How accountable is the ‘International Accounting Standards Board’?

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Introduction

One of the biggest challenges societies are facing today is to reconcile democratic politics with global interdependencies. Political theorists have been proposing various models of global democracy, without, however, being able to answer how these models could be implemented in a global space characterised by a plurality of norms and values. In order to circumvent these difficulties, Robert Keohane and others (Grant and Keohane 2005, Buchanan and Keohane 2006) have chosen an alternative approach: they suggests taking the institutional infrastructure of global governance for granted and ask how that infrastructure could be democratised. The question of how to establish global democracy is transformed into the question of how global governance institutions can become more accountable.

To date, the question of how democratic global governance is and should be, has been discussed mostly with respect to traditional international organisations, e.g. the Bretton Woods instutions, the IMF, the World Bank, and the WTO. This focus is no longer justified, since there is trend to new modes of global governance. Transnational governmental networks such as the Basel Committee on Banking Supervision (Slaughter 2004), NGOs such as the Forest Stewardship Council, or even private firms such as credit rating agencies, can be regarded as global regulators issuing best practice rules. At first, such standard setting seems to be an inherently legitimate form of governance. Since standards are voluntary rules, any adversely affected party can chose to ignore them. However, one of the peculiar characteristics of regulation by standards is that once they are drafted and published can become quite compelling for actors, for example by a network effect or by the enforcement of government actors. For the reason that standards can be coercive, even if only in a subtle way, it is reasonable to ask, how accountable they are (Kerwer 2005).

The basic hypothesis about the accountability of standard setters depends on the view of how standard setting works. Standard setters usually see themselves in the business of setting rules which need highly specialised knowledge. In political science, this is sometimes interpreted as a mere justification strategy and it is suggested to see standard-setters as an arena where powerful actors pursue their interest (e.g. Mattli and Büthe 2003). This reductionist view of standard setting suggests that the question of accountability is not sensible to ask because standard setters are not really autonomous actors.

An alternative 'holistic view' of standard setting takes the technical basis of this type of rule-making more seriously (Loya and Boli 1999, Brunsson and Jacobsson 2000, Porter 2005).

Only if it is acceptable that standard setters are expertise based autonomous organisations, does it make sense to ask whether they are accountable. However, in this case the expectation would be that standard setters are rather immune to external control. First, for the very reason that they posses the relevant expertise, outsiders are comparatively less knowledgeable and will therefore find it hard to challenge them. Furthermore, if standards are enforced by other actors, it becomes hard for stakeholders to attribute the blame for any negative consequences of standard-setting. Overall, the standard-setting literature seems to suggest that they are forms of governance beyond the control of outside actors.

In the following, I want to pursue this question by looking at one case of standard-setting, the setting of global accounting standards by the IASB. The case is especially suitable because it can be seen as a highly successful example of the shift in global governance to private actors or soft law arrangements. It is claimed that global financial reporting standards are a considerable contribution to the global public good: They supposedly increase the efficiency of capital markets and they contribute to avoiding financial crises, one of the more noted downsides of financial globalisation.

The question, how accountable the IASB is to external actors is a relevant question. It is often argued that the project of creating global accounting standards is inherently biased. It takes as a model Anglo-Saxon capital markets and the standards favour big business (Perry and Nölke 2005, 2006). Of course, this does not necessarily imply a legitimacy deficit since the goal of creating global capital markets is a goal presently embraced by many a democratic elected government. However, these standards have the potential to produce externalities for specific actors and specific regions in the world economy, for example, coordinated market economies in general as well as SME's in particular. For this reason, the question of how accountable the IASB should be is not just a theoretical issue but is being discussed by accounting rule-makers and beyond.

As shall be shown, there are numerous potential actors affected by global accounting standards and thus stakeholders with potential accountability (see below). Here, the analysis is going to focus on the question, how accountable the IASB is to the European Commission, the ultimate accounting regulator of the European Union. Since the EU has adopted global accounting standards for promoting the single market, it must have an inherent interest to mitigate any adverse effects on member state that are of the coordinated market economy type or on SMEs. Also, the EU is one of the actors that has persistently called for efforts to strengthen the accountability of standard-setters. The relationship between the global

accounting standard setter and the EU therefore is a crucial test for the accountability of this global standard setter.

The paper shall proceed as follows. First, I want to introduce an analytical framework to generate some hypotheses on the possible influence of EU actors on the standard-setting process. The subsequent sections present possible stakeholders and how they are represented within the standard setting organisation. I then discuss the influence of EU public actors on the standard setting process. I conclude that vis-à-vis the EU, the accountability of the IASB is low and discuss, why it is possible to tackle this by reforming the standard-setting organisation.

Theoretical framework

The starting point of my analytical framework is the conviction that the essence of standard-setting is expertise based rule-making. At the very least, standard setters rely on the authority of expertise to inspire users to comply (Loya and Boli 1999; Brunsson and Jacobbson 2000). The core of standard-setting is 'technical rationality' (Porter 2005). The same is true for accounting standard setting. For example, in a book length case study of the decision-making process of 'International Accounting Standard No. 12' on income tax Anja Hjelström (2005) demonstrates that deliberations of the standard-setters' decision making body, the Board, are conducted in the language of expertise. Thus, the decision-making process was not a mere diplomatic bargaining game. This central role of expertise is what distinguishes standard-setting from other forms of rule making. Standard setting is inherently technocratic.

Conceptualising accounting standard-setting as technocratic rule-making seems to be rather implausible from a political science perspective. In the more recent literature on the IASB, political scientists have pointed to the fact that representation of stakeholders within the organisation as well as the rules it makes are biased in favour of Anglo-Saxon accounting traditions and the interests of multinational companies. Given this observation, the IASB seems to be not an arena for bargaining or arguing but rather a captured rule maker without any autonomy (e.g. Perry and Nölke 2005). In such a situation, 'Expertise' seems to amount to little more than the ideology of the accounting professionals in the pursuit of their own interests (Botzem, forthcoming).

From a political science perspective, politics and expertise seem to be mutually exclusive. Yet, there is empirical evidence that they are not. So how can the two views be reconciled?

An interesting framework that can reconcile both expertise based decision-making as well as influence on the decision making process been presented by Walter Mattli and Tim Büthe (2005a, 2005b). The framework consists of an extended principal agent analysis that seeks to address the specific accountability problems of private standard setters.

The first insight is that whenever public actors delegate authority to private actors, a constellation of multiple principals occurs. The reason for this is that private standard setters per definition already have private principals with an interest in the standards. This is opposed to public delegation, where in a formal hierarchy, only one principal exists.

The second major proposition is that the influence of external stakeholders depends on their *access* to principals. Thus, a stakeholder that is strongly represented within one organ of the standard-setting organisation has a better chance of influencing the decision-making body than one which is not.

The third major proposition of the model is that the influence of external stakeholders depends on the relative strength of the accountability relationship between the principals and the agent. In conformity with the assumptions of rational choice theory, the major hypothesis is that this relative strength depends on the sanctioning potential of the principal vis-à-vis the agent. Thus, the standard setter is likely to obey the most powerful principal.

This leads the authors to their central hypothesis: as a rule, private principals will be more successful than public principals. The reason for this is that they provide standard setters with two crucial resources that standard setters need to operate: financial resources and expertise. If private actors withhold these, they threaten the survival of the standard-setter. The public principal's sanctioning potential often only amounts to some weak kind of oversight (Mattli and Büthe 2005: 418).

Thus, this analytical framework suggests that the 'technical rationality' of accounting standard-setting explains, why (some) private actors are more influential than other actors. It is the power of expertise that wins out. With respect to the global accounting standard setter, this would mean that those have the best control that know most about the problems of international accounting standards: i.e. multinationals and the global auditing firms.

Accountability also has a constructivist dimension. Since accountability is also about justification. This has a decisive influence on the strength of the accountability relations as well (Mattli and Büthe 2005a, 2005b). Furthermore, it influences the perception of what the proper balance should be between the different groups of actors, public, private and technical,

that are involved in the standardisation game (Porter 2005). Thus, in times of crisis, some actors can become more influential than others.

Yet, simply instituting structural reform my not be adequate. Representing others in the standardisation game may not make much of a difference; at least they will not be as powerful as other parties. Thus, there are limits to enhancing accountability by procedures that have been developed for administrative law.

Mattli and Büthe develop the hypothesis that in accounting standard setting, the preparers are most influential. They demonstrate this with an analysis of FASB. They then extend this analysis tentatively to the global accounting standard setter, arguing that public actors are even less likely to have an influence.

In the following, I want to demonstrate that compared to the national setting, the trans-national setting public actors do not only have a positive potential to sanction but they can also withhold a very important good for the standard-setter: endorsement. This gives considerable leverage to public actors. This additional leverage matters as public actors do not necessarily have to be captured by private actors.

Stakeholders: interests

Only those actors who feel they are affected in some way by the standard setting process are likely to respond to the standard setting process. Even if these stakeholders do not act on their own behalf but are represented by an interest group acting in the name of the common good (for example due to collective actions problems), this presupposes that somebody is somehow adversely affected. Thus, an important step in the analysis of the accountability of standard setting organisations is the identification of affected actors that can be understood as stakeholders. Accordingly in this section the question is: who are the stakeholders in the trans-national standard-setting game?

While those affected by global accounting standards in some way or another is possibly an endless list of actors, a pragmatic list of stakeholders can easily be compiled. Since global IFRSs involve national standard-setters as well as the global standard-setter, a first list of stakeholders needs to include both.

Financial reporting standard-setting in the US suggests a number of broad categories of stakeholders (Beaver 1981, 16; Miller, Redding and Bahnson, 1998: 16-18). In order of impact, they can be listed in the following way.

FRS are an immediate concern of *company managers*. Since FRS shape the way a company reports its numbers, it can influence the access to external financial resources. Mangers usually press for less public information. The incentives for the management to get involved are influenced by the size of the firm its ownership structure. A manager of a small firm with a tight ownership structure will be less concerned than a manager of a public multinational company.[1]

As a rule, all published financial statements need to carry the seal of approval of an independent *auditor*. Therefore, auditors have a stake in the standard-setting process as well. As a rule, auditors intervene to change standards so that published information becomes easier to check. They may also intervene to enhance their own business, for example by pushing pet solutions where they have unique problem solving competencies to offer to firms.

The activity of financial reporting presupposes that there are other actors who have an interest in this type of information. The most important user group are *investors* who buy share in a firm or grant loans such as banks. A second important user group are *information intermediaries* such as financial analysts, Rating Agencies and investment advisory firms. All of these users usually have an interest in an increasing information disclosure.

Public *regulators* and stock markets have the task to ensure high quality financial reporting and to prevent fraud. FRS provide important guidelines.

Ultimately, IFR are even a concern of the general *public*. IFR contribute to the efficiency of capital markets and thereby allow the entire economy to be more productive. Furthermore, IFR can reveal problems in therefore can play a role in preventing adverse economic developments. Therefore, the public has a general interest in standards that serve this purpose. In the USA these stakeholders have engaged in the classic game of pluralist interest politics.There are numerous episodes that show how various interest groups have lobbied to shape new standards or reform existing ones. However, for the analysis of global standard-setting, the list has to be supplemented and specified. There a number of peculiarities which give rise to different kinds of stakeholders

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[1] Contrary to this common sense expectation that the major interests in the setting of financial reporting standards are the users of those financial reports, i.e. investors and creditors, user do not often even attempt to lobby the standard-setting process. The voice and the need of the users are only invoked by others (Hopwood 1994).

First of all, there are the national standard-setters which have a natural stake in any type of global FRS. Such competing organisations do not exist at the national level; national uniformity of accounting standards seems to be the natural thing to have. These national standard-setters have pursued different approaches and are therefore likely to influence standards in such a way as to reduce adaptation costs.

Auditing at the global level is dominated by a small oligopoly of multinational auditing firms, the so called 'Big Four'. Given that they need to certify financial statements' correspondence with such standards, they can be expected to have a strong interest in the standard-setting process. Such standards affect deeply their future operation. There are indicators that these global auditors are highly influential stakeholders in the standard-setting process (Hopwood 1994). However, little is known about their exact preferences and the prime motives of integration.

Another major difference between the national and the global level exist with respect to public regulators. While at the national level standard setters are part of a rather consistent formal chain of delegation, this is not the case at the international level. The hierarchical structure of regulators is replaced by a number of different actors which endorse the IFRS. These can be either single states or international organisations, which seek to promote the usage of standards among their members. The most important of these organisations endorsing accounting standards was the IOSCO and the EU. Both organisations had an interest to influence standards because they have been promoting their usage among members and beyond.

As to the other categories of stakeholders they are also relevant for IFRS, since they are not addressed primarily to states but also directly aim to convince companies of their usefulness. However, probably the management of multinational companies which have to invest considerable resources in establishing consolidated accounts or which have to produce multiple accounts have an interest in fostering the process. So should information intermediaries operating at a global scale. For example, one of the prime challenges of global rating agencies is to measure risk according to a single scale so as to make them comparable. This would probably be greatly facilitated by uniform global FRS, since firms and other economic entities would present financial information in a uniform way.

Governance structure: access

According to the theoretical approach pursued, the argument is that stakeholders represented within an organisation have an advantage over those external stakeholders that do not. Access depends on two features: the structure and the procedures, in which they cooperate to produce a standard. This raises the question, how the setting of global accounting standards is organised.[2]

Legally, the international accounting standard setter is a non-profit organisation incorporated in the USA. It consists of two main decision-making bodies, the International Accounting Standards Board (IASB) and a supervisory body, the Trustees. The Trustees appoint the IASB members, exercise oversight and raise funds, but are not directly involved in standard-setting itself. Setting standards is the sole responsibility of the IASB. In addition to the decision-making bodies, there are two advisory bodies, the 'Standards Advisory Council' and the 'International Financial Reporting Interpretations Committee'. There duty is giving advice to the standard-setting process.

Key for an understanding of access for external stakeholders is the question, who is represented in these bodies?

The decision-making body of the IASC Foundation consists of 22 trustees, which are financially knowledgeable, and have an understanding of the relevant international issues. (IASC Foundation Constitution, Paragraph 6). The Trustees raise funds for the operation of the Board, supervise its standardisation strategy and revise the constitutional rules. However, they are not directly involved in the standard-setting procedure (Paragraph 20). The trustees are nominated according to expertise but also according to geographic distribution: USA: 5, Canada: 1; Europe 7; Asia 6 (including one seat for Australia); finally there Brazil, South Africa and the Bank for International Settlements is included. They are members of multinational firms, global accounting firms, public regulators, and international organisations (BIS).

The International Accounting Standards Board consists of 14 members coming from different countries and from different occupational backgrounds. The trustees seek to appoint the group "with the best available combination of technical skills and background experience of relevant

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[2] For the following analysis see www.iasb.co.uk.

international business and market conditions in order to contribute to the development of high quality, global accounting standards" (Paragraph 20, IASC Foundation Constitution)

The International Financial Reporting Interpretations Committee (IFRIC) identifies and solves conflicts on how to interpret and implement various standards. Its output is authoritative guidelines, a kind of second tier standard. IFRIC meets every six weeks and resolves disputes in public sessions. There are twelve members, accounting experts with different professional backgrounds and experiences and from all the member states. The non-voting director is also member of then IASB.

The Standards Advisory Council (SAC) is the stakeholder forum. It represents a wider circle of actors affected by the IFRS. In it stakeholders are represented. Its function is to advice the IASB on present and future standardisation projects. Its 38 members come from all continents and a variety of professional backgrounds. Of these, there are a number of official representatives of other international organisations.[3] Other public actors have observer status: the European Commission, the Financial Service Agency of Japan, and the SEC. Trade-unions or NGOs are entirely absent. The Council meets three times a year. The minutes of the meeting show that a wide range of issues is dealt with in a single meeting. Furthermore, they just record the different viewpoints expressed by the members. There is no evidence of explicit decision-making on what the exact advice for the IASB is supposed to be. Thus, overall, this body is the most inclusive but at the same time the weakest. At the most, the relationship is one of 'horizontal accountability' based on arguments only, without any sanctioning power.

Overall, the following broad brush picture emerges: the crucial decision-making bodies, the IASC Foundation, the Board, and the IFRIC, have an exclusive membership, geographically they are dominated by 'Anglo-Saxons', functionally, the representatives are from big companies or from the Big Four accounting firms. Thus, the structure of the IASB seems to be a mere mirror of the resource dependency relations of the IASB: those with the crucial resources, money and expertise, are privileged within the global standard setting organisation. This is also confirmed by the rather weak role of the SAC, the stakeholder forum. Another

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[3] The following International Organisations are represented: the Basel Committee for Banking Supervision (BCBS), the International Association of Insurance Supervisors, the International Federation of Accountants (IFAC), International Monetary Fund (IMF), the International Organization of Securities Commissions (IOSCO), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank.

indicator is the waning influence of the accounting profession, which had been a crucial principal in the preceding International Accounting Standards Committee. Its national expertise was seemingly no longer needed. Finally, public actors are also not extensively represented throughout the organisation (with the exception of the SAC). IOSCO, the EU and the FASB have observer status in the IASB, and albeit to a restricted extent in the IASC Foundation (at the most 5 of 22 trustees may be considered of public origin). However, in the following it shall be shown that this impression is not confirmed by empirical reality. Public actors are more important principals than this analysis would suggest.

The European Commission: a public principal?

There are two major examples of considerable influence on the IASB. Since the mid-1990s, the global accounting standard setter co-operated closely with the global club of stock exchange regulators, the IOSCO. A second major actor that has become most active since 2000 is the European Commission. As has been argued in the beginning, the influence of the EU is an interesting case because of potential externalities of EU accounting standards for some EU member states. The following analysis shows that the EU was influential despite the fact that it did not have any formal access to the global accounting standard setter.

In 2000 the *European Commission* announced the plan to make the use of International Accounting Standards compulsory within the EU (Whittington 2005: 127). All companies listed on stock exchanges within the European Union would have to make use of them for their group accounts. Beyond this requirement, member states have the possibility to require their use for other types of companies. This proposal, which was part of the Financial Services Action Plan, was formally approved in 2003 and entered into force in January 2005. The intention to do so, was influenced by the decision of IOSCO to endorse the standard shortly before in 2000, which has conferred respectability on these standards. (Whittington 2005: 128).

By endorsing a set of existing standards, the EU Commission could shortcut the tedious process of creating a set of European standards, which had been only moderately successful. Furthermore, the IOSCO endorsement has conferred onto these standards international respectability. Thus, International Accounting Standards did not only hold the promise of further levelling the playing field of the Single Market. The same set of standards would also be useful for EU firms beyond the EU (Whittington 2005: 129).

The endorsement takes place as follows (Brackney and Witmer 2005). Subject to an endorsement procedure by the EU are all the standards adopted by the IASB as well as all the guidelines by the Interpretations Committee (IFRIC). The ultimate responsibility to endorse a standard for the EU rests with the European Commission. In its decision it relies on an advisory group, the European Financial Reporting Advisory Group (EFRAG) which represents private sector interests groups. Since it plays a crucial role in the EU endorsement procedure, the Advisory Group has a direct influence on the IASB. After the input of the Advisory Group, the European Commission formulates a draft regulation and submits it to the Accounting Regulatory Committee (ARC) which represents interests of member states, and considers the potential economic and political effects of a proposed standard on member states (Brackney and Witmer 2005).

It is important to note that the EU opted for piecemeal rather than wholesale endorsement of international accounting standards. "…the Commission's acceptance of international standards was subject to an approval process, on a standard-by-standard basis…" (Whittington 2005: 130). This is a crucial difference between global standard setters and national standard setters. In contrast to the European Commission, the SEC adopts FASB standards wholesale. They are not reviewed on an individual basis before becoming officially recognised for companies listed on US stock exchanges. The reason for choosing piecemeal endorsement was that the EU does not have any formal supervisory authority. Wholesale endorsement would have relinquished control over standards that are heavily influenced by the US. Piecemeal endorsement does not only allow the European Commission to adapt global accounting standards to the EU environment. This possibility provides some leverage for the Commission vis-à-vis the global standard setter because of the latter's inherent interest in having uniform standards. The question is: how much leverage?

The endorsement process started with a review of the whole set of standards that the global accounting standard setter has produced so far. Initially, the Advisory Group issued a positive recommendation. Yet, shortly after that the IASB proposed an amendment to two of the existing standards (IAS 32 and 39) that would change the treatment of financial instruments. The major controversy erupted over the accounting treatment of derivatives used to hedge interest rate risks in accounting (Brackney and Witmer). These proposals met with fierce resistance on the part of some EU member states. At an ECOFIN meeting, French president Jacques Chirac stated that the proposed rule changes would be harmful to EU banks and the economy. Subsequently, the ARC recommended adopting all of the global accounting standards but delay the endorsement of the two controversial standards.

Regarding IAS 39 two major contentious issues had emerged. In the 'macro-hedging controversy' European banks opposed the draft proposal because in their view it would create artificial volatility. The IASB responded to this lobbying and adopted a revised version. The second major controversy was the 'fair value option controvery' in which the IASB proposed to apply the fair value principle in the IAS 39 more consistently than before. This proposal was welcomed by European banks but rejected by the European Central Bank on the ground that it would allow banks too much leeway for creative accounting and thus to reduce the capital reserves. In this case, the IASB did not amend its original proposal. As a consequence, the EU did not adopt IAS 39 but instead has recommended using a modified version.

Another controversy has emerged regarding the recommendation of the IFRIC on accounting for emission rights. The EU has a strong interest in accounting since its introduction of a system of tradable greenhouse-gas emission allowances in 2005. The EFRAG opposed the proposal and the EU delayed adoption.

Given the magnitude of the changes that these new standards implied, the endorsement process was rather smooth. Only in a very few instances have there been major conflicts. These conflicts show that EU interest groups were able to influence the IASB. However, overall the EU seems to take on board the standards. All the IASB standards have been closely coordinated with the US standard-setter. Adopting them promises access to US stock exchanges. Where the EU has deviated from the international standard, they risk delaying recognition of IFRS reporting for foreign firms by the US, since the basis for such a recognition is a reasonable amount of convergence.[4]

Given this background of a rather modest influence, it does not come as a surprise that the EU strives to increase the accountability of the global accounting standard setter.

In a comment letter on the reform proposal of the global accounting standard setter[5], the European Commission states that enhancing accountability should be one of the key concerns of the reform:

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[4] See Donald T. Nicolaisen, Chief Accountant, U.S. Securities and Exchange Commission, A Securities Regulator Looks at Convergence, Northwestern University Journal of International Law and Business, April 2005 (???).

[5] International Accounting Standards Committee, Shaping IASC for the future. A Discussion Paper issued for comment by the Strategy Working Party of the International Accounting Standards Committee, London, December 1999.

“The IASC must clearly move towards becoming a publicly accountable and representative body. It cannot do so by seeking to reinforce its close relationship with a relative small group of national standard setters, or by basing an international structure on any particular national model. (…) However, the current proposal appears to reduce the opportunities for involving a wider spectrum of those with experience in the industry in the standard setting process whilst intensifying the use of full-time technical accounting specialists”[6]

These demands have been reiterated at subsequent reform processes of the structures and decision-making procedures of the reformed global accounting standard setter.[7] Commenting on first constitutional review proposal published in 2003, the European Commission explicitly demanded a higher level of representation at the IASB, at the expense of the US. The demand is extended as well to the board of trustees that oversees the work of the IASB: here too, the EU claims more seats. Furthermore, there are demands that the trustees should monitor the board more closely (by approving the work programme). Also, the transparency of the appointment process should be increased. The Commission justified these demands by the fact that it endorses and implements the standards of the IASB, while the US does not recognise them. The board should be more accountable to those that implement the standard. The European Commission has called for an increase in representation of those countries that implement the standard, and for the majority needed to pass a rule to be raised. The undue influence of the Anglo-Saxons needs to be reduced. (FT, 10.03.2005, page 18).

More recently, in the context of the discussion on proposals of SME accounting rules, the European Parliament has lent some support to the view that the IASB is suffering an accountability deficit:

“Experience from the past years illustrate that the London-based organisation is intransparent and outside democratic control. E.g. it is not clear how its work plan is developed, how its mandates are formed, how and against which criteria its members are chosen, how it takes

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[6] European Commission, Directorate General XV Internal Market and Financial Services, [Letter to the Secretary General, International Accounting Standards Committee], Brussels, 28.04.1999 (on file with the author).

[7] Financial Times, 10.03.2005, p. 1: EU wants bigger say on rules for accounting.

into consideration the interests of it's stakeholders, including those preparers and users that are required by law to apply international accounting standards."[8]

To date these demands for more accountability have met with little sympathy.[9] The argument is that these demands are not compatible with the need for convergence. Paul Volcker, chairman of the trustees, rejects the EU demand for better representation by arguing that the issue is that the standards can be accepted world-wide. According to Ken Wild, global head of international accounting at Deloitte, the US presence is necessary in order to make convergence acceptable to the US. He argues furthermore that regardless of IASB member's nationality, they are appointed as independent experts and not as representatives of their countries. A Financial Times editorial[10] comes to a similar conclusion. First, the Constitution of the IASB give equal representation to the US and Europe which correctly reflects the respective 'financial power'. Furthermore, the US does not implement IAS directly, but in a separate agreement with the board has agreed to harmonise its rules. Thus, convergence of international and US rules would be jeopardised, if the presence of the US were reduced.

Why do the Commission and other EU representatives worry about the accountability of the IASB? Piecemeal endorsement would always allow them to change whatever they dislike or find less fitting for the EU.

The answer is that these amendments come at a cost. First, they force EU decision-makers right back into struggles well known from harmonisation attempts and are therefore costly for the EU itself. Second, by deviating from international standards, the EU jeopardises the international recognition of the standards in use within the EU. Therefore, more influence on accounting standard-setting seems to be useful. This seems to be especially important for the EU. One of the prime task of public regulators is to prevent negative externalities resulting from transnational regulatory regimes such as these. Such negative externalities are highly likely to arise for countries with different national accounting traditions, i.e. countries that follow the liberal rather than the coordinated model of capitalism.

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[8] European Parliament, Committee on Economic and Monetary Affairs, Working Document on International Financial Reporting Standards (IFRS) and the governance of the IASB. (Rapporteur: Alexander Radwan), 30.03.2007 (on file with the author).

[9] FT, 10.03.2005, page 18 : An ocean apart on accounting rules.

[10] FT, 10.03.2005, page 14: New transatlantic war – on accounting. Battle over international standards threatens convergence.

This explanation is also supported by the fact that IOSCO despite of having endorsed global accounting standards, never demanded an increase in accountability. Because the EU has more externalities to manage. Several member states deviate from the Anglo-Saxon form of capitalism and therefore have externalities to manage. Therefore, the EU is crucial for the issue of accountability and legitimacy. Global standard setting is not per se problematic but only to the extent that it produces externalities.

Conclusion

The aim of this paper to understand to what extent one important stakeholder, the European Commission, can hold accountable the International Accounting Standards Board. We have seen that the endorsement of its global accounting standards has turned them into rather influential actors. The piecemeal approach provides the EU with considerable leverage. However, this influence is rather limited, it does not regard the overall approach which is biased towards the established rules of global capital markets. Also, the influence seems to be limited to lobbying. There is no established accountability relationship which would allow the European Commission to continually influence the structure, philosophy and working agenda of the IASB. It seems to be that EU actors are more involved in a game of 'lobbying', .i.e. ex ante influence on single standards, rather than the more encompassing control that 'accountability' implies. In the strict sense of ex post control through arguing and ultimately sanctions, the IASB is not accountable to the EU. With respect to the IASB, the EU is an influential stakeholder but not a principal.

The IASB's lack of accountability vis-à-vis EU public actors is per se not a normative issue. In fact, it is the EU's explicit policy to promote access to global capital markets by adopting global accounting standards. However, it does become an issue, once stakeholders within the EU are adversely affected. At the moment, the only chance for the EU to mitigate adverse economic consequences seems to be to adapt the standards to local circumstances. Since any departures from global standards threatens their integrity, there is only rather limited leeway to do so. This explains, why the EU Commission and others have identified an accountability gap in global accounting standard setting.

What are the chances for the IASB to become a more accountable regulator? In general, there is still considerable leeway for the IASB to become more inclusive, for example by boosting the role of the stakeholder forum, the SAC. Yet, merely improving the participation may not be enough for some stakeholders because the most significant principals continue to be those

with the crucial resources for the standard-setter, i.e. finance and expertise (see above). However, for the EU Commission, this could work. It could certainly contribute financial support to the standard setting process, and (through EFRAG and others) has access to relevant expertise as well. Therefore, theoretically, the Commission seems to be rather well-placed to establish an accountability relationship in the future.

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