

# Lobbying in Accounting Standards Setting

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## Abstract

The paper explores the effects of lobbying on accounting standards. The study investigates the determinants of lobbying and compares the lobbying activity with application to the FASB Statement of Financial Accounting Standards No. 158 and the IASB Statement of Intent issued in 1990. The research concludes that the major determinants of lobbying in the field of accounting standards are the size of lobbying corporations and the perceived effects of the regulations on the economic well-being of the enterprises. The analysis of the specific cases indicates that both firm-level, industry-level and country-level factors contribute to lobbying decisions across firms.

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*Index terms*— the determinants of lobbying and compares, the major determinants of lobbying in the field of accounting standards.

## 1 Introduction

Standard-setters, including the International Accounting Standards Board (IASB), formerly the International Accounting Standards Committee (IASC) and the US Financial Accounting Standards Board (FASB), are committed to protect the interests of investors rather than the interests of corporations and auditors. However, political lobbying can take place due to the self-interest of preparers or governments. Thereby, standard-setters may have incentives to modify their positions and dilute or abandon the principles of the standards (Nobes and Parker, 2008). At the same time, lobbying on behalf of corporations may take place, as suggested by different theories (Nobes and Parker, 2008). Nevertheless, the factors that contribute to lobbying are not univocally identified in literature (Georgiou and Roberts, 2004; Koh, 2011). The aim of the current paper is to explore the possible determinants of lobbying and its effects on standard setting in accounting. The objectives of the study are to compare the lobbying cases against the IASB and FASB statements and to identify what factors drove the decisions of different parties to lobby in these cases. The paper includes the literature review and the analysis of the lobbying activities with reference to both IASB and FASB cases. Besides, the study explores particular statements of the FASB and IASB and analyses how the specifics of these statements determined the decisions of different parties to lobby for or against the proposed acts.

## 2 II.

## 3 Literature Review

Accounting lobbying can be explained by a number of economic and managerial theories, including the agency theory and stakeholder theory (Hoffman and Author: International Islamic University Chittagong, Chawkbazar, Chittagong, Bangladesh. e-mail: afzaliuc@gmail.com Zulch, 2014). The agency theory suggests that regulatory agencies that introduce standards include those who are regulated. This implies a conflict of interests between the parties (Mathur et al., 2013). In contrast, the public interest model argues that regulators represent the interests of the society, while the conflict of interest still may take place in the relationships between the regulators and the public (Hoskisson et al., 2011). The stakeholder approach takes into consideration the environment of the firm, including customers, suppliers, and employees. These parties are the stakeholders of the enterprise and lobbying

43 decisions of these parties are determined by the stakeholders who possess power, urgency and legitimacy (Freeman  
44 et al., 2010).

45 The harmonisation efforts of accounting standards that had been undertaken by the IASC faced different  
46 barriers, including cultural, economic, political and other factors (Garrido et al., 2002). In the meanwhile,  
47 Larson and Brown (2001) explored the relationships between the harmonisation efforts and accounting standards  
48 lobbying. Particularly, the study analysed the effects of the countries' financial accounting standards and the  
49 countries' tax rules on lobbyists' position. The research focused on long-term construction contacts and confirmed  
50 that lobbying position was associated with the mentioned variables. Every factor could prevent the harmonisation  
51 process. However, the research by Koh (2011) analysed the drivers of companies' decisions to lobby and found  
52 the factors that contributed to lobbying. The factors included to managers' option compensation and companies'  
53 closeness to debt constraints. Besides, smaller companies in a sector with peers who had lobbied, the firms that  
54 had board relationships with such firms, and the enterprises that had higher degree of board independence were  
55 more likely to lobby.

56 The research by Georgiou and Roberts (2004) also explored the determinants of lobbying through a logistic  
57 regression and concluded that size and previous lobbying experience were the most significant determinants of the  
58 decisions to lobby. Furthermore, the firms that lobbied against the proposals had debt covenants in contrast to  
59 the companies that lobbied in favour of the proposals. Nevertheless, debt covenants were not able to explain the  
60 differences between nonlobbying behaviour and lobbying against. Incentive compensation effects were inherent  
61 to the companies that lobbied in favour. It is suggested that the decision to lobby is determined by the economic  
62 effects of a actual outcomes. The analysis of the lobbying program by oil and gas enterprises demonstrated that  
63 the decision to lobby was associated with the possible effects of accounting methods on the economic well-being  
64 of the company and its managers.

65 The observations about the significance of the effects of regulations on the economic well-being of the firm  
66 for lobbying decisions were obtained by the research of Hill et al. (2013). However, the authors performed a  
67 cross-industry analysis and found that the variation in lobbying activity across different sectors was large. In  
68 addition, companies used multiple channels of possible political influence to affect regulatory and policy outcomes.  
69 The potential payoffs from favourable policy and regulations were found to be the most significant determinants  
70 of lobbying. At the same time, the research showed that managerial-shareholder agency problems were not  
71 associated with the lobbying activities of the politically active enterprise. Some studies explored the lobbying  
72 practices under different regulatory regimes, such as the FASB and the IASB (Hodler et al., 2013; Dye and Sunder,  
73 2001). The research by Johnston and Jones (2006) explored not only lobbying in different industries, but also  
74 lobbying practices under different accounting standards, including the FASB and the SEC (u meant that FASB  
75 and SEC also work as a lobbyist). The authors showed that companies' lobbying expenditures were related to the  
76 incentives to lobby on the problems associated with accounting. Specifically, lobbying expenditures were positively  
77 related to a company's exposure to amendments in the accounting standards. Nevertheless, this relationship was  
78 captured only to occasional lobbyists. Furthermore, the firms that did not have a lobbying department and made  
79 income-increasing accounting choices were characterised by higher expenditures on lobbying.

### 80 4 III.

## 81 5 Iasb and fasb Lobbying

82 The analysis covers the investigation of lobbying cases on both IASB and FASB. The exploration of corporate  
83 lobbying under the accounting standards set by the IASB shows that company size is associated with lobbying.  
84 Empirical findings showed that large corporations were more likely to write comment letters to IASB, as these  
85 enterprises were a part of the Forbes Foreign 500, while 23 out of 27 US lobbying companies were comparably  
86 large (Larson, 1997). However, the findings also demonstrated that the rate of large enterprises' decisions to lobby  
87 was different across countries. The highest percentage of lobbying companies was observed in Australia, Hong  
88 Kong and Switzerland. By contrast, such countries as Italy, Spain and Korea had no companies that lobbied,  
89 despite having large enterprises listed on the Foreign 500 (Larson, 1997). However, there are some factors that  
90 may prevent lobbying, and these factors are not associated with the consent of the IASB. An empirical analysis of  
91 UK investment management companies showed that the major factor that inhibited lobbying by the companies  
92 was the cost of lobbying. At the same time, the questionnaire survey demonstrated that the participation of the  
93 companies in lobbying activities was not low (Georgiou, 2010).

94 The analysis of the effects of political and lobbying forces on accounting standards in the US with application  
95 to the FASB demonstrated that there is no clear conclusion about the opportunities of such forces (Gipper et  
96 al., 2013). Particularly, while oil and gas accounting was substantially affected by lobbying in the 1970s, the  
97 importance of political forces in general was not captured by the analysis of different empirical studies of lobbying.  
98 Nevertheless, in line with lobbying in Europe, company size was positively associated with lobbying activities.  
99 This fact could be explained by larger potential costs in the regulatory processes for such enterprises. On the  
100 other hand, the size directly influenced a company's influence and the probability of success (Gipper et al., 2013).  
101 Nevertheless, the resistance to FASB accounting standards can be determined by different factors beyond the  
102 corporate level. Specifically, the empirical study concluded that lobbying determinants could be attributed to the  
103 standard, the corporation, and the industry levels (Elbannan and McKinley, 2006). The analysis of these three

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104 levels showed that lobbying was associated with the perceived uncertainty introduced by a FASB standard, the  
105 information-processing requirements of a standard, the requirements to deviate from institutionalised financial  
106 reporting practice, a company's ability to acquire scarce resources, the dependence of the corporation on external  
107 stakeholders and the power of the firm over stakeholders, thus confirming the stakeholder theory.

108 An analysis of the lobbying behaviour in response to a particular act showed the significance of company-level  
109 factors. The Statement of Financial Accounting Standards (SFAS) No. 158 was titled "Employers' Accounting  
110 for Defined Benefit Pension and Other Postretirement Plans" and was introduced by the FASB in 2006 (Houmes  
111 et al., 2012). The exploration of the enterprises that lobbied in regards to this statement showed that the decision  
112 to lobby was associated with the underfunded plans of the companies and the possible effects of the SFAS No. 158  
113 on the adjustments to the balance sheet. Thereby, the differences between recognition and disclosure from the  
114 managerial perspective were captured, as lobbying was related to the perception of managers of the relocation of  
115 disclosed information in the financial statements and the the IASC Statement of Intent issued in 1990 suggested  
116 that last-in-first-out principle should not be applied by the companies. However, the principle could be used  
117 for income tax purposes in such countries as Italy, Germany, Japan, and South Korea, as the countries had  
118 intertwined tax and financial reporting (Whittington, 2007). The delegations from these countries voted against  
119 the elimination of the principle. This case confirmed the agency theory, as it demonstrated the presence of  
120 the conflict of interest. Besides, the case showed the significance of country-level factors that could determine  
121 lobbying decisions in the international settings (Nobes and Parker, 2008).

122 IV.

## 123 6 Conclusion

124 The paper investigated the determinants of lobbying in the field of accounting standards setting and found that  
125 the factor that was most often mentioned in literature and observed in the case studies was the size of the lobbying  
126 company. Furthermore, the decision to lobby was determined by the possible effects of the act or statement on  
127 the financial performance of the enterprise, according to the perceptions of the managers of this firm. The  
128 comparison of the IASB and FASB acts showed that the determinants of lobbying could be related both to the  
129 company-specific and country-specific factors. In addition, the literature review indicated the importance of the  
130 industry level in terms of the propensity of companies to lobby and the effects of lobbying on standard setting in  
131 accounting. The research confirmed both the agency theory and the stakeholder theory. From the agency theory  
132 view, lobbying in accounting standards setting takes place when the conflict of interest between the society and  
133 the standard setters or companies is observed. From the stakeholder theory perspective, enterprises care about  
134 the most powerful and legitimate stakeholders when undertaking lobbying efforts. <sup>1</sup>

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