

SGIR Turin Conference 2007

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Changes in Professional Standardisation – The Role of Private Actors in International Accounting Regulation

- First, preliminary draft. Please do not quote! -

Abstract

In recent years, International Accounting Standards (IAS/IFRS) have received increasing attention as an example of private cross-border regulation. While practitioners often refer to the coordination effects of these capital market-oriented standards, little is known about the interplay of standardization procedures with the composition of decision-making bodies. The paper takes a historical approach, reconstructing recent changes in the organizational development of the International Accounting Standards Board (IASB). In its attempt to acquire legitimacy, IASB has undergone two constitutional changes in the last ten years. The reconfigurations have strengthened constituents with a clear-cut capital market orientation. In general, a shift can be observed away from national professional associations now favouring globally operating services firms. The changes in the composition of decision making-bodies go hand in hand with standardization procedures that require a high degree of expertise and organizational resources. The combination of formal transparency and high entry barriers for participation has become a characteristic of international accounting standardisation severely challenging the role of public agents and limiting the influence of societal stakeholders.

1. Introduction

In recent years, accounting has received increasing attention in social science disciplines such as sociology and political science. Particularly the global diffusion of norms and standards as well as the private character of rule-making regimes are followed with interest. For a long time, practitioners and accountancy academics have pointed to the positive coordination effects due to a uniform set of standards used by global companies to prepare financial reports. However, this perspective has largely underestimated variations caused by national specificities and local adaptation. It has also underrated the political influences and dynamics of contestation that can be observed in the process of accounting standardisation that has been going on for more than three decades now.

The development of a uniform set of *International Financial Reporting Standards (IFRS)* can be considered an important step in globalising financial markets. A large number of listed companies is already applying IFRS to prepare their reports. Some have been doing so voluntarily, others follow national legislation. Convergence projects between IFRS and US-American and Japanese national accounting rules are under way and might ultimately bring about one global set of accounting standards. Advocates applaud these developments and consider them important to reduce transaction costs and enable more efficient allocation of capital. In contrast, alternative perspectives have criticised the distributive effects of financialisation brought about by capital market-oriented accounting rules (Froud et al. 2004, Perry/Nölke 2006). A lack of accountability of the international regime of accounting standardisation has been lamented (Véron 2007). Empirical evidence, however, is rare. There are virtually no studies that link a change in rules of financial accounting to the redistribution of corporate surplus. And even though an increasing expert-orientation is likely to disadvantage societal stakeholders, it is difficult to assess the direct consequences.

These issues provide the background for this paper which attempts to shed light on the current state of governance arrangement under which IFRS are developed today. Taking a process perspective, the interplay of organisational rules laid down in the constitution of the *International Accounting Standards Board (IASB)* on the one hand and the actual composition of oversight and decision-making bodies that make up transnational

standardisation are analysed. By looking at how structural conditions and the exercise of power complement each other, the paper aims at contributing some empirical evidence for a more political understanding of accounting standardisation. More precisely, it focuses on structural and factual conditions for standard-setting, highlighting the exclusive character the participatory regime, elements of social closure and the organisational lock-in of an Anglo-American interpretation of expertise.

The paper draws on theoretical work from a number of disciplines. For a long time, critical accounting theory (Hopwood/Miller 1994, Flower 1997, Power 1997) has pointed to the organisational embeddedness of accounting, although this has mostly been explored in cases of management accounting (Becker 2003). Studies of international political economy have analysed the changing nature of IFRS and found an increasing orientation towards fair value accounting following market price logics (Perry/Nölke 2006). Studies of globalisation have pointed to the network character of the IASB and underlined the importance of private actors (Braithwaite/Drahos 2000, Perry/Nölke 2005). The sociology of profession has put emphasis on the professional character of accountants with a strong tradition in self-regulation, particularly in Anglo-America (Willmott et al. 2000, Ramirez 2001).

IASB's development has also enjoyed some attention. Political influences have been considered (Martinez-Diaz 2005) and the perception of experts' interest-free and technical handling of affairs has been deconstructed (Tamm Hallström 2004). Emphasis has been put on the development of elaborate procedures which have been used to integrate opposition and mediate conflict (Botzem/Quack 2006). Shifting actor constellations are also identified. National professional associations which had initially orchestrated transnational standard-setting were replaced by professional services firms using IFRS to expand services world-wide (Botzem 2007). The current paper draws on these works, arguing for the importance of institutional embeddedness when assessing the influences of interest groups in transnational standard-setting.

The paper is divided into three main sections: Chapter 2 reconstructs reconfigurations in the organisational structure put in place to develop IFRS. In recent years IASB has undergone changes transforming the organisation into a private body which follows an Anglo-American model of self-regulated standardisation. Chapter 3 takes a look at the

current compositions of IASB's main bodies and finds a division of labour combining business interests of industry and finance with the professional expertise of accountants and auditors. Lastly, chapter 4 draws conclusions concerning the interrelatedness of organisational configurations and the representation, debating amongst others the issue of legitimacy.

2. Organisational reconfigurations: the constitutional reforms of 2000 and 2005

The IASB's constitution codifies organisational set-up and procedures to develop standards. Those rules resemble cultural convictions of professional understandings and varying business cultures. In this light, the constitutional changes of 2000 and 2005 can be interpreted as a confirmation of organisational identity and functionality requirements. The two reforms, however, differ widely in scope. The redrafting of 2000 is the most important restructuring in the IASB's history. It marks the shift from a representative part-time decision making body to an expert-driven organisation with full-time standard-setters. It has not been the first of these changes, however. The IASB's forerunner, the *International Accounting Standards Committee (IASC)* saw constitutional modifications in 1977, 1982 and 1992. One characteristic of IASC has been an incremental adjustment to its changing environment. In organisational terms, the gradual developments in the 1980s and 1990s paved the way from self-regulation by national professional associations to standard-setting influenced by market actors (Botzem 2007). During this time, much emphasis had been on establishing and strengthening links to international organisations and to interested private parties, above all users and preparers of financial statements. Importance was also given to regulatory organisations such as stock market oversight bodies and national standard setters (Martinez-Diaz 2005, Botzem/Quack 2006).

2.1 The fundamental reform of 2000: organisational reinvention

The structural reform of 2000 continued these trends by globalising an Anglo-American approach of self-regulation. Between 1973 and 2000, accounting standardisation saw a gradual development of standards' contents, but in effect was not of much relevance for financial reporting of large listed companies until the late 1990s. Only gradually did International Accounting Standards (IAS, today International Financial Reporting Standards, IFRS) become dominant international norms. During the 1990s acceptance

by stock market regulators and national standard-setters became important. The subsequent organisational changes can in part be traced back to the pursuit of market actors and political institutions to insert more direct influence (Martinez-Diaz 2005). More effective standard-setting procedures were needed to claim authority for global standardisation. In March 2001, the new IASB (official name: International Accounting Standards Committee Foundation, IASCF) took effect. Today, IASB resembles many characteristics of the Financial Accounting Standards Board (FASB) which had been assigned to set accounting standards in the US since 1973 (Porter 2005). FASB served as a blueprint for global professional self-regulation that was backed above all by Anglo-American actors¹. In the run-up to the constitutional reform of 2000 two opposing views became apparent. Anglo-American actors advocated a model of private expertise. European voices called for a logic of national representation.

In 1997, IASC established a Standing Working Party (SWP) to organise a constitutional reform process. A discussion paper was published and comment letters were invited. In the beginning, the working party suggested a 3-tiered structure trying to offer a compromise between the rivalling expert and constituency models. In fact, the working group was aware of the difficulties in securing future support for IASB:

One way to persuade IASC's constituents to accept its due process and its standards would be to set up an autonomous body of independent full-time highly skilled experts, with relatively small number of members for the sake of efficiency (an independent expert model). Another route would be to create a more broadly-based group from a larger number of countries and background (a constituency model). The Working Party believes that neither of these extremes would secure sufficient worldwide support from IASC's constituents. (SWP 1998: 84)

The confrontation between the US-American stock market regulator, the Securities and Exchange Commission (SEC) and the European Community (Martinez-Diaz 2005: 19) boiled down to the question whether or not a body composed of nationally delegated members should have final authority over the technical decisions of the new IASB. The large majority of Anglo-American comments rejected any “political” influence on

¹ FASB is comprised of two main bodies: the Financial Accounting Foundation (FAF) which is responsible for oversight, financing and selecting FASB's members. Currently the foundation is comprised of 5 Officers and 13 trustees. The technical standard-setting is done by seven full-time members of FASB who enjoy a high degree of independence in technical matters (Miller et al. 1998).

technical decisions. The SEC referred to issues of quality and international acceptance when calling for an independent organisation similar to FASB:

We strongly believe that the IASC should reject any proposal that does not grant the ultimate standard-setting authority to an independent decision making body consisting of expert standard-setters. The current SWP proposal to provide the IASC Board with the ability to veto the output of the group of technical experts serving on the SDC [Standards Developments Committee] represents a mismatch between the IASC's objectives and pursuit of an efficient and effective structure for setting high-quality, internationally accepted accounting standards (SEC 1999: 6).

At the end of the 1990s, US-American standards for financial reporting (US-GAAP) were the most serious competition to IAS. Against this background, potential acceptance of IAS for the use in US-American capital markets became an important issue and gave the SEC practically a veto-power with regard to the development of IASB. In addition, two members of the Strategy Working Party had for a long time been with the SEC and FASB.

After having received a total of 86 comment letters, SWP issued a new proposal following the Anglo-American model of a two tier structure: a group of 19 Trustees was suggested to oversee the IASB Board which should be comprised of 14 experts. The Board should have the sole responsibility of developing and drafting international accounting standards. Oversight and decision-making were separated. The authority for standard-setting was given exclusively to the IASB Board (for an overview see table 1).

Trustees were to be individuals with a commitment to high quality global standards. They should be “financially knowledgeable, and to have an ability to meet the time commitment.” Their composition was to follow a regional quota (6 from North America, 6 from Europe, 4 from Asia/Pacific and 3 from any area; IASCF 2002: para. 6).

In contrast to Trustees, IASB Board members were not to be selected on a geographical basis. For their selection emphasis was put on technical knowledge. “The foremost qualification for membership of the IASB shall be technical expertise. The Trustees shall select members of the IASB so that it will comprise a group of people representing, within that group, the best available combination of technical skills and background experience of relevant international business and market conditions”

(IASCF 2002: para. 20.). The constitution defined precise functional characteristics for Board members' selection asking for a balance of personal background stemming from auditing (minimum of 5 members), preparers and users (each a minimum of 3 members) and at least one academic, leaving the background of two members unspecified (IASCF 2002: para. 22.).

In addition, special consideration was given to some national interests. To enhance acceptance of IAS in the largest economies, a special liaison representation was introduced. Seven national standard-setters were given the right to make suggestions for appointments of IASB Board members. Representation was granted to four Anglo-American nations (the US, the UK, Canada and Australia/New Zealand). The other three national standard-setters were Japan, France and Germany. The new constitution of the International Accounting Standards Committee Foundation (IASCF) was approved by the old IASC member delegations in 2000 and finally came into effect on 6 February 2001.

2.2 The adaptive reform of 2005: organisational realignment

In contrast to the far-reaching reform of 2000, changes in 2005 were more modest realigning the already established governance structures. The constitution of 2000 already contained a clause to review the entire structure of the foundation every five years. Consequently, the Trustees started a revision project in November 2003 issuing a discussion paper, inviting comments and holding public hearings. Having received a total of 105 statements (comment letters or participations at public hearings) the Trustees' Constitution Committee voted for some organisational modifications. They specified their own role and increased the number of Trustees from 19 to 22 giving more weight to Asian representatives. Furthermore, the advisory body (Standards Advisory Council) was carefully strengthened and some more emphasis was given to detailed requirements of the consultation procedures.

The composition of the IASB Board was also reconsidered. The Trustees abolished selection requirements that referred to any quota of personal backgrounds of individuals. Instead, the focus was put on a balanced composition to secure "that the IASB as a group provides an appropriate mix of recent practical experience among auditors, preparers, users and academics" (IASCF 2005: para. 21). In practice, however,

composition of the Board remained unaffected, largely because the specific criteria of the constitution's predecessor were not taken too seriously in the first place. Core changes in the governance structure of the old IASC and the two configurations of IASB are summarized in Table 1.

Table 1: Organisational configurations of IASC and IASB

	IASC: pre 2000	IASB: 2000-2005	IASB: since 2005
Official name	IASC: International Accounting Standards Committee	IASCF: International Accounting Standards Committee Foundation	IASCF: International Accounting Standards Committee Foundation
Oversight organ	IFAC (International Federation of Accountants) – only formal oversight	Trustees of the Foundation (19 members)	Trustees of the Foundation (22 members)
Decision making organ	IASC Board (17 delegations, changing number of individuals)	IASB (International Accounting Standards Board) 14 members	IASB (International Accounting Standards Board) 14 members
Formal principles of representation	mostly national representation, supplemented by functional representation – IASB is effectively acting as a unitary body with powers of oversight and decision-making	TRUSTEES: individualist representation, balanced by regional quotas BOARD: individualist representation with functional quotas and safeguarded by special liaison relationships with the biggest economies	TRUSTEES: individualist representation, balanced by regional quotas BOARD: individualist representation; no individual functional requirements, no special liaison relationships
Size and compensation	In 2000, the IASC Board included 56 individuals (9 observers without voting rights) unsalaried	19 Trustees unsalaried Board: 12 full-time, 2 part-time	22 Trustees unsalaried Board: 12 full-time, 2 part-time
Mode of Voting	One delegation one vote	One man one vote	One man one vote
Required majority for standard-setting	Majority: Three quarter	Majority: 8 of 14	Majority: 9 of 14

Source: own composition

2.3 Summarising changes in organisational configuration

Up to the reorganisation in 2000, there was no strict division between oversight and decision-making in transnational accounting standardisation. All functions were combined in a relatively large body in which individuals were bound to vote with their

delegations. Increasingly complex decisions and a rise of the number of individuals participating in the debates made the organisational reform necessary (Tamm Hallström 2004). In theory, the old IASC was overseen by the world federation of national professional accounting bodies (IFAC). In practice, however, IFAC did not exercise much influence.

The central change in 2000 was the introduction of a two tier system of standard-setting modelled after the US-American standard-setter. Trustees oversee all activities, most importantly the organisation's IASB Board. Trustees secure financial support and select IASB Board members. Changes in 2005 lead to a strengthening of the already established expertise-based model of standard-setting. Some of the safeguards of the 2000 constitution were abolished, such as a quota for functional backgrounds of Board members and the liaison relationships of national standard-setters. With regard to the decision-making organ, the governance arrangements of the early years of IASB (2001-2005) can be labelled *mediated expertise*. An insider group of experts was set up with complete authority over the technical solutions. Despite the Board's formal independence, special regard was given to seven national standard-setters. In 2005, these limitations have been removed and paved the way for *unlimited expertise*. The removal of liaison relationships with national standard-setters abandoned that last strand national representation. In addition, insider power was increased, raising the required majority from 8 out of 14 to 9 out of 14 votes for all important Board decisions. These changes fortified the logic of private, capital market-oriented accounting standardisation already implemented in 2000.

Similarly to FASB, the current constitution effectively shields the IASB Board from any intervention of outsiders. Standards are set by a largely untouchable group of individuals to be recruited on the basis of their experience and professional knowledge. Not even the Trustees may interfere with the Board's decisions. Their influence is limited to the termination of member's appointments after personal misconduct. With respect to all technical decisions, the IASB Board is autonomous: It has full discretion in developing and pursuing the technical agenda of the IASB (IASCF 2005: para. 31(c)). The group making up the IASB shall be "the best available combination of technical expertise and diversity of international business and market experience in

order to contribute to the development of high quality, global accounting standards” (IASCF 2005: para. 19).

Today, oversight is exercised by 22 Trustees selected according to a regional quota and personal background. Except for minor requirements the Trustees’ accountability remains vague at best. Paragraph 6 of the constitution states: “The Trustees shall be required to commit themselves formally to acting in the public interest in all matters“. In addition, a continuous review process is established which calls for a constitutional review every five years. In sum, IASB can be characterised as a self-controlled and free-floating arrangement with unclear requirements of accountability. The following section analyses to which degree these deficiencies are reproduced by the recruitment of Trustees and IASB Board members.

3. Patterns of representation

Organisational configurations mark the conditions in which individuals and organisations unfold their activities. As in other cases of global governance, transnational standardisation is characterised by an incremental evolution of these structural conditions. They provide the rules of the game which actors take into account when unfolding their activities. The compositions of the group of Trustees and the IASB Board at the end of 2006 indicate a division of labour between different interest groups. The semi-autonomous organisational structure already visible in the IASCF constitution is reinforced by the composition of the bodies further putting in doubt the accountability of the transnational standardisation regime.

3.1. The IASB trustees: oversight by high profile individuals

Part A of the current constitution (IASCF 2005: paragraphs 4-14) outlines procedures and conditions for Trustees to oversee the activities of IASB. The body is composed of 22 members who serve a three year terms renewable once. Their main activities are geared towards the adoption and application of standards: “Each Trustee shall have an understanding of, and be sensitive to the challenges associated with the adoption and application of high quality global accounting standards developed for use in the world’s capital markets and by other users“. Their mix shall consider geographical criteria with 6 Trustees seeming from North America, Europe and Asia/Oceania. Additionally, four

Trustees shall be appointed from any area, subject to establishing overall geographical balance. The Trustees' selection is based on a system of co-optation: "The Trustees shall be responsible for the selection of all subsequent Trustees to fill vacancies caused by routine retirement or other reason." A balance of professional backgrounds is also called for. Namely, auditors, preparers, users of financial reports as well as academics and other officials are to be members of the group of Trustees. An explicit reference is made to the auditing community: two of the Trustees "shall normally be senior partners of prominent international accounting firms." Except for important decisions which require a 75% majority, simple majorities are applied for all other matters.

The constitution specifies the Trustees' tasks as follows: to assume responsibility for establishing and maintaining financing arrangements, to appoint the members of the IASB and other organisational bodies such as International Financial Reporting Interpretations Committee and the Standards Advisory Council. On a continuous basis, the Trustees are supposed to review the strategy of the IASC Foundation, the "IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda".

In addition, it is the Trustees task to promote the IASC Foundation and its work as well as the rigorous application of standards. Nevertheless, their practical engagement is clearly limited: "Trustees shall be excluded from involvement in technical matters relating to accounting standards". To fulfil these tasks, the group of Trustees is comprised of high profile individuals of global finance. For five years former US Federal Reserve Board Chairman Paul Volcker has chaired the Trustees. In an attempt to bring in more European influence, Tommaso Padoa-Schioppa, formerly a member of the Executive Board of the European Central Bank succeeded him. However, not long after taking over the post he retired to become Italian Finance minister. Since summer of 2005 Philip Laskawy, retired chairman of Ernst & Young International chairs the group. Table 2 give an overview of the group of Trustees as of Dec 31, 2006 which includes only 21 individuals due to the mid-term retirement of Padoa-Schioppa.

Table 2: IASB Trustees in 2006

Position	Nat. origin	Trustee since	Employer / former employer	End of term	Sector
Chairman	US	2001	Retired Chairman, Ernst & Young International	2009	AUD
Vice Chairman	FR	2003	Chairman, Assoc. Française des Entreprises Privées; Chair Lafarge	2009	INDU
Member	ZA	2001	Chairman, Sanlam Ltd	2006	INDU-FIN
Member	CN	2006	Retired Chairman of KPMG Hong Kong, Hong Kong SAR	2008	AUD
Member	US	2006	Chief Executive Office, PricewaterhouseCoopers	2008	AUD
Member	ES	2005	Vice Chairman, Omega Capital; Former Chairman and CEO, Repsol	2007	INDU-FIN
Member	CA	2001	Chairman, Ogilvy Renault, Barristers and Solicitors, Former Ambassador to the UN	2006	INDU
Member	JP	2005	Chairman and President, Japanese Institute of Certified Public Accountants (JICPA)	2007	ACC-PRO
Member	NL	2001	Former President, Royal Dutch Petroleum	2006	INDU
Member	AU	2004	Former CEO of the Australian Stock Exchange; Director, HSBC Australia	2007	INDU-FIN
Member	DE	2003	Member of the Supervisory Board, BASF AG	2008	INDU
Member	Int. Org.	2003	General Manager, Bank for International Settlements	2007	INT.ORG
Member	PL	2006	CEO and Chairman of CA IB Group in Poland	2007	INDU-FIN
Member	CN	2006	President, Chinese Institute of Certified Public Accountants; former Minister of Finance	2008	ACC-PRO
Member	US	2006	Vice Chairman Merrill Lynch and Company	2008	INDU-FIN
Member	UK	2006	Former Chairman, Financial Reporting Council, UK	2008	REG
Member	US	2006	Vice Chairman, Pfizer Inc	2008	INDU
Member	BR	2001	First Chairman, Brazilian Securities and Exchange Commission – CVM	2007	REG
Member	IN	2006	Chairman of the Board, Infosys BPO Limited,	2008	INDU
Member	JP	2006	Chairman, Nomura Holdings Inc, Japan	2008	INDU-FIN
Member	CH	2005	Vice-Chairman, Capital International	2007	INDU-FIN
<p>Key: Sector AUD: Auditing firms INDU-FIN: Private Industry Firms from Financial Sector INT.ORG: International Organisation INDU: Private Industry ACC-PRO: Accounting Professional Body REG: Regulators</p>					

Source: own composition based on various annual reports of IASB

Geographical background: The global balance of Trustees is codified in the constitution, giving North America, Europe and Asia/Oceania 6 members each and an additional 4 at the Trustees' discretion. The composition of 2006 shows an overrepresentation of Europe while there are only 5 individuals from North America. Considering business and professional backgrounds, however, points to a different distribution. Adding the British, South African and Australian representatives to the North American camp leaves Anglo-America with 8 individuals. Not a majority, but enough to block any substantial changes that require a 75% majority.

Sectoral distribution: Out of 21 individuals only 5 come from organisations with no direct background in business, two from national regulatory agencies, two from national professional accounting bodies and one from an international organisation, the Basle Bank for International Settlements. The other 16 members come from big auditing firms (3), industry (6) and the financial sector (7). In some cases the classification is complicated, but the overall picture remains unchanged: In 2006 the Trustees have a strong background in business and financial services, giving room for auditors, preparers and users of financial reports. These groups also supply the largest sum of financial contributions. In contrast to the constitutional requirements, there is currently no academic included.

Turn-over: Due to the enlargement of the number of Trustees from 19 to 22 in 2006, a high proportion of Trustees are first-time members. 9 individuals joined the group in 2006 resembling more than 40% of all members. Of the 5 members which were part of the group of Trustees since its inception, three left the Board at the beginning of 2007.

In general, oversight is exercised by a group of individuals with a strong background in business and finance. Only 4 Trustees come from outside the OECD world. This falls short of a blocking majority. The composition effectively locks-in the already agreed-upon Anglo-American mode of transnational standard-setting.

3.2. IASB Board: professional background of decision-makers

Since its inception, the IASB Board is comprised of 14 members, 12 of them on a full time basis. Except for the two part-timers, Board members give up their former position and become employed by IASB. In contrast to the Trustees, turnover of the IASB Board has remained very low. Out of the 14 members active at the end of last year, 11 had been selected in 2000. Two of the three individuals selected after 2001 entered the Board upon the early retirement of another member. Instead of national background, the IASCF constitution puts much emphasis on personal experience of the standards setters. At the end of 2006, the Board was comprised as follows:

4 representatives from industry: Four members had previously worked for companies preparing financial reports (Citigroup, DaimlerChrysler, Volvo and AngloAmerican).
4 representatives from auditing firms: Four members came from the auditing firms (PWC,

KPMG, Deloitte and Stevenson/McGregor). 3 representatives from national standard-setters: Three Board members brought in practical experience they had with national standard-setters on a full time basis. All are from Anglo-American countries (US, UK and Canada). 3 members from other constituents: Three individuals have each worked in other sectors before joining the IASB Board. One worked for a securities market regulator, one is a financial analyst and the third has a background in academia².

Table 3: Composition of IASB Board as of Dec. 2006

Position	Nat. background	Board member since	Employer before joining IASB Board	Background in Accounting	Former Partner in Auditing Firm
Chairman	UK	2001	UK standard-setter (ASB)	Yes	Yes
Vice-Chairman	US	2001	Citigroup	Yes	No
Member (Part-time)	US	2001	Stanford University	Yes	Yes
Member (Part-time)	US	2002	Deloitte & Touche	Yes	Yes
Member	DE	2001	Daimler Chrysler	No	No
Member	US	2001	Wellington Management (Financial Analyst)	No	No
Member	ZA	2001	AngloAmerican Corp.	Yes	Yes
Member	FR	2001	KPMG	Yes	Yes
Member	US	2001	US standard-setter (FASB)	Yes	Yes
Member	AU	2001	Stevenson McGregor	Yes	Yes
Member	CA	2001	Canadian standard-setter (AcSB)	Yes	Yes
Member	SE	2004	Volvo	No	No
Member	FR	2006	French Stock Market Regulator	Yes	Yes
Member	JP	2001	PWC	Yes	Yes

Source: own composition, various annual reports of IASB

Table 3 displays a number of characteristics that show a firm Anglo-American dominance. In addition, the Board is characterised by a high degree of homogeneity:

- a) Anglo-American dominance: 9 out of the 14 member have a national background in a country with Anglo-American business traditions and a firm believe in professional self-regulation. Except for one individual from South Africa, no individual comes from a developing country.
- b) All industry representatives have been with big corporations. No explicit experience seems to rest with small and medium sized enterprises.
- c) Until recently, no members with experience in regulatory oversight were on the Board. This has changed with the recruitment of one individual who had been with a national stock market regulator.

² The academic representative as well as a partner from Deloitte are part-time members of the Board.

- d) Three individuals have brought with them experience in national standard-setting. They come from countries with the longest and strongest tradition in private standard-setting, all of them of the Anglo-American: The US, UK and Canada. In addition to their know-how in standard-setting, all of them are trained accountants and have been partners with auditing firms.
- e) The leading individuals, most notably both the Chairman and the Vice-Chairman are from Anglo-America. They have already been members of organisation's predecessor and served on the old IASC Board as national delegates since 1995.
- f) An indicator for a lack of diversity is the high proportion of individuals with a personal background in accounting. 11 of the 14 individuals are trained accountants and during their business career, 10 have been partners with auditing firms.

3.3. Summarising compositions of IASB oversight and decision-making

Comparing the composition of the group of Trustees and the IASB Board shows a remarkable difference concerning the degree of stability. While the turn-over of Trustees is quite high, IASB remains much more stable. In terms of background of members, Trustees have a clear business orientation. This might be helpful to fulfil their constitutional assignment including fostering relationships with other national and international bodies, working for the proliferation of International Financial Reporting Standards (IFRS) and above all securing finances. In contrast, the IASB Board resembles different characteristics: Most of its members have a background in auditing but display no close linkage to national professional associations. Instead, personal experience with big auditing firms is one of the most common similarities of IASB Board members. The IASB's member's practical background in accountancy is complemented by a group of Trustees which resembles extensive business experience. To sum up, the composition of both bodies can be described as a division of labour in standard-setting. The IASB Board is comprised of professionals who enjoy independence and exercise self-regulation when developing and setting standards. Trustees recruited from members of a global business elite control – and effectively shield Board members from influence.

4. Conclusions: Private Actors in International Accounting Regulation

The combined analysis of constitutional determinants and composition of organisational bodies' points to the importance of a holistic approach to better grasp global governance arrangements. Furthermore, a process perspective underlines the continuous evolution of IASB. Reflexivity and reactive capacity characterise the transnational standardisation of accountancy both in terms of the organisational set-up as well as personal recruitment. This underlines the incremental institutionalisation of a global standardisation regime. Empirical observations indicate that IASB has adjusted to functional, political and normative requirements in a number of ways. Three main findings can be summed up: an increasing sophistication of the division of labour within IASB, the modification of dynamics of social closure and a lock-in of an expertise-based concept of legitimacy.

Division of labour: As part of its strive for authority as a global standard-setter, IASB has strengthened its dual oversight/decision-making configuration. The group of Trustees has been given more authority for oversight. At the same time, the composition of the group of Trustees reveals a lack of accountability. Despite explicit constitutional requirements no member of the Trustees is an academic. The inadequate recruitment has no consequences as long as the Trustees' credibility remains unaffected. It could even be speculated whether there is a trade-off between the different functions Trustees are supposed to follow. Securing finances and lobbying for the global application of IFRS might be prioritised over recruiting a balanced group of Trustees.

This might equally be true for the relationship of Trustees and the IASB Board. The selection of Board members is formally exercised by the Trustees. It remains unclear, however, how this is done in practice. The constitution calls for a Board that works well together as a whole. At the same time, Trustees are supposed to select Board members independently. It appears that in practice, contact might be much closer and cooperation between the two bodies more harmonious than suggested by the constitution. The limited powers given to Trustees to intervene with the IASB Board give Board members a high degree of independence. This makes the recruitment of IASB Board members one of the central decisions in transnational accounting standardisation. However, there is no transparency over the list of applicants, nothing is known about selection criteria

and no information is available of potential influences of the current Board. While the division of labour between Trustees and IASB Board becomes increasingly formalised, the recruitment of Boards members remains in the dark. An ever more detailed consultation process for standard-setting is designed to counter some of the criticism, but does not solve the problems of accountability.

Social closure: Like other professions, accountancy associations exercise a high degree of social closure when selecting its members. Accountants use knowledge, organisational configurations and power strategies (Reed 1996) to improve their relative position vs. other professions but also vs. public authority. Even though, constitutional changes have led to a reduced influence of professional associations, social closure has not disappeared. Instead, a transformation of social closure can be observed. Its characteristics are embedded in the IASB's structures and expressed by recruitment of standard-setting individuals which is supported by the existence of a small global community of standard-setters.

The basic decision in 1999 to opt for a global standard-setter modelled after the US-American FASB has established a mode regulation which gives high priority to independent experts. In this regard, the homogeneity of the IASB Board points towards a particular type of social closure. The dominance of accounting and auditing backgrounds puts the general call for an adequate mix into question. This is also expressed by the fact that the core positions are held by Anglo-Americans. In addition, the low turn-over of IASB Board membership can be seen as an indication of insider power. In contrast to professional associations in which closure was exercised via the educational certificates, today IASB's closure stems from the intransparent recruitment practices. In practice, the only occasional entrance of new Board members allows the socialisation of individuals and helps to perpetuate of the dominating normative beliefs. The social closure of IASB Board members is complemented by the group of Trustees.

Legitimacy: IASB's legitimacy is based on an Anglo-American conception of expertise which values the independence of individuals and gives importance to transparent consultation processes for standard-setting. In this understanding, much of the legitimacy is derived from the effectiveness attributed to the standards. In contrast to input-legitimacy which was argued for by the European Community in 2000, the current

structure displays a clear functional separation granting experts a particular role. Porter (2005) has argued in favour of such a separation of political/public, private/economic and technical authority. While this might be the most effective way to bring about a set of widely accepted standards, a perspective of functional division of authority remains problematic. In part, such a view reproduces the supremacy of technical expertise argued for in much of Anglo-America. This contributes to acknowledging the functional dimension of standards and can easily be applied in the name of more efficient capital markets.

Mattli and Büthe (2005) have discussed the issue of legitimacy from a principal-agent point of view. In an analysis of FASB, they identify problems deriving from a multiplicity of principals: “when public regulatory authority is delegated to a private actor, the agent ends up with at least two principals: one public and one private. [...] This arrangement will advantage those who constitute the private principal over other groups with a stake in the regulatory matter” (Mattli/Büthe 2005: 418). In the case of IASB it is even more drastic. In contrast to FASB which is formally bound to public authority, IASB is characterised by the absence of an identifiable principal. In the US, the Securities and Exchange Commission is responsible for accounting regulation but has chosen to “rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfil the responsibility in the public interest” (FASB 2007: Facts internet).

IASB in contrast, sole responsibility rests with the group of Trustees. They are the principal, but practices of how recruitment is exercised remain unclear. Ultimately, Trustees are accountable only to themselves. Véron addresses this problem and calls for more accountability towards the IASB’s stakeholders: “Legitimacy is bound to remain contested unless the organisation’s stakeholders are given means, even indirect ones, to remove non-performing trustees or to block questionable appointments. (Véron 2007: 50). This might be a first step, but the crucial questions remain unanswered: Who are the relevant stakeholders of IASB and how much power shall be handed over to them? Taking Véron’s call serious would mean to change the entire set-up of IASB and reintroduce a legitimacy scheme based on the representation of stakeholders. Considering the strong Anglo-American fight for expertise as a basis for legitimacy, prospects for change look rather grim.

From a more general point of view, the case of IASB can serve to draw some conclusions for theoretical considerations. Emphasising the importance of process dynamics and the institutional embeddedness underlines the role of actors and the degree of contestation they engage with. Furthermore, it indicates that there are different objects they fight over. In addition to the standards of accounting they are also engaged in a continuous struggle over the rules of standardisation. Over time, the institutionalisation of rules is likely to foster decisions taken earlier. Even though change remains possible, it becomes more difficult. Critical junctures, such as the IASB constitutional review of 2000, help to institutionally lock-in certain compromises. In the case of IASB, an Anglo-American understanding of private self-regulation has been codified based on a particular concept of legitimacy. This goes hand in hand with stability enhancing voting requirements and a degree of leeway which favours a dominating insider group. However, there is no guarantee for the stability of rules or structures. Just as globalisation leads to deconstruction at the national level (Scott 2001), structures at the global level might also be reconfigured over time. As long as there is an absence of public interest in accounting, the advantage rests with established arrangements, particularly if they have been set up as reflexive regimes. The continuous examination of the constitution every five years ensures some credibility for IASB. If societal actors do not want to wait for external shocks, active involvement and a more general debate about accounting regulation are needed to enable societal stakeholders to influence the course of IASB more strongly.

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