global standard setter responded to limit the influence. Although EU’s precondition of the adoption of IFRS was IASB’s political independence, Bengtsson (2011) argues that this precondition was sacrificed in favor of the European financial stability (and thus especially the stability of certain European banks) which suffered since the crisis broke out. By evaluating several primary data collected on the internet (e.g. newspapers, political statements, press releases and discussion papers), Bengtsson (2011) shows that the EU took several actions such as publishing reports, speeches and letters in order to pursue a change in the standard of financial instruments. Since the European financial sector was more hit by fair value rules as their US counterpart, the EC threatened not only to limit the scope of fair value accounting but

also to abandon IFRS if the standards, especially IAS 39, were not amended (Bengtsson 2011). This new political pressure caused the IASB to finally adjust its standard. However, the author also concedes that the global standard setter also tried (and managed at least to some extent) to limit the political pressure, e.g. via expressing public warnings that the political pressure would jeopardize the capital market confidence. Second, the endorsement debate of IFRS 8 in 2006/2007 was also subject to a recent qualitative empirical investigation. Although EFRAG recommended the adoption of IFRS 8, the EP expressed a number of reservations about IFRS 8 and thus asked the EC to undertake an impact analysis of IFRS 8 (van Hulle 2008). Véron (2007a) perceives this occurrence as a political intervention by the EP in the endorsement process and claims that such an EU arrangement should only be used in rare cases in future and only if all constituents have failed to defend the objective of high-quality accounting standards, which is—according to his assessment—not the case with IFRS 8. The empirical study of Crawford et al. (2014), pursuing a qualitative approach through conducting interviews, analyze the struggle of power during the endorsement debate of IFRS 8 in 2006/2007. One common finding that emerged from their interviews is that IFRS 8 was just the vehicle to highlight the Americanization of IFRS and that it was not the standard per se that triggered such a political move from the EP. In this course, the authors conclude that the EP tried to send a strong signal to the IASB that it has the power to reject standards and will not simply rubber stamp any IASB standard that is issued (Crawford et al. 2014). Third, there is a bulk of empirical studies that have analyzed the geographic origins and/or composition of constituents writing comment letters to the IASB that document a dominant participation by European constituents (e.g. Chatham et al. 2010; Giner/Arce 2012; Jorissen et al. 2013; Larson/Herz 2013; Kosi/Reither 2014; Larson/Myring 2013; Pelger/Spieß 2017). Moreover, the descriptive study from Larson/Kenny (2011) investigates how the IASB was funded during the time period 2001-2008. The authors found that on average 33.87% of voluntary donors were from Europe (31.38% from the EU)

and 30.38% from Japan, respectively (Larson/Kenny 2011). Considering the donation amounts in 2008, almost one fourth of the total voluntary donation was contributed by countries from the EU. Although EU's donation behavior was material, the authors could not deliver evidence that the EU exerted undue influence over the IASB. Finally, Georgiou (2010) conducted a survey with users in order to study the perceived influence of accounting bodies on the IASB. The most influential groups were considered to be the professional accounting bodies, EFRAG and the European accounting standard setters.

In summary, the empirical literature documents that European constituents are relatively active in the IASB's due process and that the European political players EC and EP occasionally influenced the IASB. This influence appears very late at the IASB's decision making, namely either during the due process or even after a standard has been published. Our study extends this research in several ways: first, as Sutton (1984) reminds us that the possibility to influence the regulator's thinking is more likely at an earlier stage in the rule-making process and Botzem (2008) also confirms that the EU merely influenced the IASB's outcomes at the last stages of the standard-setting process, we seek to investigate the interplay between the IASB and the technical advisor of the EC, EFRAG. So far, whereas the relationships between the IASB and European political actors (such as EP and EC) have been subject to earlier studies (Véron 2007a, Bengtsson 2011; Crawford et al. 2014), the interplay between IASB and EFRAG has been relatively neglected in the empirical literature. In this regard, we assume that EFRAG influences the IASB more effectively and more often compared to the political actors as it operates much earlier and permanently—and on the technical level—in the IASB's decision making. Whereas Pelger/Spieß (2017) document the interactions between the IASB and various stakeholder (EU, US FASB) during the agenda-setting, the focus of this paper includes to the interactions between IASB and EFRAG after the Board has set the agenda consultation, namely during the IASB's research programme stage until the European endorsement process.

Besides, how EFRAG seeks to represent European interests at the IASB remains an open question which we seek to shed more light on. Second, as the extant literature examines a specific time span (time of the financial crisis or around the adoption of IFRS 8), we follow a broader approach to better understand whether (and how) EFRAG generally fulfills its role in articulating Europe's interests at the IASB.

4 METHOD

In order to answer our research question, we adopt a qualitative approach by conducting semi-structured interviews. This method allows us to explore issues that are difficult to examine with archival methods. For example, archival research provides insights into obvious lobbying behavior, such as the participation behavior during the IASB's due process by submitting comment letters. Comment letter analyses reveal insights about who participates, argumentative differences among various international constituents and among interest groups, and may also allow for some inferences about why constituents participate. However, Sutton (1984) already states that a comment letter is only one of several means and the more effective lobbying occurs behind the scenes. Lindahl (1987) similarly argues that comment letter analyses are unlikely to be the most effective lobbying research method. Walker/Robinson (1993, 3) also note that comment letters are a "form of lobbying activity [that] represents a late, and relatively insignificant part of the overall political process surrounding rule-development." Following the critique, we employ a qualitative approach by conducting interviews as we seek to understand lobbying activities that occur at a very early stage of the IASB's decision making rather than activities that fall within the formal procedures of the IASB's due process.

Overall, we conducted thirteen interviews with experts who are currently involved in the international standard-setting process. We spoke with experts who represent both the 'Euro-

pean view' from EFRAG's perspective and the 'international view' from the IASB's perspective. As we seek to understand how Europe's views are perceived in the international accounting standard-setting, we spoke with members of EFRAG and the IASB, both from board and technical staff level. Walker/Robinson (1993) allude not to underestimate the role of the technical staff as the first gatekeeper of political input, given that board members need to rely on summaries and analyses prepared by technical staff. Klein/Fülbier (2014) empirically examine IASB meeting audio playbacks and show that staff members play a key role in informing the board by briefly summarizing comment letters from constituents and then selectively reciting upon request. We hope to capture this interplay between board and staff by interviewing both types of actors (similar in Erb/Pelger 2015; Pelger 2016).

In order to collect the qualitative data, we follow the snowball approach (Miles/Huberman 2013; Malsch/Salterio 2016): starting with interviewing experts that are known to the authors, each interviewee was asked to suggest others in the organization that may be able to provide insights on the topic of the research project. Prior to conducting each interview, we emailed the interviewees and invited them to participate in our research project. We introduced ourselves, briefly described the general topic area of the study without disclosing the details of our research question, assured anonymity in reporting findings and sought to arrange an appointment for the interview. Each appointment started by reiterating the general topic area of the research (again without revealing the details of our research question) and the previously agreed anonymity. We further collected demographic data and background information about the interviewee, then gave the interviewee the possibility to ask questions, else invited them to ask questions during the interview at any time and finally requested to record the interview electronically. We conducted the interview with a mix of open and closed questions related to five topics. For each topic we initially asked open questions and ended with closer ones in order to gain clear perceptions of the interviewees.

After the introductory part, we first asked the interviewee to describe his/her memories about the anecdotal evidence that we outlined in subsection 3.2 (“Debate about Europe’s influence on the IASB”). These initial open-ended questions should enable the interviewee to talk about his or her experiences or memories in some depth without any interruption by the interviewer. Beginning the interviews this way enabled us to ensure that the participants had not been hint about the specific research question we pursued. The second set of questions was based on the theoretical underpinnings outlined above in the subsection 3.1 (“Theoretical framework”) with which we seek to assess the perceived legitimacy of the IASB and EFRAG. The next topics contained questions about EFRAG’s role in the IASB’s decision making (subsection 2.1), EFRAG’s role in the European endorsement process (subsection 2.2) and finally the relationship between both institutions. These questions are also related to prior literature. We concluded each interview by asking the interviewees if they had additional comments or questions. At the end of each interview we routinely asked the interviewees if there were questions we should have asked but did not, or to criticize the questions that we had asked, but the feedback was consistently positive and did not indicate any need to adapt the interview guide. Given that no changes in the guide emerged even after the first interview, all interviews conducted enter into our final sample. We believe the number of our interviewees is appropriate as there were no substantial new insights from the last few interviews.¹¹ Following this strategy, we believe that data saturation was achieved (Morse 1995; Malsch/Salterio 2016).

The interviews were conducted from September 2014 through May 2015 and lasted 60 minutes each on average, with the shortest interview taking 34 minutes and the longest 121 minutes. In total, the interviews lasted around 12:50 hours. Table 1 lists the interviews conducted. Interviewees’ names have been anonymized.

¹¹ Lincoln/Guba (1985, 235) find that approximately 12 properly selected interviews generally “will exhaust most available information.”

Table 1: Overview Interviewees

Name	Organisation	Position	Duration (HH:MM)
Interviewee-1	EFRAG	TEG member	2:01
Interviewee-2	EFRAG	TEG member	0:56
Interviewee-3	EFRAG	TEG member	1:39
Interviewee-4	IASB	Board member	0:48
Interviewee-5	EFRAG	TEG member	1:38
Interviewee-6	EFRAG	TEG member	0:44
Interviewee-7	EFRAG	Technical staff	0:43
Interviewee-8	EFRAG	Technical staff	0:26
Interviewee-9	EFRAG	TEG member	0:53
Interviewee-10	EFRAG	Technical staff	0:35
Interviewee-11	IASB	Technical staff	0:46
Interviewee-12	IASB	Board member	1:04
Interviewee-13	IASB	Technical staff	0:34
Total			12:50

We conducted seven face-to-face and six telephone interviews. We could not find any meaningful differences in the response behavior between face-to-face versus telephone interviews. For each interview, the same author was responsible for conducting all interviews. A standardized semi-structured interview guide was used to guide the conversation. All interviewees allowed the recording of the interview with the understanding that their identity was kept absolutely anonymous in the reports of this research. Thus, all interviews were digitally recorded. A research assistant, who was unaware of the research purpose being pursued, transcribed the tapes. The author who had conducted the interviews listened to each interview for a second time, reviewing every transcript and fixing any remaining transcription errors. The author who did not conduct the interviews read the transcripts and listened to selected portions of the interview tapes as a final step to ensure transcript accuracy. The transcribed interviews were then merged into one data file, which is about 200 single-spaced pages long (including interviewer's questions and interviewee's responses).

We follow the Hirst/Koonce (1996) strategy of data analysis to ensure that the conclusions of the paper are representationally faithful to the complete set of responses and that no

errors were made in the summarization process. First of all, both authors read the interview transcripts independently and made their observations. In the next step, the first author analyzed the responses to each question and created categories based on common words and themes in the responses. The second author read through the summarized responses to ensure that the categories were consistent with the underlying data. Afterwards, both authors independently coded the responses. After the coding process, the two authors discussed any differences until a common interpretation was reached (see similar in Hermanson et al. 2012; Clune et al. 2014). The identified differences were minimal, with one or two minor clarifications per interview.

As in previous qualitative audit and accounting research (Beasley et al. 2009; Hermanson et al. 2012; Clune et al. 2014; Commerford et al. 2014), our goal is to provide the reader with a mix of numerical results, interviewee quotes, and broad conclusions and implications. This approach is consistent with the call by Radcliffe (2010) for interpreting interviewees' quotes and balancing with numerical results. We believe that each type of information provides important insights, so as to best communicate our findings to a diverse audience of both archival and qualitative accounting researchers.

5 FINDINGS

5.1 Interviewees

Table 2 provides descriptive information about the interviewees. Four of the interviewees are women, and the interviewees' age averages 53 years. The interviewees have on average six years of experience in their current job position. We believe that six years of average working experience of the current job position reveals a fairly high degree of expertise for the following reasons: Table 2 depicts that our youngest interviewee is 41 years old indicating that our respondents have more than 10 years of professional working experience and none of them are career entrants. Furthermore, IASB board members are appointed for a five year term, with eligibility for one renewal for a further three years that shows that none of the IASB board

members could state more than 8 years of working experience. Besides, EFRAG TEG members devote 30% to 50% of their time free of charge and are usually send by their employers, revealing that a high level of expertise is required. Table 2 also indicates that interviewees have experience in a wide range of professional background. The geographical distribution of the interviewees is also widespread: we interviewed experts from Germany (three), UK (two), Belgium, Denmark, France, the Netherlands, New Zealand, South Africa, Spain, and Sweden.

Table 2: Descriptive Information of the Interviewees

	n	%	
Male	9	69%	
Female	4	31%	
Professional background			
Academic	3	14%	
Analyst	1	5%	
Association of accountants and auditors	1	5%	
Auditing	7	33%	
Banking sector	4	19%	
National standard setter	5	24%	
Total	21 ^a		
	Min	Mean	Max
Age	41	53	70
Years of experience in current job position	1	6	11

Note: ^a This total exceeds the number of interviewees (13) because most interviewees reported working experiences in multiple professional backgrounds.

5.2 Perceived legitimacy of the IASB and EFRAG

In order to evaluate EFRAG's role at the IASB, we firstly need to know whether both institutions achieve their objectives (or how effective they perform their roles). Although EFRAG is not a standard setter and thus does not have to develop globally acceptable standards such as the IASB, it has to ensure to represent a European view in the IASB's decision making process. In that sense, IASB and EFRAG have similarly to ensure their legitimacies so that

their views are not perceived as idiosyncratic views. Therefore, we first seek to investigate the perceived legitimacy of the IASB and EFRAG.

With regard to both ideology theory and institutional theory, we assume that both institutions seek to strengthen its input from a wide and diversified community—at least from an outside perspective. According to Richardson/Eberlein (2011), both IASB and EFRAG initially build their credibility on technical competence but have increasingly relied on their due processes to support the claim to act as a legitimate international standard-setting body. In order to investigate the perceived legitimacy of both institutions from an inside perspective, we firstly asked each interviewee whether the IASB/EFRAG considers arguments from all over the world, subsequently whether the IASB/EFRAG considers arguments from specific constituents in particular and finally whether the IASB/EFRAG does not sufficiently consider arguments from all of its constituents. Table 3, Panel A displays the response behavior on the IASB's perceived legitimacy. In general, the interviewees confirm the IASB's legitimacy as twelve of thirteen (92%) interviewees perceive that the IASB considers arguments from all over the world. However, irrespective of which perspective (IASB versus EFRAG), ten of thirteen (77%) interview partners also concede that the IASB considers arguments from constituents in particular.¹² The most frequently stated reason is when the IASB seeks to reach new potential IFRS adopters. Some interviewees highlight that the IASB has to consider interests of new customers in particular in order to get them on board.

“The Canadians take into account deferred regulatory accounts. IFRS doesn't, so what the Canadians must have said is: ‘We don't use IFRS, if we're not allowed to use regulatory deferred accounts for the time being until you, IASB, have made up your mind about a sensible solution for that, for the regulated activities!’ They have created a standard at interim

¹² We acknowledge that the first two questions (whether the IASB considers arguments from all over the world and whether the IASB considers arguments from specific constituents in particular) are extensively documented in prior literature (e.g. Jorissen et al. 2012; Pelger/Spieß 2017). These questions, however, are necessary in order to assess the *perceived* legitimacy.

IFRS 14, just to make friends with the Canadians. That happens. What have you expected?”¹³ (Interviewee-5)

Interestingly, considering interests of a specific country in particular in order to expand the use of IFRS across the globe is seen (by members of both institutions) as a pragmatic rather than as problematic solution but only as long as a new standard does not create inconsistencies with another standard.

“If you don’t please a country, you’re not gonna get that country to support you. [...] I don’t think it’s a bad thing that you persuade countries to go to IFRS, if you need to do a favor and that favor is not detrimental.” (Interviewee-7)

The second reason, again irrespective of which perspective, is somewhat associated with the first one: five of the interviewees highlight that the IASB has historically listened to the US too much because the IASB hoped with the convergence program to get the US on board, but they were only partly successful: the only thing they could obtain was that IFRS has been accepted to enter the US market but the US won’t adopt IFRS as the IASB had hoped with the Memorandum of Understanding (MoU). So, in the past, the IASB considered US views in particular.

“[...] the MoU that was signed in 2006 of converging IFRS and US GAAP. With the view that ultimately the US would adopt IFRS and so we paid a lot of attention to the needs of the US investors. That was a bit unsuccessful or partly successful only because the only thing we could obtained was to have to IFRS been accepted as a passport to enter the US market which is good, but it’s not as good as we would have hoped.” (Interviewee-12)

The third reason (but only mentioned by EFRAG members) is basically the understandability of the arguments that are put forward. The higher the quality of arguments and the better the expressed views are presented, the more likely the arguments will be considered.

“Clearly, the smaller the country and the more idiosyncratic their views, the less weight gets given to it because again, they are looking to build a consensus in what is acceptable to the majority and therefore, what the users seem to want etc. That means if you are a small

¹³ Consistent with previous research, the quotes reflect the exact words spoken by the interviewees except that, in some cases, we have very lightly edited the professional script to improve the readability or punctuation or to ensure interviewees’ anonymity (similar in Commerford et al. 2014).

country outside in the periphery and the spectrum of everyone else is clustered down here, well, they won't put a lot of weight to that.” (Interviewee-9)

“I think, if always, if you are close to someone, it's easier to have a relationship, but it's really the discussion that influences. If you write nice comment letters, they are not always understood. It's when you had the time to meet with them and discuss, that's very good to influence since they actually are at the same place as the IASB, then they have the possibility to influence more.” (Interviewee-6)

However, the reasons why some constituents may be better understood are not purely due to the quality of arguments and the way how they communicate their statements. Being able to understand the arguments of a specific constituent is also associated with the cultural and/or professional background of the board members and members of other institutions (such as the FASB) who participate at almost all IASB meetings. Some of the interviewees highlighted the idiosyncratic influence of IASB board members on the properties of IFRS which has also been documented in prior literature (Witzky 2017; Camfferman/Zeff 2017).

“There was this Australian [Warren McGregor] and Linsmeier from the FASB, they had views that were very different from Europe and they were quite influential at the IASB. Sometimes when you have seen many IASB meetings you can see who are most influential in those meetings. [...] It was particularly McGregor and Linsmeier, they were very influential at that time at the IASB. They had views that were not so much in line with Europeans. Now, they have been replaced by others and they have probably views that are more in line with Europe.” (Interviewee-8)

Concerning our third question, four of the interviewees illustrate why the IASB might not sufficiently consider arguments from all constituents (not tabulated). All four interviewees mention that the Middle East and Asian specificities may not be considered as much although they concede that the IASB seeks to improve its governance by implementing working groups such as a consultative group on Shariah-Compliant Instruments and Transactions. However, the interviewees also mention that these groups do not articulate their views as clear as other constituents:

“Well, the IASB follows the classical western-oriented understanding of the capital markets but not because it assumes that the more eastern-oriented understanding of the capital

marked is rubbish, but simply because this group does not occur as viable as others.” (Interviewee-3)

Table 3: Perceived Legitimacy of IASB and EFRAG

	Number of responses
<i>Panel A: IASB’s Perceived Legitimacy</i>	
<i>IASB considers arguments from all over the world</i>	12
<i>IASB considers arguments from specific constituents in particular</i>	<u>10</u>
To reach new IFRS customers	8
Especially U.S. views have been considered	5
Comprehension of the arguments (quality and the way how they are presented)	4
Cultural/professional background of the board members	2
<i>IASB does not sufficiently consider arguments from all constituents</i>	4
<i>Panel B: EFRAG’s Perceived Legitimacy^b</i>	
<i>EFRAG considers arguments from all its European constituents</i>	7
<i>EFRAG considers arguments from special constituents in particular</i>	<u>5</u>
Comprehension of the arguments (quality and the way how they are presented)	5
Cultural/professional background of the members	2
<i>Notes:</i> Some interviewees reported multiple reasons.	
^b For Panel B, the total number of possible responses is 9 because some IASB members were not able to assess from which parts of Europe and from which constituent groups EFRAG receives input.	

Table 3, Panel B displays the responses of the interviewees concerning the perceived legitimacy of EFRAG. As IASB members were not able to assess from which parts of Europe and from which constituent groups EFRAG receives comment letters (or not), we only asked the following questions EFRAG members. Seven of nine (78%) EFRAG members state that EFRAG considers arguments from all its constituents. The most frequently stated reason why EFRAG considers arguments from some constituents in particular is the fact that some lobbyists have better resources than others. Similar to the IASB setting, having better resources does not only imply having skilled technical staff but also having skills to express oneself in a manner that is comprehensive.

“It is true that certain countries have more resources to analyze those things separately. Germany is powerful in that, the UK is powerful in that, other countries have less means to look at this carefully. So, by definition a few bigger countries raise their voice more easily but that has nothing to do with the fact that we don’t trust the Polish or don’t trust the Portuguese or whatsoever. That has also to do with the quality of the responses.” (Interviewee-5)

“[S]ometimes it is difficult for us to understand the arguments people are putting forward. Sometimes we of course will call the person that has put the argument forward and ask what is meant but sometimes they will just present that comment and perhaps people will not understand it [...]. And then, of course, it will have less influence because those that have written it have not been able to write it in a manner that is understandable by others.” (Interviewee-8)

Similar to the IASB setting, the reasons why some constituents might be better understood are not only associated with the quality of arguments and the way how they articulate their views but also with the cultural and/or professional background of the board members.

“[W]hen you consider things it is based on your background knowledge and what you have seen before, the structures you have seen before. So, if you just know Spain and Spanish structures and Spanish structures are different from German structures and then a German entity or standard setter comment in some way that is totally different of what you’re able to understand because you don’t understand German structures. It may be that you don’t understand that it is a good argument coming from Germany. So that’s part of who is a member of EFRAG and so on.” (Interviewee-6)

By asking whether EFRAG does not sufficiently consider arguments from all its constituents, we obtain no new information. All answers stated were consistently analogous to the reasons why EFRAG considers arguments from specific constituents in particular (and therefore remain untabulated).

Overall, we observe that almost all interviewees perceive a high degree of legitimacy of both IASB and EFRAG. However, the interviewees also claim that both institutions need more input from all geographical regions in order to increase its legitimacy even more. Reasons why some constituents are considered in particular (in the IASB as well as in the EFRAG setting) are the understandability of the arguments put forward and—associated with that—the cultural and/or professional background of the board members. As more and more countries would

start to participate in the IASB's due process, especially countries in Middle East, South America, China, India etc., the IASB's perceived legitimacy would increase. And if more European constituents could increase its resources in order to better articulate their views, EFRAG's perceived legitimacy would increase as well. Although these perceptions of experts might not be generalized to the overall IFRS community, these results are at least in line with the related literature concerning the criticism of IASB's (input) legitimacy (Durocher/Fortin 2011; Burlaud/Colasse 2011; Jorissen et al. 2013; Larson/Herz 2013; Pelger/Spieß 2017; Camfferman/Zeff 2017). So, all things considered, whereas EFRAG seeks to ensure that its view is represented by a various different Europeans (which of course is also a political will), the IASB struggles even more to ensure continuously its legitimacy, especially when it comes to reaching new IFRS customers. Besides, Pelger/Spieß (2017) document that the IASB largely engage with constituents of the IASB's inner circle, especially in roundtable meetings. In this regard, it remains reasonable to question whether EFRAG belongs this so-called inner circle and, if this is the case, *how* EFRAG seeks to represent European interests at the IASB.

5.3 EFRAG's perceived role in the IASB's due process

In order to assess how EFRAG's role in the IASB's due process is perceived, we particularly formulated three questions: First, since Enevoldsen/Oversberg (2008) already suppose that EFRAG's DCL is also used as basis for other jurisdictions in the world in order to form their own views, we were interested how experts who are actively involved in the international accounting standard-setting process perceive the relevance of EFRAG's DCL. Table 4, Panel A shows that 85% (eleven of thirteen) of the interviewees state that the DCL has an influence on other constituents' decision making. The remaining two interviewees claim not to be able to comment on the perceived DCL were IASB members. The interviewees' responses basically support the presumptions made by Enevoldsen/Oversberg (2008) as they argue that the DCL as first public official assessment of the IASB's proposal helps other constituents to form their

own views. According to EFRAG members, the DCL is not only read by Europeans but also by non-European constituents.

“The draft comment letter is typically published within the first two weeks after the IASB published the exposure draft. Doing this, we already set a scent mark at first. You do not necessarily have to share our view, but you got at least a thorough and detailed analysis of all topics. And this is really read, this is also read by the FASB. The FASB members concede without scorn: ‘We really read the EFRAG’s draft comment letter. This facilitates our work and we also know that this is not useless stuff. We might not share all the views, but we at least understand how somebody can come up with such a view.’ That really happens and we also know from our standard setter colleagues from Far East that they also read our drafts. In that sense, we have quite a lot of influence.” (Interviewee-3)

“People wait for the draft comment letter to actually develop their own comment letter. That means that they take ours as a basis and they scratch out what they don’t like and they add things, but I mean there is always a sort of core that remains. So I think through that we have quite a lot of influence.” (Interviewee-10)

“Yes, I think it is obvious that it is read by the whole world actually. [...] EFRAG has the advantage of being discussing things way before you have an official draft, we sometimes see the pre-developed drafts, unofficial ones that just the IASB sees [...], EFRAG’s staff discusses with the IASB’s staff and so on. So we have a completely different understanding than the rest of the world when the standard is out and therefore it’s a good starting point to read what EFRAG has been writing.” (Interviewee-6)

Although EFRAG does not receive so many comment letters on its DCL compared to the IASB, it does not imply that the DCL is not meaningful for the constituents. Some of our interviewees suppose that several constituents, even from all over the world, read the DCL to learn more about the issues and then make up their own minds without reacting on EFRAG’s DCL.

“I would rate our draft comment letter as one of the best products we have, at least for our constituents, I’m not saying it is the best product for the IASB, but for our constituents. When you want to keep a view about something, sometimes it’s better that somebody starts at first, it’s always difficult to start with a blank sheet of paper. Because once you have a view of somebody else, you either agree with it or you challenge it. That’s the human nature and that’s how we keep that product to people: to agree, disagree and why. So they have a starting point and that is already a project that has been through a process internally at EFRAG, has been proofed, has a lot of input. Often the input is not only from EFRAG TEG (plus now we have EFRAG Board which is a new body) but also from outreach. [...] So at the time the draft comment letter is published it is really an accumulation of views we gathered through quite a bit of work. [...] We start working on that while before.” (Interviewee-7)

It remains an open question whether the IASB is aware of EFRAG's potential influential DCL on other constituents. Some IASB board members state that they are not interested in what is written in EFRAG's DCL as they do not have the time to read a draft status from any constituent. They wait until the staff of the IASB has read and summarized the (final) comment letters. Nevertheless, IASB board members consider the DCL as an important product but mostly for Europe. They allude that the DCL is meaningful in order to pursue the objective of Europe speaking with one voice. On the contrary to board members, IASB staff members read EFRAG's DCL, but claim at the same time that the views and issues that have been risen are already known from the monthly meetings.

“In many ways you don't learn a lot from the comment letter [DCL] because any concerns that they have you already gleaned from at meetings we have with EFRAG anyway every month. You know what their general way of thinking is and what their concerns might be.”
(Interviewee-13)

Table 4: EFRAG's Role in the IASB's Due Process

	Number of responses
<i>Panel A: Perceived Influence of EFRAG's DCL</i>	
<i>How do you perceive EFRAG's DCL?</i>	
DCL matters	11
DCL does not matter	0
Do not know	2
<i>Panel B: Perceived Influence of EFRAG's FCL</i>	
<i>How do you perceive EFRAG's FCL?</i>	
FCL matters	11
FCL does not matter	0
Do not know	1
More important than the FCL is EFRAG's influence that occurs earlier in the IASB's due process	7
<i>Panel C: EFRAG Speaking with One Voice</i>	
<i>Does EFRAG represent the 'one European voice?'</i>	
Yes	0
No	<u>12</u>
EFRAG represents one voice of different individuals	8
EFRAG represents one European voice of several other voices of European institutions	5
Do not know	1
<i>Will the Maystadt recommendations help to improve this situation?</i>	
Yes	0
No	7
Might be at least one step in the right direction	3
Do not know	3
<i>Note:</i> Some interviewees reported multiple reasons.	

Our second question relates to EFRAG's final product, the FCL that EFRAG submits to the IASB. Whether the FCL is perceived as more important for the IASB compared to a CL submitted by an individual, is neither examined nor discussed so far. On the one hand, it could matter more for the IASB because the FCL is supposed to represent a fairly big community.

Chatham et al. (2010) also consider that stakeholders may not be granted the same weight during a due process. Especially, to achieve greater global credibility, organizations that represent interests from multiple countries could have significantly more weight than interests of other constituents. On the other hand, to ensure its credibility, the IASB may not weight the FCL more than any other comment letter just because the letter is from EFRAG. FCL might even matter less as EFRAG had already the possibility to articulate its concerns long before the IASB's due process had started (namely during the IASB's research programme stage in the working and advisory groups of the IASB, in round table meetings, in the Accounting Standards Advisory Forum (ASAF) etc.). Due to these controversial assumptions, we asked our interviewees how they perceive the FCL. Table 4, Panel B shows that also 85% (eleven of thirteen) of the interviewees consider the FCL as quite influential. The reasons why the FCL is believed to matter, however, differs considerably. Several interviewees argue that the FCL has a lot of influence not because it is sent from Europe but because EFRAG's comments are of high quality due to its transparent (and thus credible) consultation process:

“Well, I believe that EFRAG's final comment letter matters more than an individual comment letter. However, this is not correlated with the fact that EFRAG represents the whole of Europe but rather that EFRAG's work is of high technical quality. [...] The IASB, of course, strives to receive thorough and professional views rather than views based on moods like ‘I felt like that and that's why I came up with that view.’” (Interviewee-3)

This view is also shared by the IASB members. One board member states for example:

“EFRAG has developed strong arguments and we can receive individual comment letters from a lot of people who hold views, but not always very well supported. So what is important is how much work went into the comment letter and what does it really reflect: Is it a view of one individual or is it the view of consensus of many people after a process of consultation? [...] We give more weight to the well-considered and well-documented views that we receive, be it from EFRAG or from someone else.” (Interviewee-12)

Interviewees from both EFRAG and IASB admit that the FCL seems to be more weighted than comment letters from other individuals. However, they state that the FCL is not more influential than comment letters from other big lobby organizations such as CFO-Forum or

ECB or other similar organized institutions such as the Asian-Oceanian Standard-Setters Group (AOSSG) or Group of Latin American Accounting Standard Setters (GLASS).

Besides the reasons why the FCL influences the IASB's decision making, several interviewees emphasize that the most significant influence of EFRAG on the IASB has already been at the earlier stages, even long before the IASB starts its due process.

"[...] I think it would be very unfair to judge the influence that EFRAG has over the standard-setting process of the IASB just on the basis of the responses of the final comment letters because 90 % of the battle is before you get to a comment letter stage. And that's why I'm saying if you take something like Leases, and you just look at the evolution of that through its various phases, some of which were formal consultations issued by the IASB but a lot of which was just their thinking evolving. And you actually track our meeting notes, the comments that we were passing etc., you can see the influence of that developed. By the time you are getting to a final comment letter stage then I would not say all the battles have been lost, but quite a lot of battles have been lost." (Interviewee-9)

Consequently, EFRAG is able to influence the IASB's decision making in the IASB's research programme stage, namely before an ED (or DP) is published. This influence appears possible in the several meetings when IASB and EFRAG member have to possibility to interact personally with each other.

"When you have the possibility to really discuss with the IASB, they're sitting for three days listening to us, I'm able to speak between the meetings and discuss and so on. [For one project], I was at the IASB meeting and explained to them as EFRAG why they should allow that and they amended the standard then. Finally, we understand they have not been reading the comment letters but someone was able to be there and discuss with them and meet their contra arguments and then explain again and so on. So that we have that kind of possibility to interact with the IASB means that we influence something." (Interviewee-6)

Our third question was motivated by the Maystadt claim that EU's influence is reduced because EFRAG does not represent a coordinated European view (Maystadt 2013). 'Speaking with one voice' might be challenging because European stakeholders often adopt different and even opposite positions on the IASB's proposals. This has been already notified by the EC as Maystadt claims that the "EU's influence is reduced because it is diffuse" (Maystadt 2013, 5). On the contrary, according to EFRAG's annual review, EFRAG seeks to achieve "the objective

of Europe speaking with one voice” (EFRAG 2016, 18). Due to these controversial positions, we asked our interview partners whether EFRAG represents ‘one European voice’ and what they think about the Maystadt claims. Afterwards, we were also interested in whether they think that EFRAG’s restructuring by implementing the new high-level Board causes any improvements. So far, it remains open whether the recommended changes are really necessary and, if so, whether they achieve the declared goals. Table 4, Panel C documents that almost all interviewees (92%, twelve of thirteen) do not perceive that EFRAG represents ‘the European voice.’ They basically give two reasons: first, the majority of the interviewees state that EFRAG represents one voice of different individuals that are Europeans. Although being aware that this is a purely self-assessment, EFRAG members perceive its published view as a consolidated opinion of individuals given their proper backgrounds rather than the ‘one European voice’ as suggested by the European politicians around Maystadt.

“Imagine, how should that work, how should EFRAG be ‘the European voice?’ [...] The new Board must decide unanimously. That means you need to bring up eight stakeholders on the same line. Do you really believe that this will work? We are currently ten members at EFRAG TEG. I cannot remember that we ever had decided unanimously.” (Interviewee-3)

The second argument is that EFRAG might represent Europe’s voice but only one among other European voices:

“Well, I think EFRAG’s view is perceived to be EFRAG’s view, so it is kind of European, but there can also be other European views [...]. It is a view that is important in the endorsement process because it is EFRAG that will have to provide the endorsement advice to the European Commission. For that process it is an important view, but I do not think that it is perceived to be the one voice of Europe, but just a significant voice of Europe.” (Interviewee-8)

The IASB’s standpoint does not differ from EFRAG’s perspective. However, some IASB members emphasized that EFRAG’s voice is seen as an output of an effective, transparent and democratic process and thus it is still a very valuable voice:

“EFRAG is doing a pretty good job to get a coordinated view, but I would not call it European view because it is based on decisions made by individuals.” (Interviewee-4)

“I think they certainly try to have a representative European view. It’s hard because sometimes you just cannot get consensus across such a large number of bodies, but they do, there are mechanisms that help ensure that they at least give us some good possibility.” (Interviewee-11)

So, the responses indicate that the experts we talked to support the Maystadt claim. Based on these insights, we asked our interviewees whether they perceived that the restructuring of EFRAG would cause any improvements. Although it is written in the Maystadt Report that the transforming of EFRAG should help EFRAG to better articulate a coherent European view, one interviewee believed that there are in fact only political reasons for this reform.

“I think that the influence of the EFRAG to IASB is much more than people think. [...] The staff of the EFRAG is in constant permanent contact with the staff of IASB. So, we argue all the topics before the draft is public and there is always an IASB member in our meetings above from the IASB staff. We are talking with them, they are talking with us and I think the influence we have is amazing. [...] However, who had the influence? TEG? And who is TEG?! According to the European Commission and the national accounting standards: nobody! Because we were over-representative but we didn’t represent the official Europe. [...] And this is one of the main reasons that was putting on the table to change the structure of EFRAG. They realized EFRAG had a lot of power on the IASB and so they change the structure to make this power visible.” (Interviewee-2)

Table 4, Panel C further displays that not a single interviewee perceives the Maystadt recommendations as helpful. The most frequently stated argument was that EFRAG’s view still remains as one voice which is made by individuals who just have European passports.

“Do I think the new Board is more representative of Europe than TEG was? No, sorry, I don’t. Somebody may give it that aura of credibility and therefore say: ‘This is now the European view’ but that’s not more representative of Europe than anybody else is. It’s a cobbling together of various interested parties who each have their own constituency and their own views and depending upon the flavor of among they care less around a view and then present that as a European view, but it got a bit of French, a bit of the English, a bit of the German. It’s the bits that other people can vaguely live with and that is presented as a European view. If you ask any single member of that Board whether that was their view, the chances are they say ‘No!’” (Interviewee-9)

However, some of the interviewees from both EFRAG and IASB state that the restructured governance of EFRAG is a step in the right direction, but does not fully resolve the ‘problem.’

“What is interesting, however, is to note that in the set-up which was supposed to achieve a European unified view of the subject that ESMA, EBA, EIOPA and ECB said: ‘No, we cannot sit at the same table as other people. We want to stay independent from the process. We want to be able to give our own view.’ So, it is possible that in the future we will receive a view from EFRAG, another view from ESMA, another from EBA, possibly a view from ECB or EIOPA. Then we will get the same situation as before, no European unified view. I believe that the Maystadt reform may be the first step in the right direction, but certainly in my view not the end of the process. There will be some other reforms in the future, I’m sure.” (Interviewee-12)

It remains questionable whether the absence of one coherent European voice is really a problem in order to fulfill the goal of implementing globally accepted international accounting standards or whether it is rather a political problem, where European politicians fear to lose the control over the set-up of IFRS. One interviewee somewhat sarcastically asked:

“Europe doesn’t have a view on anything else, why should they have a view on accounting standards?” (Interviewee-9)

Overall, these findings confirm our expectations outlined in section 3.2 that EFRAG’s role in the IASB’s due process is perceived as very important and influential: First of all, our interviewees confirm that EFRAG’s DCL is an important document for other constituents worldwide as it is frequently used as a basis for their own decision making. This implies that, with its DCL, EFRAG indirectly influences the IASB, which is a kind of influence that the IASB could not perceive or observe. Second, EFRAG is able to directly influence the IASB with its FCL because EFRAG’s comments are perceived of high quality due to its transparent (and thus credible) consultation process. Third, although EFRAG’s FCL is also perceived as important from the IASB’s perspective, EFRAG’s biggest influence, however, is seen to occur in the very early stages of the IASB’s decision making, namely during the IASB’s research

programme stage before an ED or DP is even published. This is due to the fact that our interviewees highlight the interactions of both institutions during the monthly meetings. Therefore, it seems that there is already an ‘EFRAG flavor’ in each ED or DP, respectively. Fourth, the interviewees support Maystadt’s claim that EFRAG’s voice is not perceived as the ‘one European voice.’ Although, from the theoretical perspective, it is reasonable that communicating only one coherent European view would improve Europe’s influence on the IASB, EFRAG’s view is already quite influential as it is seen as an output of an effective, transparent and democratic process. Besides, on the one hand, it is sensible and understandable in theory that articulating various interests with only one voice might strengthen Europe’s influence, but, on the other hand, this claim is practically impossible to implement. One potential reason might be the divergence between political and technical interests. None of our interviewees perceive the Maystadt recommendations to be helpful to achieve the underlying objective. Quite the contrary, the interviewees support our assumptions that EFRAG influences the IASB very effectively and likely more effectively compared to political actors as it operates much earlier in the process. While the European political players might influence occasionally the IASB’s outcome, EFRAG’s influence seems to affect every single IASB’s outcome, be it in the DP stage, the ED stage or in the final standard. So far, we cannot confirm that the EU’s influence on the IASB via EFRAG needs to be improved. This is particularly interesting when considering the fact that Maystadt itself conducted interviews with (political) experts but came to a deviating conclusions.

5.4 EFRAG’s perceived role in the European endorsement process

To assess EFRAG’s role in the European endorsement process, we first relate to Maystadt’s suggestion of a more flexible endorsement process. Motivated by this political recommendation, we first asked our interview partners how the endorsement process should function: as it currently is (‘partly open-ended process’), as a ‘fully open-ended process,’ as a ‘yes

or no endorsement’ or as a ‘nodding through process.’ Table 5, Panel A shows that none of the theoretically possible options was preferred by our interviewees. Surprisingly, there is not even a consensus within the IASB or the EFRAG fraction. However, there is at least consensus that all interviewees prefer a full adoption of a standard. Regardless of the adoption method which is preferred, our interviewees state that it is important to avoid such possibilities and use them only for exceptional cases.

Supporters of the current version argued that all other possible options would create further problems rather than resolving any current problems. They compare a ‘yes or no endorsement’ with ‘using the atomic bomb’ and view a ‘nodding through process’ as useless because an endorsement is defined as having the possibility to reject a standard, which would also be required from a legal perspective. Further, they argue that almost all other jurisdictions also use an endorsement process and do not see any reason why Europe should not have such a possibility. They warn that a carve-in would always imply a divergence between Full-IFRS and EU-IFRS. As the current carve-out version is not mandatory (and this should be ensured for all future carve-out versions as well), they argue that the current version is the best compromise in order to mitigate the risk of a divergence between EU-IFRS and full-IFRS, but at the same time does not lose the power to intervene in case the IASB publishes a standard which is completely against the EU’s interests.

“[...] I prefer the current version due to different perspectives: At least from the political perspective, an endorsement process, which is not a nodding through process, is necessary. An endorsement process is needed that offers the option to carve out something. So, in that way, the tiger must have the possibility to show its claws. But, of course, we should keep in mind that constituents prefer—for good reasons—to use IFRS as issued in London. And with a delay of the effective day and/or a carve-out there is still a possibility to show the tiger’s claws.”(Interviewee-1)

Supporters of the ‘fully open-ended process’ criticize the current partial adoption method as it does not allow to include any text passages. They argue that a carve-in would help to

explain what to do in case some text passages have been carved out. Consequently, carve-ins would help to mitigate the risk of the existence of unregulated accounting issues.

“So, let’s take just an example. The only carve-out we have in Europe today is about IAS 39, the requirements regarding portfolio hedge accounting. And because of the views of certain jurisdictions, the banks in certain jurisdictions, especially France and a bit in Germany as well, this has been carved out in 2004/5, I don’t remember exactly. Because Europe has no power to write any text in replacement of that then you have the choice: So banks can either follow the full IFRS because the carve-out is optional, is not mandatory. So many banks and I think there are 300 banks listed in Europe, 300 banks of which 280 follow IFRS as written in the full IFRS, that’s one majority view. Then you have 20 or 22 banks which do not like this paragraph and use the carve-out and then there is no text, so they just decided not to apply. And what do they do instead? They do what they want. They do exactly what they want. They either follow national GAAP if they want to, but they don’t have to because once you are in the IFRS system you don’t have to follow national GAAP. So they follow what they want to do and the result is that there is total diversity and no transparency at all. [...] There is no comparability. So investors are not very well served by the situation. So this caused the whole problem of creating carve-outs without creating carve-ins.” (Interviewee-12)

Supporters of the ‘yes and no endorsement’ argue that a ‘nodding through process’ does not help because having an endorsement process is essential as it puts a lot of pressure on the IASB. They basically allude that either the EC endorses a standard or if the EC decides not to endorse a standard, the current accounting rules will remain. Although they concede that the comparability is even more jeopardized, they claim that carve-outs or carve-ins give lobbying organizations the possibility to influence the political players EC and EP. In that sense, the possibility to persuade the EC to reject the whole standard would be less likely than persuading the EC to allow a carve-out version. Consequently, they prefer a ‘yes or no endorsement’ as it was seen as less sensitive to lobbying organizations.

Surprisingly, there are supporters of the ‘nodding-through process’ from both IASB’s and EFRAG’s side:

“I can tell you what I prefer. I prefer the nodding-through process. That would be the best because I think that the professional debate has already taken place in the due process and during that time everybody has the possibility to participate and to articulate one’s views. [...] Insofar, I prefer the rubber-stamping process. I am aware that this is completely unrealistic. However, it is unrealistic for political reasons. The debate about the endorsement

process has nothing to do with whether a standard is good or bad. This debate could take place, but it doesn't. The real issue is that in 2002 the EU lost its sovereign rights about specific themes and they just realized that they want these rights back. That's all what the Maystadt Report should evaluate.” (Interviewee-3)

“I don't like the endorsement process at all. The country I come from has got a relatively passive endorsement process and there is a presumption that the standard that is going out is ok. And they normally endorse within a week of the IASB putting it out. I think Canada is also simply accepting what we put out, so all their work and lobbying and writing to us is in the development of a standard. South Africa just takes our standards as they should and actually a lot of Middle Eastern countries do as well. [...] When they do this endorsement I think that the starting point should be a presumption that if the standard has been developed in our best way then it should just simply be accepted. I'm quite uncomfortable with the whole process and I think the experience has shown us that they had a delay of IFRS 10 and 11 and the joint ventures and consolidation, they delayed the mandatory date by a year and that causes more problems than anything else. Because the rest of the world got on board and then when European companies started to think about it they asked questions that others had already solved and they made it virtually impossible for us to step in and do any review or pre-application because it was already essentially mandatory around most of the world. Those countries like Australia, South Africa and Canada have said: 'We already moved to those standards. You cannot change anything.' That's why Canada and the whole world go together a lot better because the application issues, implementation issues all start and emerge at the same time across all the jurisdictions. [...] In a perfect world we wouldn't have to do any of our own field work, we would simply have EFRAG doing it around Europe, the AOSSG with the Asia-Oceania and we would take all the field work results and they help us reach decision on standards. And then when it comes to the endorsement EFRAG can actually see that all their work actually had a strong input and influence into the final standard because we responded and properly weighted the field work and the input and things like that.” (Interviewee-13)

Remarkably, this question lead to the most heterogeneous response behavior of all our questions. This indicates that any reforms concerning the role of the European endorsement process (and thus EFRAG's role in this process) likely cause discussions among the technical experts and any practical implementation represents a challenge.

Table 5: EFRAG’s Role in the European Endorsement Process

	Number of responses
<i>Panel A: How Should the Endorsement Process Function?</i>	
<i>Endorsement process should function as...^a</i>	
‘Partly open-ended process’ (current version)	2
‘Fully open-ended process’	3
‘Yes or no endorsement’	2
‘Nodding through process’	4
<i>Panel B: European Public Good</i>	
<i>What do you think about this condition before the Maystadt reform?</i>	
Support	0
Neutral	1
Oppose	12
<i>What do you think about this condition after the Maystadt reform?</i>	
Support	0
Neutral: EFRAG needs some more resources	2
Oppose	11
<i>Notes:</i> Some interviewees reported multiple reasons.	
^a For Panel A, the total number of possible responses is 11 instead of 13 because some interviewees were not able to assess how the endorsement process should function.	

Our second question relates to the critique about the ‘European public good’ condition. As Maystadt also seeks to modify this condition in the sense that “the accounting standards adopted should not endanger financial stability and they must not hinder the economic development of the Union” (Maystadt 2013, 10), we were interested in how EFRAG seeks to put that into practice. Therefore, we asked our interviewees what they think about this adoption criterion, both before and after the Maystadt recommendations. Table 5, Panel B displays a homogenous response behavior of all interviewees: except one interviewee who has a neutral position, twelve of the thirteen interviewees (92%) criticize this criterion (before Maystadt) because they either do not believe that this condition is appropriate for a technical assessment of accounting standards or believe that the IASB has already undertaken such an analysis so that there is no necessity to assess (again) whether this condition is fulfilled. A further criticism

is that this criterion is impossible to judge because it is nowhere defined what is meant by ‘European public good.’ This is claimed by EFRAG members because EFRAG is not the right address to evaluate this condition nor do they believe that this condition belongs to the IAS Regulation.

“No one in Europe knows what the European Public Good is. This is like a placeholder and I can tell you: every time we have a TEG meeting and have to evaluate this condition, we always asked us what is meant by this. But to admit, nobody has ever demanded or requested for a profound evaluation about whether something is in the interests of Europe.” (Interviewee-3)

Similarly, the IASB members also admit that nobody knows what is meant by ‘European public good’ and noticed that EFRAG itself found its own way to deal with this problem:

“The problem with that is that no one knows what is meant by European public good. It is never been precised, the Commission has never given an explanation of what is meant by European public good. [...] The problem of EFRAG is that they have been struggling with that the very first day because they don’t know exactly what is meant by European public good. It’s interesting to know that in all the endorsement letters to the Commission that they have issued until recently, they always concluded that they did not note anything that could be contrary to the European public good. So they didn’t make a positive assessment, they gave a negative assurance, saying: ‘We did not observe anything that was contrary to the European public good.’ A very prudent approach to this notion of public good.” (Interviewee-12)

With regard to the modifications suggested by Maystadt, eleven of the thirteen interviewees (85%) also oppose the modifications of the ‘European Public Good.’ They still criticize that the criteria ‘financial stability’ and ‘economic growth’ are not appropriate for a technical assessment of financial accounting standards. Besides that, the interviewees stress out the IASB should create standards that provide comparable and transparent information to investors. Accounting is perceived as a language that just reveals the underlying reality and that this reality would be the true cause of possible problems. Hence, they claim that such reforms can only be forced by politicians. Furthermore, they also criticize that these criteria are also impossible to judge.

“How can an accounting standard be in charge of the economic growth and stability? That is crazy. Accounting standards are for giving information of what is going on. Not about taking care of financial stability and economic growth. So, how can you ask me whether Revenue Recognition is against or in favor with economic growth and financial stability? It is completely crazy. I think that the IASB cannot realistically be in charge of the financial stability and the economic growth. That is completely unrealistic.” (Interviewee-2)

“I think the European public good should be assessed by putting yourself in the position of an investor and that should be where the criteria should be developed. Do our standards serve well the investor by giving comparable and transparent information? If we do that then we serve the European public good on the perspective of investors and not from the perspective of employees or trading unions because we are not in charge of protecting employees or protecting the environment or protecting tax authorities in one country etc. We are in charge of protecting investors, serving investors.” [...] Now, the problem is that all this has become a bit political because of the crisis, the markets have been criticized by politicians and there is a view that markets are not really efficient etc. Less weight is put on the needs of market participants and the whole process becomes a bit political because we have to demonstrate that we serve financial stability, for instance. Well, financial stability, is it financial accounting to serve financial stability or is it something for the banking supervisors? [...] No one has ever concluded that our standards were really creating a risk during the financial crisis. So it is absolutely unclear whether accounting standards have anything to do with financial stability. Or, if they have anything to do, it is a very minor role as compared to quite different and more powerful causes. I think there is this political dimension in the Maystadt Report where they write very nice things to make sure everyone is happy, but it is not verifying facts or any serious analysis or any conclusive evidence. [...] Look at the economic development of France, can you tell me where accounting has any role to play in the problems of France? [There are] [...] unemployment, [...] slow growth and [...] the same accounting rules as [in] Germany. Who has a much better situation? What is the role of accounting in all that? It’s just bullshit. With the same accounting we have quite different economic results” (Interviewee-12)

“I do not believe, absolutely not, that accounting rules the real world. Things happen in the real world and accounting and reporting is a way to communicate that to the third parties whether being investors or shareholders or whatever [...]. What happens in the real world is not a consequence of accounting. I cannot understand when people say that the crisis was there because of accounting. That is absolutely ridiculous. Don’t believe it.” (Interviewee-5)

Two of our interviewees take a neutral position on the Maystadt recommendation. They basically mention that when EFRAG is asked to do such an analysis then it would have to perform its new role. However, they admit that EFRAG would have to recruit new people, especially economists that are able to judge these new criteria.

“Right now we do a technical assessment and that’s what we are, we are all technicians here, we can assess technically, we are all placed to do that. We are not economists, none of us are economists, not even in our Technical Group. So we don’t have the knowledge to do that, but we can recruit and we have access to the European central bank, we can ask

them for help, we can outsource and all such things, but we've been quite comfortable doing our technical assessment because that's something we are capable of doing. Going into the arena of the European public good, we haven't done it yet, so it will be new territory to all of us." (Interviewee-7)

To conclude, as only four interviewees prefer the 'nodding through process,' the majority of the interviewees favor the existence of an endorsement process since they argue it is necessary in order to adopt IFRS into European law. However, the endorsement process is not only considered important from a legal perspective but also from a political perspective: several interviewees highlight that having an endorsement process is crucial because it puts a lot of pressure on the IASB. However, when it comes to EFRAG's operative work, neither the evaluation of the 'European public good' nor the Maystadt recommendations are considered as appropriate and necessary from a technical perspective. These political claims are not deemed helpful to achieve the overall (political) objective of increasing Europe's influence on the IASB.

5.5 EFRAG's overall perceived influence

After assessing both roles separately, we were finally interested in how EFRAG's influence in international accounting standard-setting is generally perceived (especially since the financial crisis), whether EFRAG's activities also influence other jurisdictions, and finally how the relationship between IASB and EFRAG is perceived. Our first question was motivated by the empirical literature and anecdotal evidence that deliver some support for the EU's power over the IASB since the outbreak of the financial crisis (see section 3.2). Table 6, Panel A summarizes the responses of our interviewees. Three interviewees could not confirm any increased influence before or after the crisis and other three are not able to answer this question. Interestingly, except one IASB board member, all other IASB members are either not able to assess this situation or do not confirm that EFRAG is more successful in influencing the IASB.

At least, the remaining (seven) interviewees perceive that EFRAG is more successful in persuading the IASB since the financial crisis. They basically state two reasons for their perception: first, Europe was simply more hit by the financial crisis compared to other jurisdictions because there were not really other big IFRS adopters at this time. In that sense, Europe (and in this regard EFRAG) did not have a counterpart, and, therefore, was seen as very successful in influencing the IASB's decision making.

“If I ask: ‘Had Europe more influence?’ Then I have to ask: ‘Compare to whom?’ Who were the other stakeholders at that time 2007, 2008, 2009? There were not many. South America was not completely on IFRS, the Americans of course not, the Canadians were not yet on IFRS, the same for the Mexicans. Africa has other problems than financial reporting except South Africa. In Asia, there are only punctual areas. In Japan, there are currently 25 firms that adopted IFRS. So, if you have the 7000 European firms in mind, it is not really surprising that Europe has been quite influential toward the IASB during the crisis because, at that time, Europe was the biggest IFRS customer in terms of the number of adopters and of the size of capital market. The other big capital market was simply missing at that time.” (Interviewee-3)

The second stated reason is that EFRAG's influence is not directly associated with the financial crisis but with two different occurrences that happened around or since the crisis: firstly, at that time the composition of the IASB board members changed toward a more European friendly composition:

“I think it's more persons because you have James Leisenring dominating financial instruments previously and he left in the beginning of the financial crisis, [...] he was so dominating, no one else there were able to say something against him because Leisenring was really skilled. When he left the IASB, I think it was more open for debate within the IASB regarding financial instruments. I'm not sure if it's the crisis, I think it's persons belonging to the IASB board that make the difference.” (Interviewee-6)

“That is probably true and I don't know if it's because EFRAG has been more influential in affecting the IASB, but I think also the IASB's views have changed to be more in line with the European view.” (Interviewee-8)

These perceptions support the documented idiosyncratic influence of IASB board members on the IASB's standard-setting as outlined in section 5.2 and in prior literature. Secondly, interviewees note that EFRAG could increase its resources in the last years and thus was able to improve its outreach activities since the outbreak of the financial crisis. Thus, the improved

quality of EFRAG's work is considered to be the reason why EFRAG could better influence the IASB.

"I think when I joined in 2008, we did very limited outreach work, our outreach was almost limited to talking to TEG, issuing our draft comment letter, picking up comments and final, stop there, endorsement with the discussion with TEG, issued draft, collected documents and then we were final. Since the last five years we do a lot of outreach and that is also because of the resistance we got people saying: 'That's not good.' When you take leases, the standard on leases, people will say: 'It's a bad standard.' It's not out yet, but people have been saying: 'It's bad, it's bad, it's bad.' So when you hear this, I don't know so much about the crisis, but when something is bad, you sort of pay attention, so you do more work. [...] I think eight years ago we were like eight staff and now we are twenty, so also the increase in the resources is contributed to doing better work, more work with participants and constituents and therefore better influence." (Interviewee-7)

"I wouldn't say more influential, I wouldn't know, but anyhow EFRAG is doing rightfully so, is doing its best to be in touch with IASB, to think with the IASB, to help the IASB, to discuss with the IASB when the standards are developed. Yes, if you are having these contacts better than the Americans or the Chinese or whatever. Yes, in that case we are more influential." (Interviewee-5)

Table 6: EFRAG's Overall Perceived Influence

	Number of responses
<i>Panel A: EFRAG's Influence on the IASB since the Financial Crisis</i>	
<i>Is EFRAG more successful in persuading the IASB since the financial crisis?</i>	
Yes	7
No	3
Do not know	3
<i>Panel B: EFRAG as Pioneer</i>	
<i>Does EFRAG's activities influence other jurisdictions?</i>	
Yes	<u>13</u>
Due to its DCL	11
Due to its role in the endorsement process	7
Due to its transparent and well organized work	6
Due to its organizational structure (which is copied by others)	2
No	0
<i>Panel C: Perceived Relationship between EFRAG and IASB</i>	
<i>How do you perceive the relationship between EFRAG and IASB?</i>	
Effective and intensive relationship	13
Ineffective	0
<i>Does it need to be improved (as Maystadt claimed)?</i>	
Yes	0
No	11
Do not know	2
<i>Note: Some interviewees reported multiple reasons.</i>	

To assess EFRAG's influence in international accounting standard-setting more generally, our second question was based on the anecdotal evidence supporting the assumption that Europe is seen as a pioneer for various other (potential) IFRS adopters. Table 6, Panel B summarizes the responses concerning the question whether EFRAG's activities influence other jurisdictions. Remarkably, all interviewees confirm that EFRAG's activities have considerable effects on other constituents. They basically provide four reasons: First of all, the most frequently stated argument is EFRAG's DCL. Although only one IASB member shares this view,

these perceptions provide support that EFRAG's DCL influences other constituents' decision making.¹⁴

As Table 6, Panel B displays, the second most stated reason why EFRAG might be a pioneer for various IFRS adopters is due to its role in the endorsement process. In case Europe would not endorse an important IFRS, they deem it quite likely that other jurisdictions would follow Europe's (or/and EFRAG's) decisions.

"If we think something is not right, I can imagine that a lot of other people say: 'Hey, that's quite interesting. If they don't like it, might well be that there is something wrong!'" (Interviewee-5)

The responses further reveal that EFRAG's role in the endorsement process is connected to its role in the IASB's due process. More precisely, EFRAG's role in the endorsement process is seen as decisive for its influence in the IASB standard-setting. One EFRAG member alludes:

"If the EU hadn't the endorsement process, I don't think that the IASB would have listened so much as they have. [...] I think the endorsement advice is more the kind of political weapon that EFRAG has. The actual work is to be part of the IASB process and to develop standards, that's the important work, but to have someone listen to you, that person needs to know that that person also has some power to have influence. [...] So, I think it's good to have the endorsement just to have that kind of power behind you in the discussions." (Interviewee-6)

While none of the IASB members state that the endorsement process is seen as a kind of a 'political weapon,' they at least share the view that there might be some followers in case Europe would not endorse an important standard. Although, IASB would not use the notion 'political weapon,' their perceptions, however, indicate how crucial EFRAG's role is in the endorsement process.

"It's more the endorsement aspect which is important to me. If Europe is resilient to not endorse a standard, an important one, [...]. That would be a very bad thing for the rest of the world. And some other jurisdictions might say: 'Oh, if Europe does not endorse that

¹⁴ See Table 4, Panel A.

standard, probably there is a problem, so we should also not endorse it.' So it could be some bad precedents and that could influence negatively the other jurisdictions.” (Interviewee-12)

The third reason why EFRAG was seen as a pioneer for other jurisdictions was its transparent and well organized work which is deemed to produce a credible output. Six interviewees pointed out that EFRAG’s perceived legitimacy is the key of having influence. These answers also support the previous findings that a perceived legitimacy (outlined in the subsection 5.2) and the quality of EFRAG’s comments due to its transparent consultation process (outlined in the subsection 5.3) do not only determine EFRAG’s success in persuading the IASB but also other jurisdictions:

“If you’re honest in that, I think you might persuade other parts of the world that you’re doing an honest job and you might influence other people because I keep believing that transparency is the key issue in financial reporting.” (Interviewee-5)

“We have done many, many projects. We did disclosure framework together with the FASB, we are currently working with the Japanese standard setter on Goodwill. We work a lot with other standard setters as well. So I think in that way we have a lot of influence and actually I think some people in the rest of the world think that we have too much influence and that the IASB is too much listening to us. [...] Europe gives a lot of views, but the EFRAG view has an extra weight at least if you believe that and I think it’s in reality the case. So it’s different from Mister X, but our view is also different from the FEE writing or Business Europe writing. We have a whole due process ourselves and none of the other organizations has that. So it’s a more balanced view. So if they have to look for the view of Europe, they will look for the EFRAG view, basically, and then they will look what Business Europe and FEE did and so on.” (Interviewee-10)

The IASB’s perspective, however, slightly differs from the European perspective. Overall, IASB members stated that EFRAG is well organized but along with other jurisdictions that also have well-organized standard-setting bodies:

“I think they will influence. I think it does matter, but not because it is Europe. The fact is that Europe is pretty well organized and they do quite a lot of analysis and I think the things that they discover people resumed with others. You can say the same about the US and other quite strong standard-setting countries. They are very good in influencing others just because they are so organized. [...] So that means that Europe has probably a bigger voice than others.” (Interviewee-13)

“The degree of coordination between the European activities and the rest of the world is not very strong. I know there are some relationships, diplomatic relationships I would say

between EFRAG and the US FASB. Probably from time to time EFRAG receives a visit from China or Japan, but I would call it diplomatic relationships. I'm not sure that the FASB would pay much attention to the technical views of EFRAG because FASB is very well organized, very powerful standard setters and even doesn't pay attention to our views [laughing], I'm not sure they would pay much more attention to the views of Europe. I'm not sure Europe really influences China or Japan, except maybe when they have common views. It may have happened that the Japanese and the Europeans may share some views sometimes on certain topics and then they would create kind of a coalition, a common front to influence the IASB. Then there could be some alliances, sometimes some political alliances to put pressure on the IASB by being kind of a joint action of Japan and EFRAG.” (Interviewee-12)

Fourth and finally, a few interviewees see EFRAG as a pioneer in the way how it is structured. For example, they highlighted that the GLASS for South America and the AOSSG for the Asian-Oceanian region have been established because these jurisdictions realized that the way how EFRAG is organized seems to help to increase its influence on the IASB and consequently they institutionalized a similar body:

“Many people in the rest of the world were paying attention or some are trying to implement something similar to what we have. Even in Asia for example they have the [AOSSG] that was implemented after the way EFRAG was working [...]. So, we were the pioneers, I have no doubt. [...] I think our influence is there because the rest of the world was doing what we are doing because it seems to work.” (Interviewee-2)

So far, the interviewees confirm that EFRAG plays a significant role at the IASB and has not only direct influence (through EFRAG's FCL or the monthly meetings) but also indirect influence (via EFRAG's DCL or EFRAG's role in the endorsement process). In order to finally assess how EFRAG seeks to represent European interests at the IASB, with our third question, we asked our interviewees how they would assess the relationship between IASB and EFRAG. We assume that an effective and positive perceived relationship would indicate a successful influence. Table 6, Panel C reports a very homogenous view of our interview partners both from IASB and EFRAG. All interviewees state that the relationship between EFRAG and IASB is effective and intensive, both on the staff and on the board level. Overall, the relationship is characterized as 'good' and 'close' working relationship, where EFRAG is seen as a 'critical friend:'

“There is a lot of staff-to-staff contact. That means also that we can do a lot in the informal sense which is not going in any public meeting or anything like that. [...] But I think we prefer to see ourselves as a sort of critical friend or something like that. If you see our draft comment letters, I would not say that we are the IASB ambassador. We try to get out what is best for Europe. I think there is a good working relationship, a close working relationship.” (Interviewee-10)

The interviewees emphasize that EFRAG and IASB work very closely together—especially long before the IASB publishes an ED/DP—which comprises organizing outreach events and meetings in order to receive first impressions long before the due process will start—in the so called research programme stage.

“When we have outreach events, the IASB is present, often the board members are present. So that is a great way to influence. We are helping the IASB, we’re giving them an opportunity to listen to what constituents have to say when we’re inviting them to the outreach events. We’re organizing them. I think that is a good way to influence because if we just write things down on a piece of paper and we say: ‘Well, this constituent has a problem with this.’ And they say: ‘Where is the evidence?’ So if they have heard the evidence and we have concrete statistics that twenty companies said that and these are the big telecom companies representing Europe. And then they listen. And that’s a way to influence.” (Interviewee-7)

These outreach activities are one highlighted reason why EFRAG is able to publish a DCL only a few weeks after a DP or ED is published.

“By the time the ED is out we already have a draft comment letter written up at staff level. We already got one, we already talked to a number of people.” (Interviewee-7)

Similarly, the IASB members confirm their relationship to EFRAG as close and intensive and that it could hardly be improved. However, they also take a critical look at it:

“This very close relationship between EFRAG staff and IASB staff or EFRAG board members and some IASB board members is seen as a bit strange because there is not such a strong relationship with people in Korea or Japan. That could be some misunderstanding. We can see that there is an existing influence of EFRAG on IASB and I think some feel that we are too close to EFRAG. It’s the other side of the coin, we have a very good relationship with EFRAG, but that can be perceived by some as being too much.” (Interviewee-12)

“We put a lot of energy into this relationship because we go to every EFRAG TEG meeting and we also attend with the new body. Hans has been to a couple of those meetings as well. So we put a lot of energy into that. [...] In most cases I think it is a positive relationship and helpful. In other cases, I think my frustration is when the comment letters come out, it feels often as it is something quite negative, in other words: ‘What can we find wrong with the standard as suggested to what we can find right with it?’ You feel a little bit defensive when

you say that, but it allows the endorsement process trying to find out what's wrong rather than right. It's a bit negative unfortunately.” (Interviewee-13)

Even though we got quite consistent answers from both sides, our very last question refers to the Maystadt claim that EFRAG's influence needs to be improved. In that sense, we asked whether the interviewees perceive that the relationship between both needs to be deepened in order to increase EFRAG's power on the IASB. As expected, Table 6, Panel C shows that 85% (eleven of thirteen) of the interviewees do not perceive that the Maystadt recommendations should cause any improvements regarding EFRAG's influence on the IASB as EFRAG appears already very successful in influencing the IASB's decision making:¹⁵

“Well, what is improvable? If something is improvable, that means there is a deficit and I do not see the deficit. At least not between EFRAG and IASB.” (Interviewee-3)

Overall, the responses of the interviewees do not support Bengtsson's (2011) findings of a rebalancing of power since the outbreak of the financial crisis. The interviewees could not confirm that Europe's (and thus EFRAG's) influence is directly associated with the financial crisis. The underlying reasons for a perceived increased power over the IASB are seen in the new Europe-oriented IASB board composition and EFRAG's improved quality of its proactive work due to better resources. Furthermore, our findings support the anecdotal evidence of EFRAG's role as a pioneer for other jurisdictions: EFRAG is seen to influence other IFRS jurisdictions in their decision making through its DCL. When it comes to the endorsement process, Europe's adoption decisions (and in that sense EFRAG's EAs) are also considered influential for other jurisdictions in the world. This suggests that there are two indirect/unobservable ways of influence that EFRAG exerts on the IASB. Having the whole international accounting standard-setting in mind, EFRAG's role in the endorsement process also determines EFRAG's role in the IASB standard-setting because having the endorsement process—which is seen as a kind of a 'political weapon'—puts pressure on the IASB. Besides EFRAG's credible work,

¹⁵ The other two interviewees could not provide clear answers.

these interdependencies might also be a reason why the working relationship between EFRAG and IASB is perceived as ‘close’ and ‘effective’ which none of the interviewees believes that it needs to be improved.

6 CONCLUSION

This paper analyzes EFRAG’s role in the international accounting standard-setting process. Based on thirteen in-depth interviewees with experts that are actively involved in the current international accounting standard-setting process, we provide detailed and unique insights *that* and *how* EFRAG influences the IASB.

Overall, our findings indicate that EFRAG’s view in the IASB’s due process is perceived as a quite important voice. The interviewees support our assumption that EFRAG influences the IASB effectively and likely more effectively compared to political actors as it operates permanently and much earlier in the process. While the European political players might influence occasionally the IASB’s outcome (as documented in Bengtsson (2011) and Crawford et al. (2014)), our findings reveal that EFRAG influences the IASB’s decision making in a very early stage, namely in the IASB’s research programme stage. According to our interviewees, there is already an ‘EFRAG flavor’ in each ED or DP, respectively.

Concerning our second question, our findings suggest that EFRAG *directly* influences the IASB through its FCL which is perceived as a view of a consensus of many people after a transparent, democratic consultation process. Having the possibility of attending monthly public meetings helps even more to address EFRAG’s issues at the IASB. According to the experts, EFRAG is very influential at the IASB due to their relationship with the IASB which is seen by both institutions as effective and intensive, both on the staff and on the board level. Having a close relationship is especially helpful in informal meetings. However, EFRAG does not only directly influence the IASB but also *indirectly* through influencing other (or potentially new)

IFRS constituents: first, EFRAG's comments of its DCL are perceived as being of high quality and balanced due to its transparent consultation process. Having good technical arguments is not only considered to help to persuade the IASB but also other IFRS jurisdictions, e.g. when developing their own opinions. Since the DCL is the first public official assessment of an IASB's proposal, it seems frequently used as a basis for various other constituents worldwide to form their own views. Second, our results also reveal that Europe's (and in that sense also EFRAG's) IFRS adoption decisions may influence other jurisdictions' adoption decisions. Irrespective of exerting direct or indirect influence, EFRAG particularly appears to be an influential key player because EFRAG's comments are perceived as being of high quality and balanced due to its transparent consultation process. Lastly, our interviewees highlight that EFRAG's role in the endorsement process seems to strengthen EFRAG's influence in the IASB's decision making process.

Our results also have policy implications since they suggest that the Maystadt reform does not help to achieve the political objective of increasing Europe's influence on the IASB. Although Europe (and thus EFRAG) has nowadays to compete with an increasing number of IFRS adopters compared to a few years ago, EFRAG's voice is still seen as a quite important and successful voice. This is due to the fact that EFRAG does not only participate in the IASB's due process but also because EFRAG members cooperate very closely with the IASB members (both at staff and board level), even long before the IASB publishes a proposal. In that sense, none of the EFRAG and IASB members perceive that Europe's influence needs to be increased or that the relationship between EFRAG and IASB needs to be improved.

Our study is subject to several limitations. The documented influential role of EFRAG at the IASB does not imply that EFRAG is the only stakeholder that seeks to influence the IASB during the early stage of its decision making process. We are aware that, first, there might be

other potential stakeholders that influence the IASB in the early stages and, second, that there are still possibilities for influencing the IASB's outcome at the later stages of the standard-setting process, especially at the ED stage. Moreover, the drawback of a qualitative expert interview approach is the lack of empirical generalizability to the whole IFRS constitution because the sample drawn is small and non-random. However, the purpose of this study was to gain a deeper understanding from an inside perspective on how experts, currently involved in the international standard-setting process, perceive EFRAG's role in the IASB's decision making, which so far has largely been a 'black box.' With regard to the quite limited population of technical experts, we believe that thirteen interviews are a substantial and appropriate number, so that our findings rest upon a robust data set. Furthermore, we have not obtained new substantial insights in the last few interviews so that we conclude that data saturation was achieved. Last but not least, some findings are based on self-assessments of the interviewees which we tried to minimize by asking each question to members of both institutions. However, the scope of the paper was to gain a deeper look into the relationship of both institutions which is difficult to obtain by interviewing practitioners outside the periphery of the IASB and EFRAG. Nevertheless, it will be fruitful to study how other experts from other big institutions that take part in the international accounting standard-setting (such as EIOPA, FEE, CFO-Forum, ESMA, SEC etc.) perceive the relationship between EFRAG and IASB, we, however, leave it to future research to investigate the outside perspective.

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APPENDIX

List of Abbreviations

AOSSG – Asian-Oceanian Standard-Setters Group
ASAF – Accounting Standards Advisory Forum
DCL – Draft Comment Letter
DP – Discussion Paper
EA – Endorsement Advice
EBA – European Banking Authority
EC – European Commission
ECB – European Central Bank
ECOFIN – Economic and Financial Affairs Council
ECON – Committee of Economic and Monetary Affairs
ED – Exposure Draft
EFRAG – European Financial Reporting Advisory Group
EFRAG TEG – European Financial Reporting Advisory Group Technical Experts Group
EIOPA – European Insurance and Occupational Pensions Authority
EP – European Parliament
ESMA – European Securities and Markets Authority
EU – European Union
FASB – Financial Accounting Standards Board
FCL – Final Comment Letter
FEE – Fédération des Experts Comptables Européens
GLASS – Group of Latin American Accounting Standard Setters
IAS – International Accounting Standards
IASB – International Account Standards Board
IFAC – International Federation of Accountants
IFRIC – International Financial Reporting Interpretations Committee
IFRS – International Financial Reporting Standards
IOSCO – International Organization of Securities Commissions
MoU – Memorandum of Understanding
SEC – U.S. Securities and Exchange Commission

II Formal Participation Behavior in EFRAG's Due Process

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Abstract:

This study analyzes the formal participation behavior of European constituents involved in the European Financial Reporting Advisory Group's (EFRAG's) due process. European constituents have incentives not only to lobby the IASB but also to shape EFRAG's voice because EFRAG is recognized as "the European Voice in financial reporting" which should be "properly considered" in the International Accounting Standards Board's (IASB's) standard-setting process (EFRAG 2016, 2). This paper is one of the first that analyzes who of the Europeans participate and why some European constituents participate more or less frequently at EFRAG's due process. An analysis of comment letters submitted to EFRAG during 2009-2013 reveals that European constituents seem to have unequal access due to different participation costs that appear on the country level. An analysis of the participation behavior of preparer reveals that they participate more often at EFRAG when they are from countries with strong enforcement regimes and from countries with more substantial differences between national GAAP and the International Financial Reporting Standards (IFRS). Moreover, I predict and provide evidence that preparers submit more often and longer comment letters when they submit these letters also to the IASB.

KEYWORDS: EFRAG, IASB, standard-setting, lobbying

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1 INTRODUCTION

This study analyzes the formal participation behavior of European constituents involved in the public consultation process of the European Financial Reporting Advisory Group (EFRAG). As EFRAG carries out a consultation process that is similar to the International Accounting Standards Board's (IASB's) due process, European constituents can either directly participate at the IASB's due process by submitting a letter directly to the IASB, or they can indirectly participate at the IASB by articulating their views on the IASB's proposals to other parties than the IASB, such as EFRAG. This paper seeks to investigate the nature of the constituents' participation in EFRAG's due process in terms of representation (constituent groups and geographical distribution) and the drivers of their participation behavior.

Previous research on the role of lobbying in the international accounting standard-setting process has substantially increased in recent years. The bulk of the papers analyzes the participation behavior of constituents writing comment letters to the International Accounting Standards Committee (IASC) (Kenny/Larson 1993, 1995; Larson 1997, 2008) and to the IASB (e.g. Jorissen et al. 2006, 2012, 2013; Cortese/Irvine 2010; Hansen 2011; Giner/Arce 2012; Larson/Herz 2011, 2013; Larson/Myring 2013; Mora/Molina 2014; Kosi/Reither 2014). These quantitative analyses have focused on formal participation methods and have documented the geographic origins and composition of constituents. Since the political character of the standard-setting cannot only be captured by analyzing the participation behavior via the submission of comment letters (Sutton 1984), some studies use different research methods in order to shed more light on less formal lobbying methods (e.g. Larson/Kenny (2011) examined the IASB's donor diversity). Some recent studies take into account multiple sources of data, such as all publicly available data (e.g. comment letters, staff agenda papers, board meetings, and board activities) as well as qualitative data from interviews (e.g. Erb/Pelger 2015; Pelger 2016;

Pelger/Spieß 2017). These studies could document a comprehensive insight into the interactions of the IASB and various constituents, however, the inevitable drawback of such comprehensive analyses is the focus of one single-issue. This paper takes a long-term view and considers multiple issues in order to shed more light on the formal participation behavior of European constituents involved in EFRAG's due process which has achieved little attention to date.

Although there are different participation methods preparers can use to influence the standard setter, I focus on the formal method by submitting comment letters. Sutton (1984) already notes that the difficulty researcher face in the area of lobbying research is the unobservability of the overall lobbying activity. As public information on informal participation methods is unavailable, it is almost impossible for a multi-issue and multi-period study to collect data across all participation methods during such a long period of time. Moreover, Georgiou (2004) documents that the use of comment letters is strongly associated with the use of other less formal lobbying methods. Thus, prior literature assumes that comment letters appear to be a good proxy for the use of other, less overt, lobbying methods (e.g. Jorissen et al. 2012, 2013; Giner/Arce 2012; Kosi/Reither 2014). I follow this stream of research and assume that lobbying behavior results in the submission of comment letters.

The multi-issue and multi-period study provided by Jorissen et al. (2012) is the only study that addresses the participation behavior of EFRAG's constituents in some way. That paper investigates the nature of constituents' participation at the IASB and the drivers to participate. In their descriptive analyses, the authors compare the comment letters that have been submitted to both IASB and EFRAG and observe that most European constituents only directly participate at the IASB and those who participate at both institutions often use the same comment letter. As Jorissen et al. (2012)'s observation period covers the time period 2002-2006, before

the financial crisis and also the first years after the formation of EFRAG, I assume that European constituents have nowadays more incentives to shape EFRAG's voice and, thus, expect that more constituents are involved in EFRAG's due process than in earlier years.

I base my expectations on the following insights from the literature: In the wake of the financial crisis, the political process underlying the IASB's standard-setting has become an increasing area of study for accounting researchers (Kothari et al. 2010; Allen et al. 2014). Besides the mentioned comment letter analyses, more recent studies document that the European Commission (EC) and European Parliament (EP) were able to shape the IASB's decisions (Bengtsson 2011; Zeff 2012; Ramanna 2013; Crawford et al. 2014). According to this stream of literature, lobbying behavior of European constituents toward the IASB has remarkably increased after the crisis. Moreover, one recent study provides qualitative empirical evidence that EFRAG's voice is perceived as quite influential at the IASB (Weiß/Gronewold 2018). The findings of that paper indicate that and how EFRAG influences the IASB's decision making. Camfferman/Zeff (2017, 15) similarly note that EFRAG "has developed a significant technical capability, and is currently one of the key participants in the IASB's standard-setting process." Consequently, if the awareness of EFRAG's role grows, it is just a matter of time that more and more constituents have not only incentives to lobby the IASB but also to shape EFRAG's voice. Especially if these constituents assume to have better chances of success when articulating their views to EFRAG rather than to the 'big' IASB, lobbying EFRAG should be crucial for various European constituents. Consequently, these new insights suggest that examining the lobbying behavior at EFRAG's due process is fruitful to analyze. This paper differentiates from the Jorissen et al. (2012) study by examining not only the representation of European constituents' involved in EFRAG's due process in a more recent time period but also the drivers of their participation behavior, which have not been explored so far.

My sample consists of 152 constituents who submitted 804 comment letters to EFRAG during the time period of 2009-2013. I document that the submissions to EFRAG have significantly increased in these years compared to Jorissen et al. (2012) who document 293 EFRAG submissions during the period of 2002-2006. I attribute the increase to a higher participation intensity by preparers, the accounting profession, and (to a lesser extent) by users. The increase of submissions from various interested parties indicates that EFRAG was successful in improving its visibility as an international accounting body. Moreover, there is a distortion in the geographical distribution observable, indicating that there might be heterogeneous participation costs that appear on the country level that may lead to unequal access for various European constituents.

In the multivariate analyses, I focus on the drivers of the participation behavior of the most prominent constituent group, namely preparers. Especially for European public firms, International Financial Reporting Standards (IFRS) are an important basis for valuation (e.g. information for measurement of firm and managerial performance) and for stewardship purposes (e.g. contracting-related information). Besides, this paper responds to the calls of the prior literature to explicitly consider corporate lobbying behavior because preparers of financial statements participate more than any other constituent group because the outcome of the standard-setting, in general, directly influences their financial statements (Sutton 1984; Bouwen 2003; Elbannan/McKinley 2006).

I base my predictions on the theoretical work of Sutton (1984) and Watts/Zimmerman (1978, 1979, and 1986). Both theoretical frameworks assume a cost-benefit model to explain incentives of the participation behavior of preparers. First, based on the descriptive results, I examine whether country-specific participation costs are related to the participation behavior. I predict and show that preparers from countries with strong enforcement regimes participate

more often in EFRAG's due process compared to preparers from countries with low enforcement mechanisms, indicating that costs of non-compliance are related to differences in country participation levels. The letters from those preparers are not necessarily written in a more detailed way, these letters are even significantly shorter than the comment letters from preparers in countries with weak enforcement systems. These results remain robust to different model specifications. Second, I hypothesize and find that preparers from countries with substantial differences between IFRS and national general accepted accounting principles (GAAP) participate more often in EFRAG's due process compared to preparers from countries with less substantial GAAP differences. These results also remain robust to different model specifications and therefore support the theoretical assumption that (expected) unfavorable consequences on accounting numbers of financial statements and/or an (expected) increase in information-production costs constitute incentives for preparers to lobby. Third, due to this rather specific setting of Europe, I also explore whether the participation in the IASB's due process is also related to the participation behavior at EFRAG. I predict and provide evidence that EFRAG's preparers who send identical letters to both IASB and EFRAG submit more often and longer comment letters to EFRAG than preparers who send deviating comment letters to EFRAG. These results support the assumption that European preparers anticipate high benefits when participating at both due processes whereas, at the same time, having relatively low participation costs when submitting the same comment letter. Additional tests further indicate that preparers who participate in both due processes (no matter whether they send identical or deviating letters and also no matter how often) write longer letters than preparers who only participate in EFRAG's due process.

This study contributes to the literature as follows: First, this paper contributes to the recent notion of Camfferman/Zeff (2017, 6) that "EFRAG, its various 'enhancements' and the perennial quest to make Europe 'speak with one voice' are awaiting further research." Thus,

this paper sheds more light on the participation behavior of European constituents who seek to shape EFRAG's voice. Despite a few empirical papers (Jorissen et al. 2012; Weiß/Gronewold 2018), not much is known about EFRAG's decision making process. This is somewhat surprising when considering the recent political occurrences around Maystadt reform forcing EFRAG to increase its influence toward the IASB (Maystadt 2013). Second, as EFRAG's voice is quite influential at the IASB's decision making, this paper gives new insights into the indirect lobbying behavior at the IASB. In this regard, this paper also responds to the broader call of the literature to better understand the whole process of the IASB's decision making (Barth 2000; Cooper/Robson 2006; Luthardt/Zimmermann 2009). The findings of this paper document who of the Europeans participate and why some Europeans submit more frequently letters to EFRAG than others. This might be crucial in order to better evaluate who 'sits behind' this influential key player of the IASB. In this regard, this paper seeks to complement recent work on the politics of the international accounting standard-setting.

Moreover, to shed more light on EFRAG's decision making might also be interesting for EFRAG and for all (potential) actors involved in EFRAG's due process. The documented increase in submissions indicates an increase in the visibility of EFRAG's work but a geographical distortion and an imbalance of users' participation is also observable. If EFRAG knows which constituents have high incentives (and/or relative less costs) to communicate with EFRAG, it could give more attention to these constituents who may have higher entry barriers into EFRAG's due process. This is especially essential when pursuing the objective of being the "European Voice of financial reporting." And if EFRAG's constituents know that they are likely to be less represented than others (e.g. users), they should use these findings to scrutinize their participation behavior. According to institutional theory, transparent standard-setting with the participation of various different constituent groups is a key element of the legitimacy of a

private organization. Thus, the findings of the paper may be an important basis for the evaluation of EFRAG's legitimacy.

The paper proceeds as follows. Section 2 provides the institutional background of EFRAG's due process. Section 3 reviews the related literature and outlines the development of the hypotheses. Section 4 describes the research design. Section 5 presents the results, followed by robustness checks in section 6. The paper concludes with a summary and a discussion of the findings in section 7.

2 INSTITUTIONAL SETTING

EFRAG was set up in 2001 by European private organizations representing preparers, users, and the accounting profession.¹⁶ Five years later, EFRAG and the EC signed up a working arrangement in which the two main roles of EFRAG are formalized (EC/EFRAG 2006): EFRAG's first role is to participate actively in the IASB's due process in order to articulate the European views in a very early phase in international accounting standard-setting. To serve "the objective of Europe speaking with one voice," EFRAG itself carries out a public consultation process (also called due process) (EFRAG 2016, 18). In doing so, after the IASB has published an Exposure Draft (ED) (or Discussion Paper (DP), respectively), EFRAG publishes a draft comment letter (DCL) and asks European constituents to articulate their views on the proposals expressed. This DCL is published soon after the IASB has disclosed the ED/DP and thus it is one of the first official positions on a particular IASB's proposal.¹⁷ After reviewing all comment letters EFRAG strives to coordinate the different views and develops a final comment letter (FCL) and submits it to the IASB. At the time the IASB publishes a new standard, EFRAG's second role is to provide advice to the EC on all issues relating to the application of that specific IFRS (EC/EFRAG 2006). For adoption in the EU, EFRAG has to judge whether the standard fulfills the criteria the IAS Regulation 1606/2002 stipulates. The endorsement advice is also an outcome of a due process, giving constituents the opportunity to comment on EFRAG's so called draft endorsement advice (DEA). Accordingly, European constituents have the opportunity to participate in the international accounting debate in different ways and during different stages: firstly, in a very early stage by submitting a comment letter directly to the IASB; secondly, they can participate indirectly in the IASB's due process via EFRAG, and

¹⁶ The so called 'founding fathers' of EFRAG are BusinessEurope, EACB, ESBG, EBF, CEA, UEAPME, EFAA, EFFAS, FESE and FEE (see Appendix C for a list of abbreviations).

¹⁷ EFRAG pursues to publish its DCL two weeks after the IASB has disclosed its proposal (Weiß/Gronewold 2018).

finally, in the later stage, they can participate in the European endorsement process by commenting on EFRAG's DEA.

For the following analysis, I examine the participation behavior of European constituents in EFRAG's first due process, namely, in the course of developing EFRAG's FCL which will be submitted to the IASB. The reasons are as follows: First, EFRAG's FCL is perceived as an influential document which is seen as balanced and of high quality due to its transparent consultation due process (Weiß/Gronewold 2018). The findings of this paper indicate that EFRAG influences the IASB's decision making. Camfferman/Zeff (2017, 15) similarly note that in recent years, EFRAG "has developed a significant technical capability, and is currently one of the key participants in the IASB's standard-setting process." Therefore, it seems likely that European constituents have not only incentives to shape the IASB's decision making but also to shape EFRAG's influential voice. Especially, if these constituents assume to have better chances of success when articulating their views to EFRAG rather than to the 'big' IASB, lobbying EFRAG should be crucial for various European constituents. Second, when comparing the amount of comment letters EFRAG receives for the DCL and DEA, it reveals that European constituents comment more frequently on the DCL than on DEA.¹⁸ Thus, it seems that constituents evaluate the possibility to influence the regulatory outcome (endorsement advice) to be less likely than in the earlier stage when the standard is not yet finalized. This observation is in line with the theory stated by Sutton (1984) who argues that lobbying is more effective in earlier stages of the due process. To sum up, it seems worth to examine the European constituents involved in EFRAG's due process.

¹⁸ Since all of EFRAG's comment letters are accessible to the public, there are considerably less comment letters in the endorsement advice process observable compared to draft comment letter stage (www.efrag.org).

3 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

As this study examines the participation behavior of European preparers, the theoretical frameworks of Sutton (1984) and Watts/Zimmerman (1978, 1979, and 1986) provide necessary insights for the development of the hypotheses.¹⁹ Whereas Watts/Zimmerman's work delivers predictions of corporate lobbying behavior, Sutton's theoretical model considers lobbying behavior of all constituent parties. According to the rational-choice model of Sutton (1984), a constituent only participates in standard-setting if the expected benefits outweigh the costs of lobbying. In this setting, participation costs consist of the resources that are needed to prepare a comment letter while benefits constitute the probability of being able to influence the resulting standard. The framework of Watts/Zimmerman (1978, 1986), the so called Positive Accounting Theory (PAT), develops a theoretical framework of the participation behavior for the group of preparers. According to PAT, preparers participate in the standard-setting if the new proposals have a substantial impact on the financial statements. Both theories are based on a cost-benefit model and are widely tested in various participation studies (e.g. Schalow 1995; Larson 1997, 2007; McLeay et al. 2000; Durocher et al. 2007; Durocher/Fortin 2011; Jorissen et al. 2012, 2013; Giner/Arce 2012; Georgiou 2002, 2004, 2005, 2010; Mora/Molina 2014). These theoretical insights serve as the basis for the following development of the hypotheses.

3.1 Costs of non-compliance

Sutton (1984) argues that the incentives to lobby are higher if the costs of non-compliance are high. According to the literature, ex ante investor protection and ex post enforcement are

¹⁹ For the following, lobbying EFRAG is defined as a "purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve other self-interested purpose inconsistent with the [EFRAG's] mission" (Gipper et al. 2013, 4).

the most important institutional factors that determine the costs of non-compliance for a specific country (La Porta et al. 1998; Djankov et al. 2003; Shleifer 2005). As Burgstahler et al. (2006) document that legal rules remain largely ineffective without a well-functioning enforcement, the level of enforcement quality seems to be the more important measure to capture costs of non-compliance rather than legal rules for investor protection.

Consistently, prior studies find significant differences in accounting regulation outcomes associated with country-specific factors (e.g. enforcement), indicating that the home country's institutional regime shapes firms' reporting incentives (Ball et al. 2000; Leuz et al. 2003; Bushman/Piotroski 2006; Burgstahler et al. 2006; Daske et al. 2008). As Holthausen/Leftwich (1983) argue that corporate lobbying research in accounting can be seen as a part of the accounting choice literature stream because the incentives to lobby are likely to be similar to the choice of accounting methods, I assume that the costs of non-compliance (measured as the level of enforcement quality) also shapes the participation behavior of European preparers in EFRAG's due process.

This prediction is also in line with the related empirical literature of lobbying behavior toward the IASB: For example, Jorissen et al. (2013) empirically examine whether institutional factors are related with the participation intensity of preparers who participate in the IASB's due process. They show that preparers from countries in which high costs of non-compliance (measured, inter alia, as the degree of enforcement quality) are significantly more present in the IASB's due process. Orens et al. (2011) also note that differences in the preparers' home country regulatory background lead to differences in participation behavior among European preparers. Since Christensen et al. (2013) show cross-sectional differences in enforcement

among European countries and demonstrate the value relevance of the institutional environment,²⁰ there are likely differences in participation behavior among European preparers due to different levels of enforcement systems observable. Based on the argumentation above, I hypothesize that preparers in countries with strong enforcement regimes face higher costs of non-compliance and thus have more incentives to lobby compared to preparers from countries with low enforcement mechanisms. Assuming that preparers who have more incentives to lobby submit more comment letters (“have a higher participation intensity”) than preparers who have less incentives, I state:

H1: The participation intensity of a preparer at EFRAG’s due process is positively associated with the costs of non-compliance of a country.

3.2 Divergence between IFRS and national GAAP

If national GAAP substantially deviates from the IASB’s proposal, preparers have incentives to lobby. According to PAT, a new accounting standard generally leads to an increase in information-production costs²¹ which is viewed as a burden by preparers because they are unwilling to change from the status quo (Holthausen/Leftwich 1983; Elbannan/McKinley 2006). This is particularly crucial for European preparers because most of the European countries have historically linked their financial accounting to national tax law (Haller 2002; Larson/Street 2004), and thus, European preparers need to comply with national GAAP and with IFRS at the same time. When the IASB’s proposal deviates from the national rules, these preparers need to get familiarized with it, which inevitably lead to an increase in information-production costs

²⁰ Christensen et al. (2013) show that the IFRS adoption per se is not the main driver for the observed liquidity effects around IFRS adoption but rather changes in financial reporting enforcement play a crucial role for the observed market liquidity increases.

²¹ For example, an increase in accountants’ salaries to compensate for additional training.

(Watts/Zimmerman 1978). This holds especially true for countries where the national accounting practices substantially differ from the proposal, resulting in higher information-production costs.

Although there are theoretical explanations why preparers may also be motivated to lobby for the IASB's proposal (when the proposal leads to favorable consequences on accounting numbers (Elbannan/McKinley 2006)), empirical research shows that comment letters often oppose proposals that conflict with national GAAP (Kenny/Larson 1993; Guenther/Hussein 1995; Chatham et al. 2010; Jorissen et al. 2012; Larson/Herz 2013). Following theoretical and empirical literature, I assume that if a new IASB's proposal differs substantially from national GAAP (and this proposal has unfavorable consequences for a preparer), a preparer will be motivated to lobby against this proposal and thus, he or she will submit a comment letter to EFRAG. Although being aware that a proposal (such as an ED) is not a final standard, I assume that an IASB's proposal can be captured by the IFRS system. Therefore, I expect that preparers from countries in which national GAAP substantially differs from IFRS have potentially more incentives to participate and thus submit more comment letters ("have a higher participation intensity") than preparers from countries with less substantial differences between national GAAP and IFRS:

H2: The participation intensity of a preparer at EFRAG's due process is positively associated with the divergence between national GAAP and the IFRS.

3.3 Participation in the IASB's due process

In Sutton's cost-benefit model, constituents only submit a comment letter if the expected benefits exceed the costs of participating in the due process. European constituents have at least four ways to participate in the international accounting standard-setting: First, they participate in both channels and send the same comment letter. Second, they participate in both channels

but send different letters. This is done by answering the specific questions EFRAG asked its constituents in the DCL, which differ from or rather exceed those the IASB asked in its ED. Third, European constituents choose only the (indirect) channel via EFRAG, and fourth, they choose only the (direct) IASB channel.

As I seek to analyze the participation behavior of European preparers in the EFRAG's due process, the first three ways of participation are of interest. For the first option, preparers have high (expected) benefits as the likelihood of being heard by one of the institutions increases whereas, at the same time, they have relative low (expected) participation costs when sending two identical letters. Regarding the second option, the (expected) participation costs will be the highest but the (expected) benefits are also likely to be higher. This may be linked to the perception that a direct response to the questions set out in the proposals might help EFRAG staff (who reviews all submitted comment letters) to better understand their points of view. Besides, a precise answer might be perceived as conscientiously and thoroughly and thus might be taken more seriously rather than a copy. Lastly, there is no rational reason why a European preparer should only participate at EFRAG's due process because the (expected) benefits are the lowest without saving any costs.

However, it is important to note that examining the (expected) benefits is somewhat noisy because several other confounding factors exist.²² For the following analysis, I assume that these factors are the same for the three different ways of participation and thus the (expected) benefits are equal for every single comment letter submitted. Hence, preparers' (expected) benefits are only higher when submitting to both institutions. Besides, (expected) participation

²² For example, whether the argumentation of the comment letter is logical and comprehensive, whether the comment letter represents one single entity or a group of several entities or/and whether the writer has relations to board members, etc.

costs also constitute incentives for a preparer to participate. For example, prior literature documents that the majority (65%) of the comment letters submitted to both IASB and EFRAG are exactly the same, whereas only 32% slightly differ, which indicates that participation costs due to writing a comment letter matter (Jorissen et al. 2012). Therefore, I assume that preparers who send more frequently identical comment letters to both institutions (“use more frequently an identical participation”) have accordingly less relative participation costs and thus, submit more comment letters (“have a higher participation intensity”) than those who write either different letters or only to EFRAG. This is because, first, the (expected) benefits are higher compared to a preparer who submit only to EFRAG and, second, the (expected) participation costs are lower compared to preparers who submit deviating comment letters.²³ Following, I hypothesize:

H3: The participation intensity of a preparer at EFRAG’s due process is positively associated with the “identical participation” in the IASB’s due process.

4 RESEARCH DESIGN

4.1 Sample selection

The sample includes all comment letters submitted to EFRAG in response to 57 DCL EFRAG has issued to comment. These DCL comprise draft responses to all DP and ED projects the IASB has published from 2009 to 2013.²⁴ I classify each letter according to the professional background of every constituent into the following parties: preparers (corporate preparers and

²³ It is worth noting that this study does not claim to investigate causal relations rather than associations between the participation behavior (here: intensity) and the use of participation ways (here: identical submissions). In other words, the (identical) participation at both institutions is not the cause of the participation intensity at EFRAG. However, it might be likely that those who participate more frequently to EFRAG (participation intensity) are those who submit more frequently identical comment letters.

²⁴ The observation period starts in 2009 after the crisis year 2008. 2013 is the last year of observation because the first draft of the paper was finished in 2014. Besides, with regard to the recent literature, five years of observation seems to be an appropriate number of observations years (e.g. Jorissen et al. 2012).

preparers' trade associations), accounting profession (associations of accountants and auditors and audit firms), users, national standard setters, stock exchanges, academics, and other interested parties. The classification system is consistent with prior research (Francis 1987; Tandy/Wilburn 1992; Jorissen et al. 2012) and in line with the paragraph 19 of the preface to IFRS (IASB 2010). With regard to the geographical classification, I classify each comment letter in accordance with the sender's country of origin.

In response to the 57 DCL EFRAG has published, EFRAG received a total of 804 submissions from 152 constituents. To form the (final) sample for the multivariate analyses, I drop all non-preparers, which minimizes the sample down to 99 preparers who sent 240 comment letters. I further drop all preparers from non-European countries as well as those that could not directly be linked to a specific country (such as European associations or international organizations). Thus, the final sample consists of 77 preparers who sent 176 comment letters. Table 1 gives an overview of the sample selection.

Table 1: Sample Selection

Constituents	(1) Constituents	(2) Comment Letters
Constituents participated at EFRAG during 2009-2013	152	804
# Constituents not classified as preparers	53	564
# Non-European constituents	2	2
# European organizations	16	58
# International organizations	4	4
Final sample	77	176

4.2 Methodological approach

To address the three hypotheses, I use the following model and, in line with the related literature, estimate an OLS regression (e.g. Jorissen et al. 2012, 2013; Larson/Herz 2013):

$$\text{NRCL} = \beta_0 + \beta_1 \text{RULEOFLAW} + \beta_2 \text{GAAPDIFF} + \beta_3 \text{IDENTPART} + \sum \beta_j \text{CONTROLS}_j + \mu. \quad (1)$$

To measure the participation intensity, I use the natural logarithm of the number of comment letters a preparer submitted to EFRAG during the period 2009-2013 (NRCL)²⁵.

To investigate whether the participation intensity of a preparer is associated with the costs of non-compliance of a country (H1), I include a proxy that measures the quality of legal enforcement. As Burgstahler et al. (2006) find that legal rules remain largely ineffective without a proper enforcement, I assume that the quality of enforcement also captures to some degree the level of investor protection within a country. Although there might exist EU jurisdictions with low investor protection but effective enforcement systems, there is a wide concern in the recent literature about including several country level institutional variables as they are likely to complement with each other rather than develop independently from another (Leuz 2010; Wysocki 2011; Leuz/Wysocki 2016). To avoid multicollinearity issues, I choose the rule of law index (RULEOFLAW) developed by Kaufmann et al. (2010) that captures “perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence” (Kaufmann et al. 2010, 4). For the RULEOFLAW variable I use the natural logarithm of the average score for the period 2009-2013 of a country. Higher

²⁵ Detailed variable definitions are presented in Appendix A.

values represent preparers in countries with stronger enforcement that face higher costs of non-compliance. Based on the H1, I expect a positive coefficient.

To test whether the participation intensity of a preparer is associated with the divergence between a country's national GAAP and IFRS (H2), I use the Bae et al. (2008) summary score of how local GAAP differs from IAS on 21 key accounting items.²⁶ Higher values represent more discrepancies. As Ding et al. (2007) find that institutional factors are potential determinants of differences between national and international GAAP and also Daske et al. (2008) find that accounting differences likely matter most if rules are properly enforced, there is concern about highly correlated explanatory variables included in the model. Christensen et al. (2013) also assume to find bigger liquidity effects in countries in which both improvements in the enforcement systems and bigger GAAP differences occur.²⁷ To address this endogeneity concern, I follow Daske et al. (2008) and first regress the raw values of the Bae et al. (2008) summary score on country's legal origin (RULEOFLAW). Then I use the residuals from the first-stage regression to partition the sample by the mean to create the indicator variable GAAPDIFF in order to test the second hypothesis. In line with H2, I assume a positive coefficient.

In order to test whether the participation intensity of a preparer is associated with the participation behavior of sending identical comment letters (H3), I use the variable IDENTPART that measures the relative frequency over the observed period a preparer submitted identical comment letters to both IASB and EFRAG. I develop this proxy by checking whether each of the 176 comment letters submitted to EFRAG has been also submitted to the IASB and then, in a next step, I check whether these comment letters are completely identical or whether

²⁶ This measure is based on a survey of national GAAP benchmarks against international accounting standards by Nobes (2001) who identified 21 key accounting items from the initial questionnaire that show differences between the national GAAPs and IFRS.

²⁷ Although Christensen et al. (2013) could not find such effects, they admit to interpret their results cautiously as their cross-sectional variation is limited to five countries.

there are differences between those two. To create IDENTPART, I code each comment letter with 1 if the letter was completely identical (incl. a short cover letter which was directly addressed to EFRAG) and 0 if the letter deviates, e.g. when EFRAG's questions have been considered. Then, I count the frequency of the identical submissions of each preparer and divide them through the frequency of all comment letters that this preparer has submitted to both institutions during 2009-2013.²⁸ This indicator measures the relative frequency a preparer submitted identical comment letters to both IASB and EFRAG. In line with the theoretical underpinnings in H3, I expect a positive coefficient of IDENTPART.

Besides the main variables of interest I include the following control variables. First, according to Leuz et al. (2003) strong and well-enforced outsider rights limit insiders' acquisition of private control benefits, and thus mitigate insiders' incentives to manage earnings as they have little to conceal from outsiders. Empirical evidence documents that firms in countries with strong investor rights and legal enforcement systems are less engaged in earnings management (Leuz et al. 2003; Burgstahler et al. 2006; Daske et al. 2008). Following, there is concern that RULEOFLAW is endogenous. To mitigate this concern, I control for the opacity of financial reporting practices in a country, using the aggregate earnings management score from Leuz et al. (2003). Higher scores represent stronger engagement in earnings management behavior. One concern remains that the country level institutional variables are all highly correlated with each other. Especially, there is concern that the aggregate earnings management score is driven by a selection bias because the decision to engage in earnings management might be taken at the country's institutional environment level. To isolate the effect of the earnings management behavior of a country, I develop the variable AGGEM by regressing the raw values of the aggregate earnings management score developed by Leuz et al. (2003) on

²⁸ For example, if preparer A submitted 10 comment letters in 2009-2013 from which 5 letters have been identical, IDENTPART for preparer A is equal to 0.5.

the quality of the country's enforcement regime (RULEOFLAW). Then, I use the residuals from the first-stage regression to partition the sample by the mean to create the binary variable AGGEM (similar in Daske et al. 2008). AGGEM gets the value of 1 if the preparer is from a country in which the opaqueness of financial reporting practices is above average, 0 otherwise.

As Bowen et al. (1999) already note that some political scrutiny is focused at the industry level, I control for industry-level attributes that are likely related to one of the independent variables. Since including industry dummies creates problems with the degrees of freedom, I use the following variables to capture industry effects: First, the degree of government regulation that firms in specific industries experience may determine their costs of non-compliance and thus, these firms should have more incentives to lobby (according to H1). However, Elbannan/McKinley (2006, 616) predict the opposite direction and argue that firms in more regulated industries (e.g. pharmaceutical industry) "will become used to dealing with regulatory constraints and will take regulation more for granted" than will companies in less regulated industries (e.g. consulting industry). They predict that the less subject to government regulation an industry is, the more likely it will lobby against proposals they perceive as detrimental. Nevertheless, the concern remains that the level of regulation could also determine the costs of non-compliance for a specific firm, following that RULEOFLAW (that measures costs of non-compliance bases on the level of enforcement quality) is correlated with the level of industry regulation, and thus endogenous. To rule out any endogeneity concerns due to unobservables, I include a variable that controls for the level of regulation of each industry. To measure the degree of government regulation, prior literature frequently classifies industries into more and less regulated industries (Kaszniak/Lev 1995). I follow this literature and include the variable REG. To create REG, I first classify all preparers into industries using the US SIC system. Then, I group the preparers into more regulated and less regulated industries by using the clas-

sification system of Kasznik/Lev (1995) whose procedure is in line with prior research (Baginski et al. 2002; Jorissen et al. 2012). REG is a dummy variable taking the value of 1 if the preparer is operating in a regulated industry and 0 otherwise. Furthermore, I include the dummy variable FINANCIAL which is valued with 1 if the preparer is mainly operating in the financial industry, otherwise valued with 0 to control that preparers from the financial sector do not confound the results. Especially since the financial crisis and the partial adoption of IAS 39, researchers are expected to observe an increase of lobbyists from the financial sector (Cortese/Irvine 2010; Kosi/Reither 2014).

Finally, as the sample consists of 49 corporate preparers and 50 preparers' trade associations, I control for associations. According to Olson's theory "*The logic of collective action*" an association helps to increase the inter-firm communication, including any information about consequences of the new IFRS proposals and past attempts to resist IFRS standards (Olson 1965; Francis 1987; Elbannan/McKinley 2006). Since it is the association's *raison d'être* to represent the interests of their community in the standard-setting, it is likely that associations are very active in EFRAG's due processes. Thus, I include the dummy variable ASSOCIATION, valued with 1 if the preparer is an association and 0 otherwise.

5 RESULTS

5.1 Sample description

In order to examine the nature of the European constituents' participation in EFRAG's due process, I am firstly interested in the representation of the constituent groups and geographical distribution. Table 2 shows the sample composition by constituent groups. In terms of the frequency of constituents, preparers are the most prominent group (65.1% of all participants and 29.9% of all comment letters), followed by the accounting profession (9.9% of all partici-

pants and 21.3% of all comment letters), and by the national standard setters (7.9% of all participants and 39.1% of all comment letters). These three parties are responsible for about 90% of all comment letters submitted.

Table 2: Sample Composition by Constituent Group

Constituent group	(1) Constituents		(2) Comment letters	
	Freq.	%	Freq.	%
Preparers	99	65.1%	240	29.9%
Corporate preparers	49	32.2%	85	10.6%
Preparers' trade associations	50	32.9%	155	19.3%
Accounting profession	15	9.9%	171	21.3%
Associations of accountants and auditors	9	5.9%	159	19.8%
Audit firms	6	3.9%	12	1.5%
National standard setters	12	7.9%	314	39.1%
Governmental regulatory authorities	6	3.9%	56	7.0%
Users	9	5.9%	12	1.5%
Academics	3	2.0%	3	0.4%
Consultants	1	0.7%	1	0.1%
Others	7	4.6%	7	0.9%
Total	152		804	

Comparing the descriptive findings in Jorissen et al. (2012), I document some new insights: First, whereas Jorissen et al. (2012) observe in their five years period 293 submissions to EFRAG, this study documents 804 submissions to EFRAG, also over a five years period. I attribute these deviating findings to the different time horizon because Jorissen et al. (2012) examine the period 2002-2006 which covers the first years after the formation of EFRAG, at a time when EFRAG's role in the international accounting debate was likely not yet perceived by the European public interest. Second, Jorissen et al. (2012) document that the majority of the submissions to EFRAG are written by national standard setters, stock exchanges and their supervisory authorities (overall approximately 52.6%), Table 2 also highlights that national standard setters remain a very active group in EFRAG's due process but preparers and the accounting profession (in particular associations of accountants and auditors) become more

active in recent years: Whereas preparers (accounting profession) submit in total 94 (41) comment letters during 2002-2006, they submit in total 240 (171) comment letters during 2009-2013.²⁹ Third, users have started to send comment letters to EFRAG during 2009-2013 (not present in the observation period of 2002-2006). Although the group of users represents a very small group of constituents (1.5%), the user-imbalance is in line with theory (Sutton 1984; Durocher et al. 2007) and frequently observed in empirical studies (Weetman et al. 1996; Jorissen et al. 2012, 2013). All in all, the results show that EFRAG was successful to improve its visibility due to an increase of comment letter submissions from various interested parties. According to institutional theory, especially the participation of various different constituent groups is a key element of the legitimacy of a private organization. In that sense, these findings form a basis for the evaluation of the legitimacy of EFRAG.

Table 3 shows the geographical distribution of all constituent groups and of the final sample. EFRAG receives responses from 22 different countries, including also non-European countries, such as South-Africa, Indonesia, the USA as well as some European and international institutions. The final sample includes preparers from 12 European countries. The most strongly represented country is Spain with 28.6% of the preparers, followed by Germany (18.2%), France and UK (both 10.4%). The remaining eight countries are less represented (between 1.3% and 6.5%) and several European countries are not represented at all. With regard to the frequency of submissions, French preparers (25.0%) are the most active ones, followed by German (21.6%) and Spanish (15.3%) preparers. These results considerably differ from those reported in prior IASB studies since most of them report a dominance of English-speaking countries (such as UK) (e.g. Jorissen et al. 2006; Larson/Herz 2013; Kosi/Reither 2014). Moreover, the distortion in the geographical distribution indicates unequal access for various

²⁹ See Jorissen et al. (2012), Table 3.

European constituents due to different participation costs that seem to appear on the country level. Although no country is extremely overrepresented, there are likely country level factors that affect participation behavior. Thus, it is crucial to analyze whether country-specific factors are related with the participation behavior (as tested in H1 and H2).

Table 3: Sample Composition by Country

Country	All constituents				Final sample			
	Freq.		# CL		Freq.		# CL	
Austria	2	1.3%	9	1.1%	1	1.3%	3	1.7%
Belgium	6	3.9%	24	3.0%	4	5.2%	8	4.5%
Brazil	1	0.7%	2	0.2%				
Cyprus	1	0.7%	3	0.4%				
Denmark	8	5.3%	48	6.0%	5	6.5%	10	5.7%
Estonia	1	0.7%	2	0.2%				
Europe	24	15.8%	157	19.5%				
Finland	1	0.7%	1	0.1%	1	1.3%	1	0.6%
France	12	7.9%	77	9.6%	8	10.4%	44	25.0%
Germany	18	11.8%	85	10.6%	14	18.2%	38	21.6%
Indonesia	1	0.7%	1	0.1%				
International	10	6.6%	18	2.2%				
Italy	5	3.3%	45	5.6%	4	5.2%	4	2.3%
Kazakstan	1	0.7%	1	0.1%				
Netherlands	3	2.0%	49	6.1%	1	1.3%	1	0.6%
Norway	2	1.3%	30	3.7%				
Poland	1	0.7%	4	0.5%				
Portugal	2	1.3%	31	3.9%				
South Africa	1	0.7%	1	0.1%				
Spain	24	15.8%	57	7.1%	22	28.6%	27	15.3%
Sweden	6	3.9%	32	4.0%	5	6.5%	15	8.5%
Switzerland	4	2.6%	12	1.5%	4	5.2%	12	6.8%
UK	16	10.5%	113	14.1%	8	10.4%	13	7.4%
USA	2	1.3%	2	0.2%				
Total	152		804		77		176	

Notes: The table represents the sample composition by country for all constituents that participated at EFRAG during 2009-2013. This table further represents the sample composition by country for the cross-sectional sample as defined in Table 1 (final sample).

As the focus of the main analysis lies on the participation behavior of EFRAG’s preparers, I investigate, in the next step, the frequency of the use of the three different ways of participation (as outlined in H3). Table 4 depicts the three different participation ways of EFRAG’s preparers during 2009-2013. 48.1% of the preparers participate in both channels and send constantly identical comment letters. 36.4% of the preparers participate in both channels but do not constantly submit identical letters but rather deviating letters.³⁰ In terms of comment letters, Table 4 also reveals that 58.5% of the comment letters have also been sent to the IASB. These descriptive results provide some support of the theoretical predictions outlined in H3 because they indicate that preparers who send the same comment letters to both institutions (“identical participation”) have a higher participation intensity (58.5% of all comment letters) compared to preparers who submit deviating comment letters (33.5% of all comment letters) or even submit only to EFRAG (8.0% of all comment letters). Nevertheless, around 15.6% of the preparers choose only the EFRAG channel to articulate their views in the international accounting standard process. Moreover, more than the half of the corporate preparers (36.4%+15.6%=52.0%) respond at least once to the specific questions EFRAG has asked its constituents in the DCL, which highlights the perceived relevance of EFRAG as a global player within the international accounting standard-setting.

Table 4: Participation Behavior at the IASB’s and EFRAG’s Due Process

<i>Preparers participate...</i>	(1) Constituents		(2) Comment letters	
	Freq.	%	Freq.	%
<i>... at the IASB and EFRAG and send the same comment letters</i>	37	48.1%	103	58.5%
<i>...at the IASB and EFRAG and send different comment letters</i>	28	36.4%	59	33.5%
<i>...submit only to EFRAG</i>	12	15.6%	14	8.0%
	77		176	

³⁰ For clarification: if a preparer send in total 30 comment letters of which 20 are identical, I still classified this preparer to the group of preparers that participate at both channels and send different letters because she or he has not constantly send identical letters.

5.2 Descriptive and bivariate results

The descriptive statistics of the dependent and independent variables of the main empirical analysis are represented in Table 5. The average preparer sends 2.3 comment letters³¹ to EFRAG during 2009-2013. The standard deviation of the dependent variable (0.704) indicates that there is substantial variation in the participation behavior of the preparers. However, the data also reveal that NRCL is fairly left-censored, indicating that most of the preparers send less than 2.3 comment letters to EFRAG. The skewed distribution of NRCL is one reason for using the natural logarithm in the tests.

Table 5: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
NRCL	77	0.473	0.704	0	3.178
RULEOFLAW	77	0.313	0.368	-0.985	0.670
GAAPDIFF	77	0.831	0.377	0	1
IDENTPART	77	0.539	0.476	0	1
AGGEM	77	0.662	0.476	0	1
REG	77	0.675	0.471	0	1
FINANCIAL	77	0.506	0.503	0	1
ASSOCIATION	77	0.442	0.500	0	1

Notes: The table represents descriptive information for the cross-sectional sample as defined in Table 1. Variables are as defined in Appendix A.

Table 6 represents the correlations of the dependent and independent variables. Correlations that are significant at the 5 percent level or better are shown in bold. Although bivariate relations do not take the interdependency of the main construct into account, it seems worth noting that the independent variables RULEOFLAW and IDENTPART are economically and statistically significantly related to the dependent variable NRCL. These results indicate some support for the theoretical predictions outlined in H1 and H3. While the correlations between the dependent and independent variables are generally low to moderate, some of the control

³¹The value of 2.3 is not tabulated because Table 5 represents the transformed variables used for the empirical model. See the description of the variables in Appendix A.

variables, such as FINANCIAL and REG, show higher levels of correlation (but still lower than 0.647). I accommodate potential multicollinearity concerns by estimating models that include and exclude these control variables (not tabulated) and by computing the VIF scores. Since excluding or including these variables do not show differentiating results and the VIF scores of each regression model are below the critical value of 10, multicollinearity is likely not an issue.

Table 6: Correlations

	1	2	3	4	5	6	7	8
1 NRCL								
2 RULEOFLAW	0.281							
3 GAAPDIFF	0.168	0.301						
4 IDENTPART	0.264	0.167	0.037					
5 AGGEM	-0.082	0.068	0.558	-0.161				
6 REG	0.069	0.078	-0.164	-0.089	-0.261			
7 FINANCIAL	0.098	0.127	-0.029	-0.092	-0.101	0.647		
8 ASSOCIATION	0.158	0.039	0.052	0.219	-0.139	-0.165	0.093	

Notes: The table represents pairwise correlation coefficients of the cross-sectional sample as defined in Table 1. Boldfaced coefficients are significant on the 5 percent level or better. Variables are as defined in Appendix A.

5.3 Multivariate results

The estimation results of the empirical model (1) are displayed in Table 7. The results are based on the cross-sectional sample as defined in Table 1. The table reports OLS estimates and (in parentheses) t statistics based on robust standard errors that are clustered on country level. The columns (1) – (3) report the multivariate results for each variable of interest separately and column (4) presents the empirical model (1) as described in section 4.2.

Columns (1) and (4) present the relations of the estimates of the coefficients RULEOFLAW and NRCL. The coefficients of RULEOFLAW in both models are economically and statistically significant and positive, as expected. These results are in line with the

prediction of H1 because they show that preparers from countries with strong enforcement regimes participate more often in EFRAG's due process compared to preparers from countries with low enforcement mechanisms, indicating that costs of non-compliance are related to differences in country participation levels.

Columns (2) and (4) report the relations of the estimates of the coefficient of GAAPDIFF and NRCL. The coefficients of GAAPDIFF in both models are economically and statistically significant and positive, as expected. These results support the prediction of H2 that preparers from countries with substantial differences between IFRS and national GAAP participate more often in EFRAG's due process compared to preparers from countries with less substantial GAAP differences. These result support the theoretical assumption that an (expected) increase in information-production costs constitute incentives for preparers to lobby.

The columns (3) and (4) show the results of the prediction of H3: The estimates of the coefficient IDENTPART are in both models statistically significantly related to NRCL and also positive, as expected. These results are in line with the prediction of H3 that preparers who send identical letters to both IASB and EFRAG submit more often comment letters to EFRAG compared to preparers who decide to use a different way of participation (send deviating comment letters to EFRAG). Thus, preparers anticipate high benefits when participating at both due processes whereas, at the same time, have relative low participation costs when submitting the same comment letter.

Table 7: Main Empirical Results

	Predicted sign	DEP = NRCL			
		(1)	(2)	(3)	(4)
RULEOFLAW (H1)	(+)	0.525*** (3.83)			0.362*** (3.41)
GAAPDIFF (H2)	(+)		0.536*** (3.49)		0.346** (2.63)
IDENTPART (H3)	(+)			0.373** (3.13)	0.286* (2.08)
<i>Controls:</i>					
AGGEM	(-)	-0.099 (-0.55)	-0.304* (-1.88)	-0.004 (-0.02)	-0.202 (-1.45)
REG	(-)	0.068 (0.67)	0.089 (0.67)	0.094 (0.63)	0.081 (0.78)
FINANCIAL	(+)	0.019 (0.12)	0.050 (0.32)	0.098 (0.56)	0.056 (0.33)
ASSOCIATION	(+)	0.203 (1.10)	0.170 (0.91)	0.150 (0.68)	0.120 (0.57)
No. of observations		77	77	77	77
R ²		11.00%	9.15%	9.48%	16.70%

Notes: The table presents the results of the empirical model (1). Results are based on the cross-sectional sample as defined in Table 1. The table reports estimated OLS coefficients and (in parentheses) t statistics based on robust standard errors that are clustered by country. ***/**/* indicate statistical significance at the 1, 5, and 10 percent levels (two-sided), respectively. Variables are as defined in Appendix A.

Overall, caution is required because the control variables remain (almost continuously) insignificant indicating that either they are really not crucial for preparers or they have not been well identified. However, the insignificant results could also be attributed to the small sample size (N=77). Though, I acknowledge that this approach does not rule out endogeneity issues that are based on unobservable variables and, thus, use caution when interpreting these findings.

6 ROBUSTNESS CHECKS

6.1 Additional proxy for the participation intensity

To analyze the participation behavior of European preparers, I focus in the main analysis on the frequency of comment letters a preparer submitted to EFRAG during the period of interest. Although this proxy captures the participation intensity of a preparer, it does not differentiate between a preparer who wrote a one-page comment letter and a preparer who submitted a detailed and more profound comment letter to EFRAG. Therefore, I extend the analysis of a firm's participation intensity by running the models with the dependent variable LENGTH that measures the length of the responses (Giner/Arce 2012; Kosi/Reither 2014). To create the variable LENGTH, I first count the words of each of the 176 comment letters. LENGTH is the natural logarithm of the average number of words a preparer uses in its comment letter in 2009-2013. As LENGTH measures a part of the participation intensity, I assume that the predicted signs of the independent variables remain. I use the following empirical model:

$$\begin{aligned} \text{LENGTH} = & \beta_0 + \beta_1 \text{RULEOFLAW} + \beta_2 \text{GAAPDIFF} + \beta_3 \text{IDENTPART} + \sum \beta_j \text{CONTROLS}_j \\ & + \mu. \end{aligned} \tag{2}$$

Table 8 presents the estimation results of the model (2) on the dependent variable LENGTH. Descriptive and bivariate statistics are shown in Appendix B. The additional tests of H1 are reported in column (1) and (4). Surprisingly, the estimated coefficients are economically and statistically negative in all three model specifications, and not positive as expected. In that sense, preparers in countries with strong enforcement regimes send more comment letters but these comment letters are not necessarily written in a longer way, these letters are even significantly shorter than the comment letters from preparers in countries with weak enforcement systems. So, it is likely that preparers from countries with strong enforcement regimes

seem to submit more letters and therefore may know, how to express their argumentations in an efficient way whereas preparers from countries with weak enforcement structures write less comment letters and, if they do, seem to need more words to express their points of view.

In column (2) and (4), I test whether GAAPDIFF is positively associated with LENGTH. The estimated coefficients GAAPDIFF are consistently insignificant indicating that differences between national GAAP and IFRS might not be crucial for a preparer to express its views in a longer way.

In column (3) and (4) I test whether IDENTPART is positively associated with LENGTH and find some additional support for H3: The estimated coefficients are economically and statistically positively significant. These results reveal that preparers who relatively frequently send identical comment letters to IASB and EFRAG participate more often (NRCL), and express their views in a longer way (LENGTH). It is possible that these preparers seek to write their letters in a way that both institutions are able to understand, assuming that the decision to participate at both channels is taken before they have started to write their comment. Otherwise, it is also likely that these preparers firstly write their letter and decide, after they recognize how much effort went into that letter, to submit this letter to both institutions. Nevertheless, one has to be cautious with the interpretation as the results do not imply that IASB participants send longer comment letters than EFRAG participants. These results only indicate that preparers who relatively frequently submit identical comment letters to both institutions are those who likely send longer letters than preparers who submit less often identical comment letters.

Table 8: Additional Proxy for the Participation Intensity

	Predicted sign	DEP = LENGTH			
		(1)	(2)	(3)	(4)
RULEOFLAW (H1)	(+)	-0.438** (-3.56)			-0.610*** (-4.47)
GAAPDIFF (H2)	(+)		0.169 (0.57)		0.329 (1.62)
IDENTPART (H3)	(+)			0.276** (2.23)	0.341** (3.04)
<i>Controls:</i>					
AGGEM		0.104 (0.59)	-0.006 (-0.03)	0.112 (0.78)	0.017 (0.11)
REG		-0.205 (-0.57)	-0.219 (-0.60)	-0.214 (-0.57)	-0.189 (-0.50)
FINANCIAL		0.367 (1.19)	0.331 (1.15)	0.363 (1.25)	0.411 (1.25)
ASSOCIATION		0.025 (0.08)	-0.008 (-0.03)	-0.046 (-0.15)	-0.068 (-0.24)
No. of observations		77	77	77	77
R ²		5.25%	2.54%	4.11%	9.42%

Notes: The table presents the results of the empirical model (2) with the dependent variable LENGTH. LENGTH is the natural logarithm of the average number of words a preparer uses in its comment letter. Results are based on the cross-sectional sample as defined in Table 1. The table reports estimated OLS coefficients and (in parentheses) t statistics based on robust standard errors that are clustered by country. ***/**/* indicate statistical significance at the 1, 5, and 10 percent levels (two-sided), respectively. Variables are as defined in Appendix A.

These inconsistent results lead room for concerns. First of all, I acknowledge a potential bias in the validity of this construct because writing more words does not automatically imply a higher quality or more effort. Moreover, these findings are somewhat connected with a recent study from Morley (2016) who found that preparers who *strongly disagree* with the key proposals were in fact more likely to write a short letter compared to preparers whose comment letters were categorized as *disagree*. In that sense, on the one hand, for a long letter, LENGTH could measure “a more profound and more detailed comment letter.” And on the other hand, for a short letter, LENGTH could also measure “a more efficient and more clearly statement without any digressing.” Consequently, the letter’s length is an unreliable proxy for the participation intensity as used in prior studies (Ang et al. 2000; Giner/Arce 2012; Kosi/Reither 2014)

and thus, caution is used in the interpretation. To sum up, although the length of a comment letter does not directly measure the participation intensity, examining different strategies of formal participation behavior reveals nevertheless new insights.

6.2 Additional proxies for the participation at IASB and EFRAG

I test the robustness of H3 by including the variable IASBPART. In the main analysis, IDENTPART captures the relative frequency a preparer submitted the identical comment letter to IASB and EFRAG, whereas IASBPART generally captures the relative frequency a preparer participated at both institutions, no matter whether she or he sends an identical or a deviating comment letter. To create IASBPART, I code each comment letters with 1 if the letter was also submitted to the IASB, and 0 otherwise. Then, I count the frequency of the IASB submissions of each preparer and divided them through the frequency of all comment letters that this preparer has submitted to both institutions during 2009-2013. As a further robustness check, I include IASBPART_D, a binary variable getting the value of 1 if the preparer also participated in the IASB process during 2009-2013 (no matter how often), 0 otherwise. The underlying assumption is that sending an identical comment letter might not matter per se but rather the fact that a preparer has already decided to participate in either EFRAG's or IASB's due process implies that he or she is already familiarized with the new accounting proposals. Then, participation costs do not constitute a crucial cost barrier (even when submitting a deviating comment letter) whereas an increase of the expected benefits at the same time is likely. In accordance with the predictions of H3, I assume positive relations between IASBPART (and IASBPART_D) and the dependent variables NRCL and LENGTH.

Table 9: Additional Proxies for the Participation at IASB and EFRAG

DEP VAR	NRCL	LENGTH	NRCL	LENGTH
	(1)	(2)	(3)	(4)
RULEOFLAW (H1)	0.439** (2.69)	-0.697*** (-5.16)	0.332* (1.95)	-0.723*** (-5.17)
GAAPDIFF (H2)	0.374** (2.48)	0.419** (3.00)	0.400** (2.90)	0.410** (2.88)
IASBPART (H3)	-0.062 (-0.33)	0.662** (2.46)		
IASBPART_D (H3)			0.302* (2.15)	0.617** (2.32)
<i>Controls:</i>	Included	Included	Included	Included
No. of observations	77	77	77	77
R ²	13.60%	13.30%	15.70%	12.10%

Notes: Results are based on the cross-sectional sample as defined in Table 1. The table reports estimated OLS coefficients and (in parentheses) t statistics based on robust standard errors that are clustered by country. ***/**/* indicate statistical significance at the 1, 5, and 10 percent levels (two-sided), respectively. Variables are as defined in Appendix A.

Table 9, column (1) and (2) present the relations between IASBPART and NRCL (1) and LENGTH (2). Descriptive and bivariate statistics are shown in Appendix B. Although there is no relation between IASBPART and NRCL, there is a significant and positive association between IASBPART and LENGTH (2) observable. Overall, these findings add to the main results as they imply that preparers who participate in both due processes submit longer comment letters than preparers who participate less often at both due processes. The results of IASBPART_D are displayed in the columns (3) and (4), showing consistent results with the main findings. So, in general, preparers who participate (at least once) at both due processes send relatively more and longer letters than preparers who only participate at EFRAG. In that sense, preparers may generally expect high benefits when submitting to EFRAG and IASB, irrespective of writing identical or deviating letters. Taken together, IDENTPART, IASBPART, and IASBPART_D are all consistently (positively) related to LENGTH which implies that preparers who participate in both due processes (no matter which way) submit

longer letters than preparers who only submit to EFRAG. The other coefficients of interest RULEOFLAW and GAAPDIFF remain significant and are consistent with the previous findings, indicating robustness of the previous findings.

7 DISCUSSION AND CONCLUSION

This study examines the formal participation behavior of European constituents at EFRAG's due process. Using a European sample of all constituents that have participated in EFRAG's due process during the period of 2009-2013, I document the following: First, compared to prior literature, the submissions of EFRAG's constitution have been increased from 293 in the first five years after EFRAG's formation (2002-2006) up to 804 comment letters (during 2009-2013). The increase of comment letter submissions can be attributed to a higher participation intensity by preparers, accounting profession and (to a lesser extent) by users. The data indicate that EFRAG was successful in improving its visibility as a global accounting body. Second, I document a distortion in the geographical distribution which indicates unequal access for various European preparers due to different participation costs that seem to appear on the country level. Thus, there are likely country level factors that affect participation behavior that need to be more deeply analyzed. Therefore, third, I provide evidence that preparers from countries with strong enforcement regimes participate more actively in EFRAG's due process compared to preparers from countries with low enforcement mechanisms, indicating that costs of non-compliance are related to differences in country participation levels. These letters from those preparers are not necessarily written in a longer way, these letters are even significantly shorter than the comment letters from preparers in countries with weak enforcement systems. These results remain robust to different proxies and model specifications. Fourth, I could show that preparers from countries with substantial GAAP differences submit more comment letters than preparers from countries with minor differences between national GAAP and IFRS. This

supports the theoretical assumption an (expected) increase in information-production costs constitute incentives for preparers to lobby. Fifth and finally, I provide evidence that preparers who submit the same (identical) comment letters to both IASB and EFRAG submit more often and longer letters compared to preparers who send deviating comment letters to EFRAG. Thus, preparers anticipate high benefits when participating at both due processes whereas, at the same time, having relative low participation costs when submitting the same comment letter. Additional tests also reveal that preparers who participate in both due processes (no matter whether they send identical or deviating letters and also no matter how often) write longer comment letters than preparers who only participate in EFRAG's due process.

Overall, one has to be cautious with the inferences made because this study is subject to various limitations: First, as has been already discussed in the paper, there is concern about endogeneity issues due to omitted variables. One concern refers to individual factors that might matter for the lobbying behavior of a preparer, and in that sense, might be correlated with IDENTPART. For example, Sutton (1984) argues that larger firms have more economic incentives to participate in the standard-setting process because they have more resources (of both human and financial capital) and therefore less relative costs of participation. Thus, for large firms, it is more likely that the (expected) benefits might outweigh the (expected) costs of participation rather than for smaller firms. For example, large companies are more likely to have staff experts who can interpret the proposed standard and make a technical judgement or/and have more financial resources to defray the costs of public relations initiatives (Elbannan/McKinley 2006). The so called "*size-hypothesis*" could be widely confirmed in the empirical literature (Francis 1987; Sutton 1984; Larson 1997; Georgiou 2005; Jorissen et al. 2012). Besides firm size, other firm characteristics such as debt ratio and profitability are also used in the extant empirical literature, however, these variables have not been consistently significant in these studies (Georgiou 2002; Elbannan/McKinley 2006; Jorissen et al. 2012). Since

the final sample consists of 49 corporate preparers and 50 preparers' trade associations, including firm characteristics would shrink the sample down to 49 observations. Besides the data problem due to a small sample size, from the remaining 45 corporate preparers, 39 are listed firms that are all very big and well known firms. Therefore, I assume that there is no big variation within the data and thus, not controlling for firm characteristics is likely not a big issue. However, I acknowledge that an extension of this study could control more clearly for these characteristics but, at the same time, might have to deal with data problems due to a small sample size.

Second, despite common firm characteristics, other factors such as the content of a specific accounting proposal might also shape the preparer's participation intensity: Some special IASB projects involve higher benefits or disadvantages for preparers than other projects. Jorissen et al. (2013) mitigate this potential problem by subdividing the sample into projects with similar attributes. Nevertheless, also due to data limitations, I cannot follow this method as the empirical analyses would suffer from statistical validity problems. However, it is worth to mention that the empirical model of this study does not claim to be a determinants model but rather an association model. As the content is likely not correlated with one of my right hand side variables, it is unlikely that this model suffers from unobservable biases.

Third, there is concern with the construct validity of the variable GAAPDIFF that is used for the tests of hypothesis 2. The related literature generally suffers from indices that measures *current* differences between IFRS and national GAAP. National convergence projects have been implemented in recent years in several European countries and thus, historical differences between national GAAP and IFRS—that are captured by these scores—are likely to be outdated. Moreover, whereas GAAP differences might play a role in the earlier years after mandatory IFRS adoption, preparers are meanwhile familiar with the application of IFRS. In that

sense, differences between national GAAP and IFRS may not generally be perceived as detrimental because most of the firms apply IFRS for many years and thus, changes in IFRS could also be perceived as beneficial compared to the previous IFRS rules, no matter whether these changes considerably differ from national GAAP or not. In other words, preparers likely compare the IASB proposals with previous IFRS rules and consequently, differences between national GAAP and IFRS proposals won't lead automatically to changes in the participation behavior of preparers. However, GAAPDIFF is still consistently significantly related to NRCL, and thus, these results indicate that differences between national GAAP and IFRS likely matter, but the construct used likely suffers from validity. To address these issues, better (less outdated) indices are needed which are currently non-existent. It would be fruitful to rerun the regression models with new indices in order to understand whether (current) differences between national GAAP and IFRS really constitute incentives to lobbying.

Fourth, the research design does not capture the incentives of firms which engage in lobbying via their trade associations rather than lobbying EFRAG directly. In that sense, there is an unknown number of unobservable corporate preparers that have incentives to lobby who cannot be captured when just observing the participation behavior at EFRAG's due process. However, the aim of this paper is to look deeper into the participation behavior of EFRAG's preparers and not into the lobbying behavior of all European preparers who could use several other ways to participate at the international accounting debate. I lead this issue to further research.

Fifth, I acknowledge that the test sample is not equally representative for the underlying population of all European firms and thus the inferences made are based on small and potentially biased samples. Firms that choose to lobby are a relatively small subset of firms that will be affected by the rules, so it is unclear how representative their submissions are likely be.

Although this is a common issue in all lobbying studies, caution is used when interpreting the results of this study. Similarly, an important methodological issue of such a participation study is that the sample is restricted to firms that lobby as part of the comment letter process, which is clearly subject to selection effects because the decision to participate in EFRAG's due process is already taken before data collection. However, this paper only seeks to better understand the participation behavior of EFRAG's preparers and not the determinants of the firm's *decision* to submit a comment letter to EFRAG or not. In that sense, at first, it would be interesting to analyze the determinants of the decision to participate at EFRAG. And in a second step, it would be worth to study whether significantly different determinants of the participation decision between EFRAG and IASB participants exist.

This study has the following implications. First, whereas the bulk of literature examines the participation behavior of constituents toward the IASC or IASB, despite a few empirical papers, not much is known about EFRAG's decision making process. Since EFRAG's voice is quite influential in the IASB's decision making, this paper analyzes the nature of European constituents' participation in EFRAG's due process and the drivers of their participation behavior which has achieved little attention to date. The findings of this paper give new insights into the indirect lobbying behavior at the IASB. In this regard, this paper responds to the recent calls in literature to shed more light in EFRAG's role and thus, to understand the whole IASB's decision making process (Camfferman/Zeff 2017; Barth 2000; Cooper/Robson 2006; Luthardt/Zimmermann 2009). The findings of this paper document who participates and why do some Europeans submit more frequently than others in EFRAG's decision making. This might be helpful to better understand who is sitting behind this influential key player of the IASB. Thus, this paper seeks to complement work on the politics of the international accounting standard-setting.

Second, this paper has also policy implications: This study is one of the first attempts to better understand the participation behavior at EFRAG's due process. I could show that EFRAG was successful in the recent years to increase its submission rate, indicating that EFRAG's perceived role in the international accounting debate has been increased. The findings of the paper further reveal that there might be heterogeneous participation costs that appear on the country level which may lead to different lobbying incentives for various European preparers. Given the fact that EFRAG's aim is to represent European interests in the IASB's decision making (EC/EFRAG 2006; EFRAG 2016), these results should especially be crucial for EFRAG and also for EFRAG's constitution. If EFRAG knows which constituents have incentives to communicate with EFRAG, it could give more attention to these constituents who may have higher entry barriers into EFRAG's due process. And if EFRAG's constituents know that they are likely to be less represented than others (e.g. users), they should use these findings to scrutinize its participation behavior. According to institutional theory, transparent standard-setting with the participation of various different constituent groups is a key element of the legitimacy of a private organization. Although it is likely that EFRAG consults also views from various different constituents in less formal events, the findings of this paper may be still an important basis for the evaluation of EFRAG's legitimacy.

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APPENDIX A

Description of Variables

<i>Panel A: Variables of the main analyses</i>		
<i>Dependent variable</i>		
NRCL	The natural logarithm of the number of comment letters a preparer submitted to EFRAG during the period 2009-2013.	
<i>Variables of interest</i>		Pred. sign
RULEOFLAW	The natural logarithm of the average rule of law variable for the years 2009-2013 from Kaufmann et al. 2010. Higher values represent countries with higher quality of enforcement.	(+)
GAAPDIFF	Indicator variable used to partition the sample of the residuals from a first-stage regression of the raw values of the Bae et al. (2008) index on RULEOFLAW. The Bae et al. (2008) index is a score of how domestic GAAP differ from IAS on 21 key accounting dimensions. Higher scores represent more discrepancies between local GAAP and IFRS.	(+)
IDENTPART	Relative frequency over the period 2009-2013 a preparer submitted the identical comment letter to both IASB and EFRAG.	(+)
<i>Control variables</i>		
AGGEM	Binary variable used to partition the sample (by the mean) of the residuals from the regression of the raw values of the aggregate earnings management score from Leuz et al. (2003) on RULEOFLAW. The Leuz et al. (2003) measure is a proxy for the strength of firms' reporting incentives in a country. Higher scores represent countries with stronger engagement in earnings management.	
REG	Dummy variable getting the value 1 if the preparer is operating in a more regulated industry; 0=otherwise. The classification of more versus less regulated industries is based on Kaznik/Lev (1995).	
FINANCIAL	Dummy variable getting the value 1 if the preparer is operating in the financial industry; 0=otherwise.	
ASSOCIATION	Dummy variable getting the value 1 if the preparer belongs to an association; 0=otherwise.	
<i>Panel B: Proxies of the robustness checks</i>		
<i>Dependent variable</i>		

LENGTH The natural logarithm of the average number of words a preparer uses in its comment letter to EFRAG. The average is measured by counting the number of words of all comment letters a firm submitted to EFRAG during 2009-2013 divided by the frequency of comment letter submissions.

Other variables of interest

IASBPART	Relative frequency a preparer participated at both institutions, no matter whether she or he send an identical or a deviating comment letter.	(+)
IASBPART_D	Binary variable getting the value of 1 if the preparer also participated in the IASB process during 2009-2013 (no matter how often), 0=otherwise.	(+)

APPENDIX B

Descriptive Statistics and Correlations of the Additional Variables

<i>Panel A: Descriptive Statistics</i>						
Variables	Obs	Mean	Std. Dev.	Min	Max	
LENGTH	77	7.858	0.914	5.541	9.538	
IASB_PART	77	0.783	0.379	0	1	
IASB_PART_D	77	0.844	0.365	0	1	

Panel B: Correlations

	1	2	3	4	5	6	7	8	9	10
1 NRCL										
2 LENGTH	0.087									
3 RULEOFLAW	0.281	-0.155								
4 GAAPDIFF	0.168	0.081	0.301							
5 IASBPART	0.061	0.199	0.217	-0.075						
6 IASBPART_D	0.235	0.167	0.288	-0.003	0.894					
7 AGGEM	-0.082	0.047	0.068	0.558	-0.180	-0.080				
8 REG	0.069	-0.005	0.078	-0.164	0.128	0.084	-0.261			
9 FINANCIAL	0.098	0.107	0.127	-0.029	0.107	0.077	-0.101	0.647		
10 ASSOCIATION	0.158	0.035	0.039	0.052	0.145	0.094	-0.139	-0.165	0.093	

Notes: Panel A represents descriptive information for the cross-sectional sample as defined in Table 1. Panel B shows pairwise correlation coefficients of the cross-sectional sample as defined in Table 1. Boldfaced coefficients are significant on the 5 percent level or better. Variables are as defined in Appendix A.

APPENDIX C

List of Abbreviations

CEA	–	Comité des Entreprises d'Assurance (French: Committee of Insurance Companies)
DCL	–	Draft Comment Letter
DEA	–	Draft Endorsement Advice
DP	–	Discussion Paper
EACB	–	European Association of Co-operative Banks
EBF	–	European Banking Federation
EC	–	European Commission
ED	–	Exposure Draft
EFAA	–	European Federation of Accountants and Auditors for SMEs
EFFAS	–	European Federation of Financial Analysts Societies
EFRAG	–	European Financial Reporting Advisory Group
EP	–	European Parliament
ESBG	–	European Savings Banks Group
EU	–	European Union
FCL	–	Final Comment Letter
FEE	–	Fédération des Experts Comptables Européens
FESE	–	Federation of European Securities Exchanges
GAAP	–	General Accepted Accounting Principles
IAS	–	International Accounting Standards
IASB	–	International Account Standards Board
IASC	–	International Accounting Standards Committee
IFRS	–	International Financial Reporting Standards
PAT	–	Principal Agent Theory
UEAPME	–	Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises (French: European Association of Craft, Small and Medium-Sized Enterprises)

III Participation at IASB, at EFRAG, or Both? – Lobbying

Choices of European Constituents

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Abstract:

This paper analyzes the use of different lobbying choices of European constituents who seek to influence the International Accounting Standards Board (IASB). Especially European constituents can choose to participate in the IASB's due process, in the European Financial Reporting Advisory Group's (EFRAG's) due process or they can decide to lobby both. The present paper examines who of the European constituents take which lobbying choice and unveils the underlying reasons for their choices. To answer these research questions, I use quantitative data (by collecting comment letters submitted to EFRAG and IASB) and qualitative data (by including interview data from experts from both institutions). The findings of this paper reveal that time issues, English skills, the size of the constituent, and the country of origin are factors that can explain why the majority participates only in the IASB's due process. Although the minority lobbies only EFRAG, EFRAG's role is perceived as more important than in earlier years because more constituents decide to submit letters to both IASB and EFRAG.

KEYWORDS: EFRAG, IASB, lobbying, standard-setting

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1 INTRODUCTION

This paper analyzes the use of different lobbying choices of European constituents who seek to influence the International Accounting Standards Board (IASB). Especially, European constituents can choose between different channels to articulate their views on the IASB's proposals: They can participate in the IASB's due process or in the European Financial Reporting Advisory Group's (EFRAG's) due process or they can decide to participate in both processes. As EFRAG seeks "the objective of Europe speaking with one voice" and to ensure that this voice is properly taken into account at the IASB (EFRAG 2016, 18), it carries out a consultation process that is similar to the IASB's due process. In that sense, European constituents are officially asked twice, namely to submit comment letters to IASB and to EFRAG. The aim of this paper is to examine who of the European constituents use which lobbying channel(s) and to unveil the underlying reasons for their choices.

There exists a well-established body of literature that draws attention to the political character of standard-setting. A bulk of empirical papers examine participation behavior toward the predecessor of the IASB, the International Accounting Standards Committee (IASC) (Kenny/Larson 1993, 1995; Kwok/Sharp 2005; Larson 1997, 2008) and a growing body of research examines the constituents' participation during the IASB's due process (Jorissen et al. 2006, 2012, 2013; Cortese/Irvine 2010; Chatham et al. 2010; Georgiou 2010; Hansen 2011; Giner/Arce 2012; Larson/Kenny 2011; Larson/Herz 2013; Larson/Myring 2013; Kosi/Reither 2014; Morley 2016a). These analyses document the geographic origins and/or composition of constituents writing comment letters to the IASC/IASB. The study provided by Jorissen et al. (2012) addresses the participation choices of European constituents in some way. They examine comment letter submissions to IASB and EFRAG during 2002-2006 and document that the majority of letters (74%) have been only sent to IASB, 22% of the letters have been submitted

to both institutions and only 4% have been only addressed to EFRAG. This paper adds to prior work on the participation behavior toward IASB and EFRAG as follows: Jorissen et al. (2012) observe the period 2002-2006 which covers the first years after the formation of EFRAG and also the time before the financial crisis, at a time when EFRAG's role in the international accounting debate was not yet perceived by constituents as it might be today. For example, whereas the authors observe in their five years period 293 submissions to EFRAG, Weiß (2018) observes 804 submissions to EFRAG, also over a five years period (2009-2013). Furthermore, Weiß/Gronewold (2018) provide qualitative evidence that EFRAG's power on IASB remarkably increased in recent years. Following these empirical observations, it seems likely that more constituents are aware of EFRAG and thus got more often engaged in EFRAG's consultation process in recent years than in earlier observations. Therefore, it is fruitful to analyze how often each of the lobbying options has been recently chosen and by whom. It is important to note that the aim of this paper does not seek to reinvestigate the Jorissen et al. (2012) study by observing a more recent time period, but rather to look deeper into the use of the three lobbying options. Moreover, after answering the question who uses which lobbying channel(s), the aim of this study is to go a step further by investigating possible reasons why some Europeans use only the IASB, others only the EFRAG, and yet others choose to lobby both institutions. Thus, this paper is the first that examines *who* and *why* European constituents use different ways to lobby the IASB's outcome.

Besides the empirical evidence from prior work, recent political occurrences indicate that EFRAG's role is nowadays seen as more influential than in the early years: Some authors highlight the political lobbying during the financial crisis European politicians put pressure on the IASB to change the standard for financial instruments and even to abandon the International Financial Reporting Standards (IFRS) if some standards were not amended (André et al. 2009; Bengtsson 2011; Zeff 2012). This anecdote is often seen as an example that EU was able to

strengthen its position in the international accounting standard-setting in the academic literature but not in political world: As a consequence of the financial crisis, European Union (EU) political decision-makers realized that the EU's role needed to be reinforced in order to enhance the EU's contribution to IFRS (EC 2013). Therefore, the EU Commissioner Michael Barnier appointed Philippe Maystadt to review EFRAG's governance, resulting in the Maystadt Report which is effective since 31 October 2014 (EC 2013; Maystadt 2013). Maystadt (2013) especially claims that EFRAG's governance has to be restructured in order to strengthen EFRAG's voice in the IASB's due process. Whether the Maystadt Report's recommendations are really suitable to achieve the objective of a stronger European voice in the IASB's due process is still an open question, these incidents, however, show that an increase in EFRAG's visibility is also desired by regulators. Therefore, it just appears to be a matter of time that constituents get more aware of EFRAG's influential role and thus more engaged in EFRAG's due process (than in prior years).

As the aim of this paper is to answer two slightly different questions, I follow a mixed approach of using both quantitative and qualitative research methods. Therefore, first, I analyze comment letters that have been submitted to EFRAG and IASB in response to the same projects during 2009-2013. Then, in a second step, I include qualitative data from 13 interviews that have been conducted with IASB and EFRAG members. The analysis of comment letters helps to understand who of the European constituents choose which lobbying channel(s) to influence the IASB's outcome whereas the interview data reveal the underlying reasons for their choices. Besides the contribution to the literature, this study responds to a recent call in the literature by making a *methodological* contribution regarding the complementarity of qualitative and quantitative methods in accounting research (Morley 2016b).

This study reveals that the majority of European constituents still submit only to IASB and that the frequency of letters that has been only submitted to EFRAG is still negligible. Interview evidence unveils factors such as time issues, English skills, the size of the constituent, and the country of origin which can explain their lobbying choices. As expected, the quantitative analysis further reveals that more constituents use both channels than in earlier years and that these constituents submit significantly more letters than those who use only one channel. Interviewees state that those constituents (who use both channels) are very well prepared and informed. Their decisions to approach also EFRAG seem to depend on whether they perceive that EFRAG's voice is important for the IASB or/and whether they expect that they won't have success in convincing the IASB directly. Thus, I conclude that 'professional lobbyists' are among those who use both channels. Taken together, by following a different methodological approach, the results of this paper further support the conclusions of prior literature that EFRAG's role is nowadays perceived as more important because more and more constituents decide to submit comment letters to both IASB and EFRAG than in earlier years.

This paper contributes to the existing literature in two ways: First, it relates to the use of quantitative and qualitative research methods to detect not only the use of different lobbying choices but also to unveil reasons for this observation. Previous literature already claims that the political character of standard-setting cannot completely be captured by analyzing comment letter submissions (Sutton 1984; Erb/Pelger 2015; Pelger/Spieß 2017). Therefore, this paper responds to a call in the literature by showing the complementarities between quantitative and qualitative research methods for the analysis of formal lobbying behavior (Morley 2016b). Second, it helps to better understand the specifics of European constituents who have different lobbying choices to participate in the IASB's due process (Jorissen et al. 2012). Moreover, the findings of this paper have potential implications on the present debate of the effectiveness of both institutions from a European perspective (Maystadt 2013). The European Commission

(EC) (with the support of the European Parliament (EP)) currently funds EFRAG (with 43% of its budget) and the IASB Foundation (with around 17% of its budget) (EC 2014). It is common knowledge that the EC observes the IASB's standard-setting as well as EFRAG's due process because it has a keen interest that the EU's interests are properly taken into account in both processes. In this regard, the findings of this paper help to increase the knowledge and understanding of the lobbying behavior of European constituents, which is crucial for the Boards, constituents and regulators (e.g. in identifying key aspects that need to be improved in order to increase the perceived transparency and legitimacy of both institutions).

This study is subject to certain limitations which are addressed further throughout the paper. Apart from those, one concern relates to the persons who have been interviewed for this project. I decided to interview members of EFRAG and IASB rather than the constituents themselves although this study seeks to reveal reasons for the lobbying choices of constituents. I am aware that interviewing constituents could unveil some other reasons for their lobbying choices, however, concerns of data saturation would remain because the underlying population of constituents is remarkably higher than those of the experts who are involved in either one of the two processes. However, as the interviewees' daily business is to communicate with all groups of constituents and representatives of all European countries, I assume that the interview partners are able to reveal all relevant factors which are representative for the underlying population.

The paper proceeds as follows. Section 2 provides the institutional background and the conceptual underpinnings including the related literature. Section 3 describes the research methods used in this study. Section 4 presents the quantitative and qualitative results. The paper concludes with a summary and a discussion of the results in section 5.

2 INSTITUTIONAL BACKGROUND AND CONCEPTUAL UNDERPINNINGS

2.1 Institutional background

EFRAG was set up in 2001 by European private organizations representing preparers, users, and the accounting profession.³² Five years later, EFRAG and the EC signed up a working arrangement in which the two main roles of EFRAG are formalized (EC/EFRAG 2006): EFRAG's first role is to participate actively in the IASB's due process in order to articulate the European views in a very early phase in international accounting standard-setting. To serve "the objective of Europe speaking with one voice," EFRAG itself carries out a public consultation process (also called due process) (EFRAG 2016, 18). In doing so, after the IASB has published an Exposure Draft (ED) (or Discussion Paper (DP), respectively), the technical group of EFRAG, EFRAG Technical Advisory Group (EFRAG TEG), publishes a draft comment letter (DCL) and asks European constituents to articulate their views on the proposals expressed. This DCL is published soon after the IASB has disclosed the ED/DP and thus it is one of the first official positions on a particular IASB's proposal.³³ After considering all input received through EFRAG's due process, EFRAG TEG strives to coordinate the different views and develops a final comment letter (FCL) and (under the oversight of the EFRAG Board) submits it to the IASB. Enevoldsen/Oversberg (2008) note that EFRAG's due process should not be a mere duplication of the IASB's due process because EFRAG TEG members are appointed to act in the European interests. At the time the IASB publishes a new standard, EFRAG's second role is to provide advice to the EC on all issues relating to the application of that specific IFRS (EC/EFRAG 2006). For adoption in the EU, EFRAG TEG has to judge whether the standard fulfills the criteria the IAS Regulation 1606/2002 stipulates and provides

³² The so called "founding fathers" of EFRAG are BusinessEurope, EACB, ESBG, EBF, CEA, UEAPME, EFAA, EFFAS, FESE and FEE (see Appendix B for a list of abbreviations).

³³ EFRAG pursues to publish its DCL two weeks after the IASB has disclosed its proposal (Weiß/Gronewold 2018).

EFRAG Board with its recommendation concerning the adoption of this standard. This endorsement advice is also an outcome of a due process, giving constituents the opportunity to comment on EFRAG's so called draft endorsement advice (DEA).

Accordingly, European constituents have the possibility to participate in the international accounting debate in different ways and during different stages: First, in a very early stage by submitting a comment letter directly to the IASB. Second, they can participate indirectly in the IASB's due process via EFRAG. Third, as both due processes take place at the same time, they can submit letters to both institutions. Fourth and finally, they can participate in the later stage during the European endorsement process by commenting on EFRAG's DEA. For the following analysis, I focus on the first stage, before the IASB's publishes a new standard, namely when European constituents have the choice how to lobby the IASB's outcome: to participate only at the IASB, only at EFRAG or to participate at both institutions. This setting allows me to analyze lobbying choices that take place at the same time for the same projects.

2.2 Conceptual underpinnings

Previous research examining constituents' motives to lobby the IASB (or other standard setters) mainly focus on the theoretical frameworks of Watts/Zimmerman (1978, 1979, and 1986) and Sutton (1984) which are based on rational cost-benefit considerations.³⁴ Whereas Watts/Zimmerman predict corporate lobbying behavior as a function of firm-specific factors, Sutton's rational-choice model considers all constituent parties. According to Sutton, constituents only submit a comment letter if the expected benefits exceed the costs of lobbying (Sutton 1984). In this context, benefits constitute the probability that such a participation will change

³⁴ Lobbying the IASB/EFRAG is defined as a "purposeful intervention in the standard-setting process by an economic entity with the goal of affecting the outcome of that process to increase that entity's economic value or wealth or achieve other self-interested purpose inconsistent with the [IASB's/EFRAG's] mission" (Gipper et al. 2013, 4).

the outcome of the IASB's due process and participation costs represent the resources to prepare a comment letter. Sutton (1984) does not only make predictions *when* constituents are likely to lobby but also *which* lobbying methods they are likely to use. These can be classified as *direct*, where the constituent influences (here) IASB directly, or *indirect*, where the constituent lobbies IASB via a third party, for instance EFRAG. According to Sutton, the lobbyist chooses the lobbying method "which offers him the most influence" (Sutton 1984, 89). Clearly, this could also mean that constituents use several (all) available channels if they expect that they can optimize the probability that their lobbying would change the IASB's outcome.

Besides the economic cost-benefit considerations, some studies also focused on sociological theoretical frameworks. Given the social nature of IASB's and EFRAG's due processes, which involves interactions between many parties, sociological theories also deliver fruitful insights when studying the lobbying behavior of accounting standard-setting (Elbannan/McKinley 2006; Durocher/Fortin 2011). For example, Durocher/Fortin (2011) firstly adopt the expectancy theory (developed originally by Vroom 1964) for examining constituents' decisions to participate in the Canadian standard-setting. This theoretical framework includes not only cost-benefit considerations but also the constituents' perceptions of their abilities to influence (here) the IASB's outcome. Perceived 'abilities to influence' refer to being able to participate adequately in the standard-setting process, given the understanding of the process or the issue, the time and resources available (Durocher et al. 2007; Durocher/Fortin 2011). In that sense, the consideration of the individual abilities deliver alternative explanations for the lobbying behavior that may contradict the purely economic assumptions. Nevertheless, Georgiou (2002) already claims that the existent theoretical framework hardly provides us with a full understanding of this political process, however, it can contribute to a better understanding of those private sector regulatory mechanisms. Gipper et al. (2013) also claim that our theories of lobbying are not well-developed which makes it hard to develop more specific predictions.

Therefore, the application of the two theoretical models and the consideration of the empirical evidence provide the foundation of the following conceptual assumptions.

Concerning the first lobbying choice (participation only at the IASB), it is likely that several European constituents expect high benefits when lobbying the IASB directly as they may perceive that lobbying the final product is more crucial than lobbying an intermediate product such as EFRAG's FCL. Besides, it is likely that several European constituents are not aware of EFRAG's role at the IASB and therefore lobby only the IASB. Even when European constituents are aware of EFRAG's potential influential role at the IASB, they may not anticipate benefits from lobbying indirectly. Another theoretical reason might be time because the IASB's due process takes longer than the EFRAG's due process. Some constituents might not be able to meet EFRAG's deadline. Expectancy theory further considers the individual abilities to establish a good (direct) relationship to the IASB. It is reasonable that those constituents do not see any needs to increase their lobbying success because they may perceive that their views are in good hands at the IASB. Finally, prior literature documents that the bulk of letters (74%) have been submitted only to the IASB (Jorissen et al. 2012). Accordingly, it is likely that a large proportion of constituents prefer to lobby only the IASB.

Regarding the second option, the costs of lobbying only EFRAG should be equal to the first lobbying option, the assessment of the benefits, however, is more challenging or even impossible. This is due to the fact that even when constituents could change EFRAG's view, it does not automatically imply that their views will also be considered in the IASB's final product. Furthermore, constituents are likely to skip EFRAG due to time issues. In that sense, there is no rational reason to use only the EFRAG channel because a constituent would not increase its participation costs when submitting the same letter to the IASB while an increase in its (expected) benefits at the same time is likely. Prior literature reveals different findings:

Whereas Giner/Arce (2012) conclude that EFRAG can be seen by European constituents as a counterbalance to the IASB, Jorissen et al. (2012) could not confirm these findings because they document that only 4% of the letters have been only sent to EFRAG. However, it is worth noting that the authors examine the participation behavior during the period 2002-2006 which covers the first years after the formation of EFRAG (and also the time before the financial crisis), at a time when EFRAG's role in the international accounting debate was not yet perceived by constituents as it might be today. For example, whereas Jorissen et al. (2012) observe in their five years period 293 submissions to EFRAG, Weiß (2018) observes 804 submissions to EFRAG, also over a five years period (2009-2013) and concludes that EFRAG's visibility in the international accounting debate has been increased in recent years. Another study provides qualitative evidence that EFRAG's voice appears to be a quite influential voice at the IASB (Weiß/Gronewold 2018). Therefore, it is likely that more constituents are aware of EFRAG and that EFRAG's channel is more frequently used in recent years by constituents than in the observation period of Jorissen et al. (2012). Especially, those constituents who assume to have higher benefits (better chances of success) when articulating their views to the 'small' EFRAG rather than to the 'big' IASB, lobbying only toward EFRAG may be crucial for specific European constituents. Burlaud/Colasse (2011, 30) already explain that several constituents skip the IASB as they lack on "considerable resources in technical competence and time since the standards are complex and for many, there is a language barrier." It is therefore likely that those constituents who have less technical competence and a lack of English skills approach EFRAG (or EFRAG's representatives) to communicate their views, potentially also in a more informal way. Nevertheless, I assume that still a minority of constituents only use EFRAG to communicate their views.

Following these rational considerations, the third option (the use of both channels) to influence the IASB's outcome initially seems to be the most likely option. When European

constituents submit the same letters to both institutions, they have the highest (expected) benefits as the likelihood of being heard by one of the institutions increases whereas, at the same time, they have relative low (expected) participation costs when sending two identical letters.³⁵ However, expectancy theory considers time issues which let assume that not all of the constituents will (can) lobby both institutions. Prior literature could document that at least 22% of the comment letters have been sent to both institutions (Jorissen et al. 2012). According to the mentioned studies that show the influential role of EFRAG in the IASB's due process, it is likely that European constituents have incentives not only to lobby IASB but also to shape EFRAG's voice. Therefore, I assume that nowadays even more constituents use both channels than in earlier years.

3 RESEARCH METHODS

3.1 Quantitative approach

To examine who of the European constituents choose which option, for the first set of analyses, I focus on the formal method by submitting comment letters to the IASB and EFRAG. I acknowledge that there is concern due to the observation of only one lobbying method as there are different lobbying methods a constituent can use to influence the standard setter. Sutton (1984) already notes that the difficulty researcher face in the area of lobbying research is the unobservability of the overall lobbying activity. Walker/Robinson (1993) point out that constituents who use comment letters may be those who have comparatively little access to other lobbying methods (those that are less open and happen behind the scenes). However,

³⁵ Some studies also consider *how* European constituents participate in both channels, namely whether they send identical or deviating letters (Jorissen et al. 2012; Weiß 2018). This is done by answering the specific questions EFRAG asked its constituents in the DCL, which differ from or rather exceed those the IASB asked in its ED. I acknowledge that the (expected) benefits for a constituent are likely to be higher when answering EFRAG questions because a direct response to the questions might help EFRAG staff (who reviews all submitted comment letters) to better understand their points of view. Moreover, a precise answer might be perceived as more conscientious and thorough and thus might be taken more seriously than a copy would be. However, it does not belong to the scope of this paper to examine how European constituents write their letters but rather *which* channels do they use and *what* the reasons for their choices might be.

since Georgiou (2004) documents that the use of comment letters is strongly associated with the use of other lobbying methods, comment letters appear to be a good proxy for the use of other, less overt, lobbying methods in prior literature (e.g. Jorissen et al. 2006, 2012, 2013; Larson 2007; Chatham et al. 2010; Georgiou 2010; Larson/Herz 2011; Hansen 2011; Giner/Arce 2012; Larson/Herz 2013; Larson/Myring 2013; Kosi/Reither 2014; Mora/Molina 2014). I follow this stream of research and assume that lobbying behavior results in the submission of comment letters.

Therefore, I manually collected all comment letters submitted to EFRAG and the IASB in response to the ten most comprehensive projects during 2009-2013. In order to decide which project is comprehensive, I selected those ten projects with the highest submission rate at EFRAG. I decided to use this identification strategy that ensures me to obtain a proper sample of EFRAG participants because EFRAG generally receives fewer comment letters than the IASB. I acknowledge that this way of data selection is subject to selection effects as it is unclear how representative EFRAG's submissions (and also the IASB's submissions) are when selecting different (or all) projects. Consequently, the inferences made are clearly limited to the selected projects. However, also the IASB receives the greatest number of submissions as responses to these same ten projects which indicates that the selected projects belong to the most comprehensive IFRS projects and have the highest relevance for the whole IFRS community.³⁶ Thus, it appears highly unlikely that the findings would be different when adding more projects to the sample.

³⁶ The ten projects are: IFRS 9 Financial Instruments: Classification and Measurement, IFRS 9 Financial Instruments: Amortised Costs and Impairment, Insurance Contracts (phase II), Leases, IFRS 9 Financial Instruments: Hedge Accounting (general), A Revision of ED/2010/6 Revenue Recognition from Contracts with Customers, Classification and Measurement: Limited Amendments to IFRS 9, Financial Instruments: Expected Credit Losses, Leases (revised), Insurance Contracts (revised).

As responses to these ten projects, the IASB received in total 3288 comment letters from 1597 constituents and EFRAG received 247 comment letters from 106 constituents. As I am only interested in the lobbying choices of European constituents, I dropped all constituents from non-European countries as well as those that could not directly be linked to a specific country (such as European associations or other international organizations). Thus, the total number of observations consists of 464 constituents (386 of them participated at the IASB and 78 at EFRAG) who sent 1146 (962 to IASB and 184 to EFRAG) comment letters. Table 1 gives an overview of the selection procedure.

Table 1: Selection Procedure

Constituents (Const.)	IASB		EFRAG		Total	
	Const.	CL	Const.	CL	Const.	CL
Participating constituents of the ten investigated projects between 2009-2013	1597	3288	106	247	1703	3535
# Non-European constituents	1121	1989	1	1	1122	1990
# European organizations	38	134	17	50	55	184
# International organizations	52	203	10	12	62	215
Total number of observations	386	962	78	184	464	1146

Note: Here and for the following: “Const.” represents the number of constituents that have been participated and “CL” represents the number of comment letter that have been submitted.

In a next step, I classified each of the 1146 letters according to the professional background of every constituent into the following parties: preparers (corporate preparers and preparers' trade associations), accounting profession (associations of accountants and auditors and audit firms), users, national standard setters, stock exchanges, academics, and other interested parties. This classification system is consistent with prior research (Francis 1987; Tandy/Wilburn 1992) and in line with paragraph 19 of the preface to IFRS (IASB 2010). With regard to the geographical classification, I classified each comment letter in accordance with the sender's country of origin.

To obtain one dataset, I matched, in a last step, the dataset of the IASB channel with the dataset of EFRAG channel. Since 60 constituents participated at both channels, the observations shrink from 464 to 404 constituents. Thus, the final sample consists of 326 constituents who participate only at the IASB, 18 constituents who submit only to EFRAG and 60 constituents who use both channels.

3.2 Qualitative approach

As this study seeks to explore not only who uses which channel(s) but also what the underlying reasons for their choice might be, this study supplements the analysis of comment letters with qualitative data from interviews with experts involved in either the IASB's or EFRAG's due process. Several authors emphasize the complementarity of using data from multiple sources (Graham et al. 2005; Erb/Pelger 2015; Pelger 2016; Morley 2016a, 2016b; Pelger/Spieß 2017; Seckler et al. 2017). For this study, interviews offer the opportunity to ask specific (structured) questions about the perceived motivation behind the use of the channel

choices. Therefore, I conducted 13 interviews with experts both from staff and board level.³⁷

The interview script is based on the following three main questions:

- (1) What might motivate a European to participate only in the IASB's due process?
- (2) What might motivate a European to participate only in the EFRAG's due process?
- (3) What might motivate a European to participate in both IASB's and EFRAG's due processes?

The interviews were conducted from September 2014 through May 2015. All interviewees were guaranteed anonymity and the right to drop out of the study at any time during or after the interview. None of the interviewees opted to drop out of the study. All interviews were tape-recorded (with the interviewees' agreement) and fully transcribed to facilitate the data analysis. In total, I included qualitative data from the interviews that lasted around 02:47 hours. The interviews ranged from 6 to 23 minutes in duration. Table 2 lists the interviews conducted. Interviewees' names have been anonymized.

³⁷ The interviews were primarily conducted for another study (Weiß/Gronewold 2018) but intentionally extended to gain also qualitative data for this research project. To be precisely, the data used for this study have never been used for another research project.

Table 2: Overview Interviews

Name	Organisation	Position	Duration (HH:MM)
Interviewee-1	EFRAG	TEG member	0:09
Interviewee-2	EFRAG	TEG member	0:09
Interviewee-3	EFRAG	TEG member	0:17
Interviewee-4	IASB	Board member	0:16
Interviewee-5	EFRAG	TEG member	0:14
Interviewee-6	EFRAG	TEG member	0:15
Interviewee-7	EFRAG	Technical staff	0:23
Interviewee-8	EFRAG	Technical staff	0:18
Interviewee-9	EFRAG	TEG member	0:10
Interviewee-10	EFRAG	Technical staff	0:10
Interviewee-11	IASB	Technical staff	0:11
Interviewee-12	IASB	Board member	0:11
Interviewee-13	IASB	Technical staff	0:06
Total			2:47

4 RESULTS

4.1 Quantitative evidence

4.1.1 Use of the three lobbying choices

Table 3 depicts the use of the three different lobbying choices of European constituents. From 404 constituents, 326 (81%) of them use only the IASB channel and submit 656 (57%) letters. Whereas only 18 (4%) constituents submit 34 (3%) letters only to EFRAG, the relative participation intensity (“CL per constituent”)³⁸, however, does not remarkably differ: On average, a constituent who participates only at the IASB submits 2.0 letters whereas a constituent who participates only at EFRAG submits 1.9 letters on average. Remarkably, 60 (15%) constituents use both channels and send 456 letters (40% of all the submissions). It is important to note that constituents who participate at both channels per definition submit twice the number of letters compared to their counterparts who use only one channel. I address this issue in the

³⁸ For the following, I use the term “relative participation intensity” which is defined by the number of comment letters that have been submitted on average per constituent (“CL per constituent”), or, in other words, is the number of different projects a constituent has participated on average.

last row in the last column of Table 3 (“CL per const.”) by dividing the comment letters per constituent ($456/60=7.6$) by two.³⁹ So, each constituent submits 3.8 letters on average (or, more precisely, participates on 3.8 projects on average). The data clearly show that, on average, constituents who participate at both channels are more active (participate at 3.8 projects on average per constituent) compared to those who use only one channel (2.0 to the IASB and 1.9 to EFRAG, respectively). A two-sample t-test also confirms that constituents who use both channels participate more frequently than those who use only one channel ($p=0.000$). It is likely that these constituents are ‘professional lobbyists’ whose *raison d'être* is to make use of each opportunity to influence the IASB’s outcome. Even if they are no ‘professional lobbyists,’ these constituents have at least more resources that enable them to be significantly more active in lobbying the IASB than those who use only one channel.

Table 3: Use of three Channels

Lobbying Choice	Const.		CL		CL per const.
Only IASB	326	81%	656	57%	2.0
Only EFRAG	18	4%	34	3%	1.9
Both	60	15%	456	40%	3.8*
Total	404		1146		

Note: *As per definition constituents who participate at both channels send twice the letters per project, I divide the comment letters per constituent ($456/60=7.6$) by two. This results in 3.8 projects on average constituent participate at.

Furthermore, these findings are also consistent with the conceptual underpinnings outlined in section 2 because the data display that the majority (81%) uses only the IASB channel and the minority (4%) uses only the EFRAG channel. According to the conceptual underpinnings, I assume that nowadays even more constituents use both channels than in earlier days.

³⁹ 60 constituents are responsible for 456 comment letters that have been submitted to both channels. As each constituent per definition submitted two letters, the relative participation intensity ($456/60=7.6$) is divided by two, resulting in 3.8 ($=7.6/2$) letters per constituent on average.

Comparing my results with previous findings, Jorissen et al. (2012) find that 74% of the comment letters had only been sent to the IASB, 4% had only been sent to EFRAG and 22% had been sent to both channels (see Table 3, columns (6) – (8) in Jorissen et al. 2012). Table 3 shows a slightly different picture: In the years 2009-2013, only 57% of the letters have only been sent to the IASB and around 40% of the letters have been submitted to both IASB and EFRAG. These findings indicate that in recent years, more letters have been submitted to both channels than in earlier years. In that sense, although the submissions to the ‘only EFRAG channel’ (3%) are still negligible, one can conclude that apparently EFRAG’s role is nowadays perceived as more important than before because more and more constituents send letters not only to the IASB but also to EFRAG at the same time.

4.1.2 Lobbying choices by constituent groups

Table 4 represents the use of the lobbying choices of Europeans by constituent groups. Remarkably, the data reveal that preparers are in all three subsamples (Panel A, Panel B and Panel C) the biggest and most active group, which is consistent with prior literature (e.g. Jorissen et al. 2012; Hansen 2011; Mora/Molina 2014; Bamber/McMeeking 2016). Table 4, Panel A shows that constituents who only submit to the IASB are especially 14 (of a total of 17) associations of accountants and auditors (3.8 letters per association on average), all of the 6 participating audit firms (4.2 letters per audit firm), all 8 governmental regulatory authorities (2.3 letters per governmental regulatory authority), all 19 users (1.6 letters per user), all 6 academics (1.7 letters per academics) and 12 (of a total of 13) consultants (1.3 letters per consultant). So, the data show that the IASB channel is characterized by a variety of different constituents groups.

On the contrary to the ‘only IASB channel,’ there are only three constituent groups who use only the EFRAG channel (preparers, national standard setters and consultants). It is worth

noting that the participation of constituents from the accounting profession and governmental regulatory authorities (incl. stock exchanges) could also be observed at the ‘only EFRAG channel.’ However, these constituents (at least in the projects investigated in this study) represent European organizations (e.g. FEE, ESMA and EBA) or international organizations (such as Big 4 audit firms) which were removed for the final sample. Furthermore (although being cautious when interpreting data with such small sample sizes), the variation of the relative participation intensity ranges from 1.0 to 8.0 letters per constituent that is higher than in the ‘only IASB channel’ (ranging from 1.1 to 4.2 letters).

Similarly, only four constituent groups use both channels (Panel C), namely preparers, accounting profession, national standard setters and users. Like in the ‘only EFRAG channel,’ some constituent groups are purely not represented due to the selection procedure. Moreover, Table 4, Panel C gives some insights which of the constituents who participate at both channels are significantly more active (participate at 3.8 projects on average) compared to those who use only one channel: For instance, preparers are more active in sending letters to both (3.0) compared to those who use only one channel (only IASB: 2.0, only EFRAG: 1.1). A two-sample t-test also confirms that preparers who use both channels significantly participate more frequently than those who use only one channel ($p=0.0001$). The group of accounting profession (especially the associations of accountants and auditors) who participate at both channels participate more frequently (6.2 projects per association) compared to those who use only the IASB channel (3.8 projects per association and absent at EFRAG). However, no significant difference can be observed for the group of the accounting profession which is maybe only due to data limitations. For the group of national standard setters, the data show that on average, each standard setter participates at 6.9 projects which is more than those who use only the IASB channel (2.0) but less than those who use only the EFRAG channel (8.0). However, a two-sample t-test shows a significant difference between those who use both channels compared to

those who use only one channel ($p=0.0209$).⁴⁰ To sum up, the higher relative participation intensity of the preparers and the national standard setters at both channels are one reason for the observed significant differences among the subsamples. It seems that these constituent groups have more resources (or incentives) to lobby both institutions than others. Whereas it is not really surprising that national standard setters make use of each possibility to influence the IASB's due process (it is their *raison d'être*), there are also some specific preparers who seem to have more resources to use all possible ways to lobby the IASB's outcome.

In general, when comparing the results with previous findings from Jorissen et al. (2012), who investigate the period between 2002-2006, the composition of the European constituent parties substantially differs: For example, the submissions from preparers have been remarkably increased in recent years: Jorissen et al. (2012) observe that preparers are responsible for 26% of all 'only EFRAG' submissions whereas Table 4, Panel B shows that 50% of all submissions have been sent by preparers. In that sense, I cannot confirm the conclusions made by Jorissen et al. (2012) that EFRAG especially consults with European standard setters because the bulk of submissions are from preparers. It seems that nowadays most of the national standard setters prefer to submit comment letters to both institutions and that there are at least some specific preparers who assume to have the highest benefits when articulating their views only to EFRAG (although in a smaller magnitude).

When comparing the data, it is important to note that European organizations and international organizations are removed for the final sample in this study but were not removed by Jorissen et al. (2012). So, there is concern that the findings of both studies are not comparable. For example, Jorissen et al. (2012) document stock exchanges and audit firms in the 'only

⁴⁰ This is basically due to the fact that the mean of Panel A and Panel B is 5.0 letters per constituent which is statistically significantly smaller than 6.9 (at least on a 5% level).

EFRAG channel'⁴¹ which would have been observed in this study as well if no selection procedure had been done. These constituents have been dropped out for the final sample because they are either European or international organizations. I acknowledge the different selection procedures but assume that this is not a problem. European or international organizations could have been observed in all of the three channels in almost every constituent group (except for the national standard setters and academics)⁴² which would lead the sample sizes increase to the same extent. Therefore, the conclusions of this study would remain valid, regardless of including or excluding European and international organizations.

⁴¹ Compare column 8 in Table 3 of the Jorissen et al. (2012) study.

⁴² For instance, the group of preparers would remain the most biggest and active group.

Table 4: Lobbying Choices by Constituent Groups

Constituent groups	Panel A: Only IASB channel			Panel B: Only EFRAG channel			Panel C: Both channels								
	Const.	CL	CL per const.	Const.	CL	CL per const.	Const.	CL	CL per const.						
Preparers	248	76.1%	485	73.9%	2.0	15	83.3%	17	50.0%	1.1	43	71.7%	261	57.2%	3.0
Corporate preparers	171	52.5%	329	50.2%	1.9	8	44.4%	10	29.4%	1.3	25	41.7%	132	28.9%	2.6
Preparers' trade associations	77	23.6%	156	23.8%	2.0	7	38.9%	7	20.6%	1.0	18	30.0%	129	28.3%	3.6
Accounting profession	20	6.1%	78	11.9%	3.9						3	5.0%	37	8.1%	6.2
Associations of accountants and auditors	14	4.3%	53	8.1%	3.8						3	5.0%	37	8.1%	6.2
Audit firms	6	1.8%	25	3.8%	4.2										
National standard setters	5	1.5%	10	1.5%	2.0	2	11.1%	16	47.1%	8.0	11	18.3%	151	33.1%	6.9
Governmental regulatory authorities	8	2.5%	18	2.7%	2.3										
Users	19	5.8%	30	4.6%	1.6						3	5.0%	7	1.5%	1.2
Academics	6	1.8%	10	1.5%	1.7										
Consultants	12	3.7%	16	2.4%	1.3	1	5.6%	1	2.9%	1.0					
Others	8	2.5%	9	1.4%	1.1										
Total	326		656		2.0	18		34		1.9	60		456		3.8

4.1.3 Lobbying choices by geographical distribution

Table 5 depicts the use of the lobbying choices of European constituents by their geographical distribution. The data reveal several insights: For example, Panel A depicts that various different countries choose only the IASB channel. Although it seems that almost all countries are represented in the ‘only IASB channel,’ there is a high variation within the constituents. For instance, smaller countries like Cyprus, Greece, Malta, Romania and Slovak Republic are represented by only one constituent each whereas UK is represented by 139 constituents that are responsible for 40% of the letters. Interestingly, among the smaller European countries, Ireland is with 10 constituents moderately represented compared to their counterparts. This is consistent with prior literature that already illustrates the dominance of British comment letters (Jorissen et al. 2006; Larson 2007; Orens et al. 2011; Ramanna 2013). Besides the dominance of UK, constituents from bigger West European countries (such as France, Germany, and Sweden) are more frequently represented in the ‘only IASB channel’ than constituents from smaller or East European countries.

On the contrary to the ‘only IASB channel,’ only eight countries are represented in the ‘only EFRAG channel’ (Panel B). Although one has to be cautious when interpreting the data of such a small sample size, it is, however, remarkable that this channel is exclusively characterized by West European countries. It seems that some constituents are specialized on submitting letters only to EFRAG: For example, two Danish constituents submit 10 letters (29%) and one Portuguese is responsible for seven (21%) of the 34 letters. In that sense, the variation of comment letters per constituent is much higher than in the ‘only IASB channel’ although the mean is almost equal (IASB: 2.0, EFRAG: 1.9). This indicates that country-specific factors might play a role in the lobbying choices of European constituents, again being cautious with the inferences made.

Constituents who participate at both channels (Panel C) are particularly from 14 of 23 European countries. Although this channel is represented by more countries, it is, however, basically characterized by constituents from West European countries (except Poland which is, however, only responsible for 1.5% of the submissions). Another interesting finding is that the variation of the relative participation intensity is very high, ranging from 2.0 (Switzerland) to 11.0 (UK) participating projects per constituent on average. The data give also further possible explanations why there is a significant difference between the relative participation intensity at both channels compared to those who use only one channel: For example, whereas 139 (43%) constituents from UK choose the ‘only IASB channel,’ none use the ‘only EFRAG channel’ and only nine (15%) constituents are represented in both channels. However, these nine constituents from UK are very active as they participate at 5.5 projects per constituent whereas their counterparts who only participate at the IASB participate at 1.9 projects per constituent on average. A two-sample t-test confirms that constituents from UK participating at both channels participate significantly more frequently than their counterparts who use only one channel ($p=0.0000$). Similar findings can be observed for constituents from Belgium ($p=0.0911$), France ($p=0.0090$), Germany ($p=0.0726$), Italy ($p=0.0335$) and Sweden ($p=0.0071$).⁴³ In other words, constituents from these West European countries seem to have more resources for lobbying because they participate on average at more projects compared to those who use only one channel. Generally, these results support the findings from prior literature that country-specific costs may lead to unequal access for various European constituents and thus to differences in the participation behavior (both the decision to participate as well as the frequency of participations) (Jorissen et al. 2012; Weiß 2018).

⁴³ Constituents from Austria ($p=0.2965$), the Netherlands ($p=0.1008$), and Spain ($p=0.3845$) do not participate significantly more often than their counterparts who use only one channel. Besides, I did not conduct t-tests for the countries Denmark, Finland, Norway, Poland and Switzerland due to data limitations.

Table 5: Lobbying Choices by Geographical Distribution

Country	Panel A: Only IASB		Panel B: Only EFRAG		Panel C: Both channels		CL per const.							
	Const.	CL	Const.	CL	Const.	CL								
Austria	2	0.6%	4	0.6%	2	3.3%	15	3.3%	3.8					
Belgium	7	2.1%	10	1.5%	1	5.6%	1	2.9%	1.4					
Cyprus	1	0.3%	3	0.5%	3	5.0%	14	3.1%	3.0					
Czech Republic	3	0.9%	3	0.5%					1.0					
Denmark	10	3.1%	18	2.7%	2	11.1%	10	29.4%	1.8					
Finland	5	1.5%	8	1.2%					1.6					
France	32	9.8%	71	10.8%					2.2					
Germany	34	10.4%	78	11.9%	3	16.7%	5	14.7%	2.3					
Greece	1	0.3%	1	0.2%					1.0					
Ireland	10	3.1%	22	3.4%					2.2					
Italy	7	2.1%	11	1.7%	3	16.7%	3	8.8%	1.6					
Luxembourg	4	1.2%	5	0.8%					1.3					
Malta	1	0.3%	1	0.2%					1.0					
Netherlands	15	4.6%	26	4.0%					1.7					
Norway	5	1.5%	7	1.1%					1.4					
Poland														
Portugal	2	0.6%	2	0.3%	1	5.6%	7	20.6%	1.0					
Romania	1	0.3%	1	0.2%					1.0					
Slovak Republic	1	0.3%	3	0.5%					3.0					
Spain	13	4.0%	27	4.1%	6	33.3%	6	17.6%	2.1					
Sweden	18	5.5%	28	4.3%	1	5.6%	1	2.9%	1.6					
Switzerland	15	4.6%	62	9.5%	1	5.6%	1	2.9%	4.1					
UK	139	42.6%	265	40.4%					1.9					
Total/Mean	326		656		18		34		1.9	60		456		3.8

4.2 Qualitative evidence

4.2.1 What might motivate a European constituent to participate only in the IASB's due process?

According to the conceptual underpinnings, I assume that a large proportion of the constituents participate only at the IASB's due process. So far, the analysis of the comment letters confirms these assumptions and further reveals that various different constituent groups and various different countries are represented in this channel. Moreover, I could document a variation within the constituents ranging from one to 139 constituents per country. This indicates that constituents from specific countries (especially constituents from big West European countries) might have more incentives to use only the IASB channel than others. To examine more deeply the motivations for the use of this channel, the first question of the interviews aims to detect reasons why European constituents participate only in the IASB's due process. Interview evidence suggests basically three possible reasons why the majority of the comment letters (57%) have been submitted only to the IASB:⁴⁴ First, several interviewees highlight that it seems to be more efficient to go directly to the IASB who finally decides what will be included in the final standard and what not. Similar with the conceptual underpinnings (subsection 2.2), they allude that articulating their views to an intermediary (such as EFRAG) causes unnecessary costs, time loss and maybe misunderstandings through potentially inaccurate verbal communication ("Chinese whispers"):

"Well, I know my problem at best. So, I am the best who can describe my problem. Everyone who plays an intermediary role causes something like 'Chinese whispers' with some losing information. And at the end of the day, the final product is not the one I have initially addressed." (Interviewee-3)

⁴⁴ See Appendix A, Panel A for an overview of the summarized responses of the interviewees.

To use the most efficient way of communication is even more crucial the more likely the standard will have economic or (and) political consequences for the European market. One interviewee states:

“I have the impression that if I would discuss my concerns with EFRAG, it would be more technical concerns, but if I’m worried about some strategic political sense, I have the impression I would contact the IASB directly. [...] If the European Banking Federation says: ‘This macro hedging stuff, this will go wrong!’ [...] As a president of that federation, I would pick a lot with the IASB directly. It’s too important.” (Interviewee-5)

Second, several interviewees highlight that the size of the constituent reflects whether it is easy to communicate with the IASB or not. The larger and the more visible they are, the lower their entry barriers to approach the IASB.

“If you are big enough, you always will have someone at the IASB listening to you. You can make appointments with the IASB, you can go to the IASB and talk with someone, with the staff. However, to do this, they have to know you.” (Interviewee-3)

Interestingly, this view is also confirmed by IASB who argues that large constituents that are visible and also have the resources to develop good, technical arguments have an easy access to the IASB.

“Well, if you a large company, if you are confident that your views are well documented, if you think that you have enough political cloud to influence us then you can skip EFRAG and say: ‘I’m losing my time, let’s go directly to IASB.’” (Interviewee-12)

A third possible reason why constituents only submit letters to the IASB is purely due to technical reasons: As EFRAG’s due process operates during the IASB’s due process, EFRAG’s call for submissions automatically starts later and ends earlier compared to the IASB’s consultation process. After the IASB publishes an ED, EFRAG has to write a DCL, then has to start the consultation process and after that, it has to collect and analyze all letters to develop the FCL which will be submitted to the IASB.

“Our due process is well in advance. [...] We have to start our process before and often constituents work towards the IASB’s deadline and they cannot meet our deadline.” (Interviewee-7)

All in all, these results are consistent with the underlying conceptual assumptions because several interviewees confirm that lobbying the IASB is perceived as more crucial because most of the constituents would directly seek to influence the final product instead of lobbying an intermediate product. Interview evidence reveals even more possible reasons for the constituents’ motivations: In particular, the size and the visibility of the constituents depend on how easy they can communicate with the IASB. These constituents are able to establish a direct relationship with the IASB and therefore do not anticipate any benefits from lobbying EFRAG. Besides, a lack of time is another possible reason why the majority uses only the IASB channel which is also consistent with the theoretical considerations. Finally, according to the results of the quantitative analyses, this channel is characterized by various constituent groups rather than dominated by specific parties. As none of the interviewees states any reason with respect to the constituent group a constituent belongs to, it seems that the professional background of a constituent does not determine the choice of participating (only) at the IASB’s due process. The quantitative data further document that this channel is more represented by constituents from bigger West European countries (such as UK, France, Germany, and Sweden) rather than from smaller or East European countries. However, interviewees do not give any hints that country-specific factors may explain the lobbying choices of the constituents who use this channel. This shows that the quantitative and qualitative results complement each other as they unveil different reasons for the lobbying choices and, thus, illustrates the complexity of lobbying research.

4.2.2 What might motivate a European constituent to participate only in the EFRAG’s due process?

The analysis of the comment letters documents that only 4% of the constituents submit 3% of all letters only to EFRAG. The findings further show that there are only three constituent

groups and eight West European countries represented. According to the conceptual assumptions, there are no rational reasons to use only the EFRAG channel. A few constituents (4%), however, seem to anticipate the best benefits from communicating only toward EFRAG. Therefore, the follow-up question refers to the motivations why European constituents might only participate in EFRAG's due process.⁴⁵ Several interviewees confirm the assumption that some constituents feel more comfortable to articulate their views to EFRAG. As EFRAG's network is much smaller than the IASB's, constituents likely perceive that establishing a contact to EFRAG is easier than to the IASB. Moreover, they argue that some constituents likely perceive that EFRAG is more trustworthy because they perceive that EFRAG listens to them even when their views do not represent the majority of the IFRS adopters.

"I think we are quite good and have a good track record of listening to countries' views and even if we don't agree that we need to have a sort of carved-out for their industry or their country specifics. We do give consideration as to how could this standard be modified so that it doesn't apply for everybody else without fundamentally changing it but actually, it somehow accommodates a particular problem. So, we probably spend more time worrying about that and we can afford to spend more time worrying about that because we get less countries to worry about in that context than the IASB does." (Interviewee-9)

The small and trustworthy network may constituents let assume that their relative voice is bigger at EFRAG than at the IASB. These constituents may expect that lobbying EFRAG is the only fruitful option of being heard. One EFRAG staff member highlights that the relative voice of each constituent at EFRAG is bigger than at the 'big' IASB:

"Of course, if you send it to us then there is a bigger chance that it will be studied more carefully and perhaps affects EFRAG's view." (Interviewee-8)

The fact that EFRAG's network is smaller is particularly crucial for stakeholders from small countries. These perceive that establishing a relationship to EFRAG is easier than to the

⁴⁵ See Appendix A, Panel B for an overview of the summarized responses of the interviewees.

IASB. Especially for constituents that have deviating accounting issues that do not represent the majority of the whole IFRS constitution, EFRAG seems to be more accessible for them.

“[S]ometimes they feel they are not going to be heard, they feel it’s quite useless to go to the IASB. Why would the IASB listen to a small, little country? [...] [T]hey trust EFRAG, [...] they know us and they don’t know the IASB so well, so they don’t have that relationship with the IASB. So, coming to us they feel it’s a good place to be heard.” (Interviewee-7)

Interestingly, this finding is not in line with the findings of the comment letter analysis because small, especially East European countries (that are often quoted by the interviewees as examples) are not represented in the ‘only EFRAG channel.’ One reason for this deviating finding may simply be the observation of only one of several other possible lobbying methods. It is likely that constituents from small (East European) countries go directly to EFRAG, meet and discuss with them in person instead of writing a comment letter. A further stated reason, which is maybe oftentimes connected with being from a small country (especially from an East European country), is the lack of English skills. Several interviewees point out that constituents probably skip the IASB if they do not feel comfortable enough to express their views in an appropriate way.

“To have the IASB listen, you need to express yourself in a perfect English using their words, speaking, building the argumentation based on the conceptual framework. I don’t think it’s needed when you comment to EFRAG to do that. I think EFRAG listens even though you express yourself in a bad way.” (Interviewee-5)

Interestingly, this view is also confirmed by the IASB:

“EFRAG is more accessible than IASB because you can speak French, you can speak Italian, you can speak Spanish in talking to the EFRAG and their representatives. If you want to influence IASB you have to follow certain procedures and you have to submit a formal comment letter, you have to write it in English if you want to be heard. Some might find it more difficult to engage with us than engaging with national representatives of EFRAG. For a small company or a smaller preparer which is less well equipped it might be that they find that EFRAG is more friendly.” (Interviewee-12)

Overall, although there are no rational reasons to use only the EFRAG channel which is also confirmed by the quantitative data, the qualitative evidence, however, suggests that the ‘only EFRAG channel’ is especially essential for constituents who are relative small and less visible stakeholders. The smaller network is one of the big advantages why some constituents may perceive that EFRAG is more reliable than the IASB. Especially those constituents who come from small countries may feel that EFRAG is more accessible because EFRAG is perceived as a listener to views from minorities. The lack of English skills might be another factor why these constituents prefer to communicate with the national representatives of EFRAG and therefore participate only at this channel. Although these results provide empirical evidence for the conceptual assumptions outlined in subsection 2.2 (incl. the conceptual paper of Burlaud/Colasse 2011), they cannot be observed (and thus supported) by the quantitative data: this channel is purely characterized by West European countries and not by small and East European countries as suggested by the interviewees (again being cautious when interpreting the data of such a small sample size). This is another example for the complexity of lobbying research: As already mentioned, it is important to keep in mind that these stated reasons may also be valid for other (unobservable) constituents who communicate directly with EFRAG by using other, less overt, lobbying methods. Therefore, it is likely that several constituents who are less visible or/and come from (small) East European countries are those who express their views only to EFRAG, in informal, less overt ways rather than submitting comment letters.

Besides, the qualitative findings shed also more light on the lobbying choice of the ‘only IASB channel:’ For example, although the ‘only EFRAG channel’ is characterized by West European countries, countries with English as a mother tongue (UK and Ireland) are absent in the ‘only EFRAG channel,’ which is consistent with the theoretical predictions. These constituents likely assume that their views are best represented when they are directly communicated toward the IASB. While Ireland belongs to the small European countries, Irish constituents

likely have less problems to articulate their views in an appropriate way that is needed when communicating with the IASB. This explains why Ireland is moderately represented in this channel compared to other small European countries.

4.2.3 What might motivate a European constituent to participate in both IASB's and EFRAG's due processes?

According to rational considerations, European constituents who participate at both channels have the highest (expected) benefits as the likelihood of being heard by one of the institutions increases whereas, at the same time, they have relatively low (expected) participation costs when sending two identical letters. The quantitative analysis reveals that constituents who use both channels are significantly more active than those who use only one channel and, thus, I assume that more 'professional lobbyists' are among those who use both channels. In order to follow-up these assumptions and to shed more light on the reasons why some constituents lobby both EFRAG and the IASB, the last question refers to the perceived motivations of this particular participation choice.⁴⁶ Overall, the interviewees state two reasons. First, several interviewees allude that one possible reason why some constituents lobby EFRAG and the IASB is because they know that EFRAG's view is influential at the IASB and thereby want to increase their benefits (chances of being considered). If they are able to convince EFRAG, their views will approach the IASB via two ways: first, directly via sending the IASB a comment letter, and second, indirectly via EFRAG's letter that potentially includes their views.

"It should be important for them that they contribute to the EFRAG comments, so that at least their views are considered there [...] because they know that EFRAG's letter will be weighted differently by the IASB, at least that is what I think. Perhaps the IASB Board members will tell you that everybody is weighted exactly the same way, but it's really not true due to the fact that they come to the meetings and hear all the arguments that are discussed. I think if stakeholders have important views they want them to be discussed as well in EFRAG. I think they have a keen interest in that." (Interviewee-10)

⁴⁶ See Appendix A, Panel C for an overview of the summarized responses of the interviewees.

The interviewees also admit that just in the last years constituents perceive the importance of EFRAG's role and thus, have started to submit letters to EFRAG as well.

“Just in the last few years, constituents started to answer our questions. [...] So, you can see the evolution of 10 years of the EFRAG. Most of the preparers, I remember at the beginning when I have started, [...], nobody knew EFRAG. They just knew that EFRAG was sending comment letters to IASB. But then they started to realize that EFRAG seems to have a role and seems to have some power and then they started to send comment letters.” (Interviewee-2)

The second reason why constituents may participate at both channels is purely due to strategic reasons. If constituents perceive that the IASB won't agree with their views, constituents might be motivated to lobby EFRAG as well.

“I think it depends on what the issue is. If they are really unhappy with what we are doing, they will lobby us directly and also try to get EFRAG behind them as well. So they do both. In many cases, I think they want to speak to us directly to make sure they are heard. And if they don't perceive that we are listening to them, we do listen whether we agree is the issue, if they don't perceive that we are listening or that we don't agree, I think they approach EFRAG as well.” (Interviewee-12)

Taken together, in the conceptual underpinnings, I assume that nowadays even more constituents use both channels than in earlier days which could be supported by the quantitative data. The comment letter analysis further documents that this channel is dominated by preparers and national standard setters and is also characterized by West European countries. The comment letter analysis further reveals that these constituents send significantly more letters than those who use only one channel. The qualitative evidence helps to understand this observation: All of the interviewees suppose that if constituents use both channels, they basically do it to increase the probability to change the IASB's outcome (or to increase their chances of being considered which is consistent with Sutton's rational-choice model). Interviewees highlight that these constituents are likely well informed about the influential roles of intermediaries, such as EFRAG and also about their potential success at the IASB. These constituents may initially use the IASB's channel and then decide to lobby EFRAG as well. According to the

interviewees the decision to approach also EFRAG depends on whether they perceive that EFRAG's voice is important for the IASB or/and whether they assume that they could not convince the IASB with their views. These findings further support the conclusions of the quantitative analysis that especially 'professional lobbyists' are among those who use both channels.

5 DISCUSSION AND CONCLUSION

This paper could demonstrate that using a mix of quantitative and qualitative research methods complement each other. Whereas the analysis of comment letters documents who of the European constituents choose which lobbying channel(s) to influence the IASB's outcome, the interview evidence sheds more light on the factors that might shape the decision of European constituents that would not have been brought to light by comment letter analyses alone.

Taken the results from both analyses together, the main findings are the following: First, it appears that the majority of the constituents (81%) participate only at the IASB, which may likely be technical and strategic reasons: The technical issue is that EFRAG's due process operates during the IASB's due process, so that EFRAG's call for submissions automatically starts later and ends earlier compared to the IASB's process. Consequently, several constituents could not reach EFRAG's deadline. The interviewees highlight strategic reasons because lobbying the final decision maker may be perceived as more efficient. Most of the constituents may likely prefer to directly influence the final product instead of lobbying an intermediate product.

Second, the quantitative analyses further reveal that all constituent groups and almost all European countries are represented in the 'only IASB channel.' However, the geographical distribution varies between one (Cyprus, Romania, Slovak Republic) and 139 (UK) constituents per country and documents that this channel is dominated by West European countries,

among others especially countries with English as a mother tongue. This lets assume that there are country-specific factors that shape the lobbying decision. Interview evidence provides possible reasons for such observations because the interviewees allude that being able to express oneself in a perfect English might help constituents to communicate with the IASB more easily. Furthermore, interviewees indicate that relatively big and more visible constituents can more easily communicate with the IASB. Those get an appointment at the IASB more easily, basically in order to repeat the content of their comment letters (Pelger/Spieß 2017). Bigger constituents usually also have the resources to develop good, technical arguments that are articulated in an appropriate English. In that sense, it is not always possible to separate the individual reasons because ‘being big and visible’ and ‘having good English skills’ may oftentimes correlate with each other.

Third, similarly, relative small constituents have less resources to employ technical staff that is able to communicate with the IASB, and therefore they may prefer to lobby EFRAG instead. This is even more crucial when they are from a small European country where the use of English is not common. For example, some interviewees frequently highlight that constituents from East European countries are those who especially approach EFRAG. However, the quantitative analysis reveals that the choice to lobby only EFRAG is rarely taken and if, only by bigger West European countries. One reason for these inconsistent findings may lie in the observation of only one of several lobbying methods which is clearly a limitation of this study. It is likely that even more (unobservable) small and less visible stakeholders seek to influence EFRAG via communicating directly in person with EFRAG members rather than submitting comment letters. EFRAG’s smaller network is one of the big advantages why some constituents may perceive that EFRAG is more trustworthy and more approachable. Therefore, it is likely that those prefer to communicate directly with EFRAG (use less overt lobbying methods) instead of submitting comment letters.

Finally and most remarkable, more constituents use both channels than in earlier years and participate significantly more frequently than those who use only one channel. 15% of all constituents are responsible for 40% of all submissions. Interviewees state that those constituents are very prepared and informed constituents. Their decisions to approach also EFRAG appear to depend on whether they perceive that EFRAG's voice is important for the IASB or/and whether they perceive that they would not be successful in convincing the IASB. I conclude that especially 'professional lobbyists' are among them. The comment letter analysis further documents that this channel is dominated by preparers and national standard setters. Although the minority of the constituents use only the EFRAG channel, the findings of this paper indicate that EFRAG's role is nowadays perceived as more important because more and more constituents decide to send letters to both the IASB and EFRAG than in earlier years.

The overall aim of this paper was to show who and why European constituents choose different lobbying ways to influence the IASB's outcome which has not been explored before. The paper builds on prior work in order to better understand the whole political process of the IASB's decision making from the European perspective (Jorissen et al. 2012). Besides the contribution to the literature, this study answers to a recent call in the literature by making methodological contribution regarding the complementarity of qualitative and quantitative methods in accounting research (Morley 2016b) to gain a bigger picture of the complexity of the politics of accounting standard-setting. Finally, the policy implications of this paper may help members of the IASB and EFRAG as well as constituents, regulators (e.g. EC) and academics in evaluating the effectiveness of both institutions and their processes. For example, the IASB still largely consults input from British constituents although the British dominance at the IASB has been scrutinized in the literature for many years (Zeff 2012; Larson 2007; Orens et al. 2011; Ramanna 2013). Similarly, Pelger/Spieß (2017) criticize that the IASB mainly engages with constituents from its inner circle during roundtable meetings and its consultation activities are

limited to a certain group of experts. Likewise, EFRAG should make more efforts to include demands from various constituent groups and countries. The EC desires ‘a strong European voice’ in the IASB’s decision making which also implies that this voice should reflect views from various different stakeholders rather than those from EFRAG’s inner circle. Although it is very likely that EFRAG consults much more different constituents in less formal events, such as outreach events, it is, however, difficult to assess how balanced EFRAG’s view really is. The findings of the paper might help practitioners to improve the perceived transparency and legitimacy of both institutions.

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APPENDIX A

Summary of the interviewee's responses

**Number of
responses**

Panel A: What might motivate a European to participate only in the IASB's due process?

More crucial to lobby directly the IASB's products	9
Size of the constituent	4
Time issues	2

Panel B: What might motivate a European to participate only in the EFRAG's due process?

EFRAG's network is smaller and trustworthier than the IASB's	7
Being from a small country	3
Lack of English skills	4

Panel C: What might motivate a European to participate in both IASB's and EFRAG's due processes?

Constituents also want to lobby EFRAG's influential voice	10
If constituents perceive that the IASB won't agree, they will also approach EFRAG	3

Note: Some interviewees reported multiple reasons.

APPENDIX B

List of Abbreviations

- CEA – Comité des Entreprises d'Assurance (French: Committee of Insurance Companies)
- DCL – Draft Comment Letter
- DEA – Draft Endorsement Advice
- DP – Discussion Paper
- EACB – European Association of Co-operative Banks
- EBF – European Banking Federation
- EC – European Commission
- ED – Exposure Draft
- EFAA – European Federation of Accountants and Auditors for SMEs
- EFFAS – European Federation of Financial Analysts Societies
- EFRAG – European Financial Reporting Advisory Group
- EFRAG TEG – European Financial Reporting Advisory Group Technical Advisory Group
- ESBG – European Savings Banks Group
- ESMA – European Securities and Markets Authority
- EU – European Union
- FCL – Final Comment Letter
- FEE – Fédération des Experts Comptables Européens
- FESE – Federation of European Securities Exchanges
- IASB – International Account Standards Board
- IASC – International Account Standards Committee
- IFRS – International Financial Reporting Standards
- UEAPME – Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises (French: European Association of Craft, Small and Medium-Sized Enterprises)