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THE TRANSNATIONALIZATION OF FINANCIAL REPORTING STANDARDS

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THE TRANSNATIONALIZATION OF FINANCIAL REPORTING STANDARDS

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ABSTRACT

This paper seeks to explain the transnationalization of financial reporting by corporations. Specifically it considers how the status of International Financial Reporting Standards - constructed and issued by a private organization: the International Accounting Standards Board (IASB) – changed from being highly marginal to almost global adoption. A range of explanations (rather than just one) for the transformation are examined and contrary (or rather disruptive) evidence, not just supportive, is considered. Having examined a variety of explanations, the paper then considers whether or not the now extensive transnationalisation of financial reporting can be regarded as evidence that the period of national or regional varieties of capitalism (or business systems) is ending.

Keywords: accounting; convergence; financial reporting standards; globalisation; International Accounting Standards Board; standardization.

THE TRANSNATIONALIZATION OF FINANCIAL REPORTING STANDARDS[1]

INTRODUCTION

In more than 100 countries the consolidated (i.e. group) financial reports issued to 'external' users by listed companies are required to be, or are permitted to be, based on International Financial Reporting Standards (IFRS)[2] - constructed and issued by a private organization: the International Accounting Standards Board (IASB) [3] In a number of other countries new, but still purportedly national regulations are, albeit without acknowledgement, largely or wholly based on IFRS. Countries which require[4] the use of IFRS include all member states of the European Union where since 2005 all annual and half-yearly consolidated financial reports issued by listed companies must be based on IFRS. Since November 2007 foreign companies listed on a stock exchange in the United States (US) can prepare their financial reports exclusively in accordance with IFRS - rather than heretofore according to the standards issued by the US Financial Accounting Standards Board (FASB): US Generally Accepted Accounting Principles (US GAAP).

A number of US stock markets, including the New York Stock Exchange, have vigorously called for the extension of this replacement of US GAAP by IFRS for US companies as well. The organization primarily responsible for the regulation of US stock markets, the Securities & Exchange Commission (SEC), has announced that it is seriously considering this option with mandatory adoption by all listed US companies from 2014 (Cunningham, 2008; Deloitte, 2008). A significant number of US non-listed companies voluntarily prepare their financial reports in accordance with IFRS. From 2012 it is likely that all companies (not just listed as at a present but also non-listed) in the UK will be required to do so.[5] From about 1998 IFRS have been routinely included in International Monetary Fund prescriptions and in World Bank requirements of borrowers. Most recently, at their September 2009 meeting in Pittsburgh, US, the Group of 20 Leaders (G20) reaffirmed their commitment to global convergence in accounting standards, calling on "international accounting bodies to redouble their efforts to achieve a single set of high-quality, global accounting standards within the context of their independent standard-setting process" and stated that they should "complete their convergence project by June 2011".

The extensive transnational reach of IFRS is of practical significance. Financial reports matter. They have important roles in influencing the distribution of control and profits among different groups of stakeholders. They are a major source of information for parties external (and internal) to corporations. Debt agreements and 'compensation' (pay) agreements often contain trigger ratios calculated using information in financial reports.

The rise of IASB is also of contested theoretical importance. What explains: the extensive transnationalisation of financial reporting standards and the demise of previously dominant national standard setters in countries requiring the use of IFRS? Why have standards or regulations previously constructed in some countries by governmental organizations (e.g. a civil service department) and private sector organizations in others, been wholly replaced by those produced by a private organization? Why from a range of possibilities: the continuation of national standard/regulations setting; the emergence of an alternative global or regional standards setter; the adoption of long-established and highly developed US standards as the global or regional standards; the creation of hybrid EU standards fused from the diversity of national standards across the EU; or the creation of a standard setting body by the EU Commission, did the IASB 'succeed'? Multiple explanations have been advanced for the mode and content of IFRS. And what are the implications for the path dependency claims in the varieties of capitalism literature? Is the dominance of the IASB evidence of the accuracy of the predictions of wholesale transnational convergence and the demise of distinct national (or regional) varieties of capitalism?

WHY FINANCIAL REPORTING STANDARDS?

There are arguments that regulation of financial reporting is unnecessary as corporations have sufficient incentives to disclose voluntarily financial information. But that is very much a minority view in policy circles and academia. The dominant view – albeit not frequently articulated – is that financial reporting by corporations is a public good which will be underprovided unless provision is regulated and that reporting standards reduce the social costs of information asymmetry (Lev, 1988). But different financial reporting standards generate different measurements (e.g. net profit), sometimes radically different, for the same circumstances.

Identifying and reporting the financial performance and position of a corporation is a complex challenge which potentially can be done in hundreds, perhaps, thousands of different ways. Standards limit choices in relation to a host of specific aspects of corporate performance and position including: requiring a single or just a few methods, prohibiting others, or obliging a justification by management for the choice made. The 'usefulness' of information produced on the basis of particular standards is a frequently mentioned guide to the determination of the content of standards. However, in multi-institution, multi-person situations, information of a particular type which is useful to some may be less useful to others or even detrimental to others.

The ambit of the espoused beneficiaries of financial reporting ranges from, at the narrowest, 'investors', i.e. actual or potential shareholders, to at its widest notions of the public interest. The explicit focus of IFRS is mainly towards the former. But shareholders are not a homogeneous group. Even if it is supposed that each individual shareholder has stable preferences regardless of time or context (a depiction which is not necessarily correct) shareholders in general have diverse and conflicting interests and preferences based on their differing attitudes, preferences, risk aversions, liquidity desires and needs,

degrees of portfolio spread, and life circumstances (Crespi, 2007). Although bizarrely Oliver Williamson states that they "invest for the life of a firm" (1985: 304) shareholders relationships with a specific corporation may be brief, and for many it is.

The heterogeneous composition of shareholders debars an optimum framework of choice even for standards whose espoused aim is narrowly the usefulness of financial reports for shareholders. Whilst the effects of financial reports and changes in specific reporting requirements have been extensively researched, the results are often inconclusive. Causality is extremely difficult to determine because of the multiplicity of other influences and the characteristics of stock markets. Whilst these markets are often implicitly or explicitly supposed to be rational in standard setters choice justifications, there is, however, a long-standing and immense body of empirical studies demonstrating that financial markets are also characterised by irrationalities. Identified irrationalities include: psychological contagion leading to irrational exuberance (Shiller, 2000); herd mentality (Arthur, 2000); panics and over-reaction to prospects of losses (Campbell and Limmack, 1997); under-reaction to earnings (profit) information (Ball and Bartov, 1996); and a range of seasonal and day-of-the-week patterns (Cho, Linton, and Whang, 2007; Keim and Stambaugh, 1984). At times, "massively confused investors" make "conspicuously ignorant choices" (Rashes, 2001).

ORIGIN

The IASB, then called the International Accounting Standards Committee (IASC), was founded in 1973. [6] In contrast with its current prominence, for more than two decades it had little influence.[7] Even the countries from which the founding organizations of IASB came, including the UK where the organization was physically located, largely ignored, sometimes patronizingly dismissed, the standards, preferring to use their own. Adoption of its standards was limited to a handful of 'Third World' countries. Thus, during the 1970s and 1980s they had little impact. However, from around the mid-1990s an increasing number of companies – including, but not exclusively, some large Continental European companies - chose to use IFRS. But with the exception of a handful of comparatively small countries, corporate use of IFRS was voluntary. In 2002 however the standards were made mandatory (effective from 2005) for all EU countries for the consolidated financial reports of listed companies. Since then many other countries (e.g. Canada, Australia, and Argentina) have also made the standards mandatory for such reports.

This paper considers how the transformation of IASB from its peripheral role to its current prominence occurred: how distinctive national regulations, both state and private-body based in 'developed' countries, have overwhelmingly (with the part, and possibly impermanent, exception of the US) been replaced by regulations based on standards constructed by a private non-governmental organization. It does so by describing and interrogating alternative explanations. Evidence consistent with almost any theory can usually be found. But in identifying such evidence there is the threat of confirmatory bias

– a disproportionate imposition of an already held causal explanation.[8] That possibility is especially problematic in studies of a single case (Lieberson, 1991).

Seeking a richer explanation of the transformation of the influence of the IASB, a range of explanations (rather than just one) are examined and contrary (or rather disruptive) evidence, not just supportive, is considered. The main explanations identified in the literature and discussed here are not vulnerable to falsification in the sense that it can be demonstrated that they are false, that they have no explanatory value (Quine, 1953). Instead the interrogation of these explanations demonstrates: (i) that overall the explanations are not competitors but complementary – each is incomplete but nonetheless each has some explanatory value indicating the desirability of their incorporation into a richer explanation; and (ii) that the causes were not absolute or timeless but dependent on contexts and changes in them. Having examined a variety of explanations, the paper then considers whether the now extensive transnationalisation of financial reporting can be regarded as significant evidence of global convergence, that the period of national or regional varieties of capitalism (or business systems) is ending.

STANDARDISATION AS GLOBALISATION

Explanation: The transnationalisation of financial reporting standards has been an inevitable consequence of "the globalization wave" (Bratton and Cunningham, 2009: 1).

'Globalisation' is a usually underspecified term which attributes (critically or uncritically) all sorts of seemingly unrelated phenomena to what it widely regarded as an unstoppable force. When a transformation occurs within a single country there is no reason, in principle at least, why the basis of the change could not wholly be within that country - provided - there is potential for an internal dynamic (a possibility effectively denied if internal homogeneity is supposed). But when change simultaneously occurs across many countries a necessary part of the cause(s) must be outside of those nations – otherwise how could such extensive multinational consensus have been achieved? Thus not surprisingly, the transnationalisation of IFRS has also been depicted as an outcome of an often underspecified notion of unstoppable "globalisation".

But attributing change to 'globalisation' does not take us very far. Effect and cause are confused. Like a doctor in a Molière play who attributed the power of a sedative to its dormative power, an *effect* (even if we assume its descriptive accuracy) is superficially transformed into a *causal explanation*. The notion of globalisation is underspecified; it does not explain the timing (why not twenty years before or twenty years later?), mode (why IFRS, not US GAAP, or whatever and whoever else? or content of change (why the particular type of transnational harmonization and not another type?)

As an explanation, however, the notion positively points beyond the national, to look for a common cause(s) for changes in what was previously nationally distinct. The step change in the influence of the IASB from its position of unimportance during the 1970s and into the 1990s coincides with the increasing transnationalization (albeit not uniform

globalisation) of financial markets - including increased multinational listing and the increased internationalization of portfolios of shares owned by increasingly important institutional shareholders. These developments and their significance for transnational standardization of financial reporting are discussed later below.

STANDARDIZATION AS MODERNIZATION

Explanation: IFRS transnationalization is modernization.

The adoption of IFRS by the EU, for instance, was described as an event "whose time had come" (Inglewood, 2002: 1), as "modernization" (Department of Trade & Industry, 2004). 'Developed' societies, at least, it is said, come not only to approximate to each other but around ways that are the optimum currently possible. This supposes that IFRS represent the most up-to-date, and by implication the best, standards – an evolutionary pinnacle. Being the modern IFRS were inevitably accepted.

But this explanation is tautological, the logic is circular. Change by definition creates something different. In that sense change is blandly modernization. But an outcome (however labelled) is not a cause. The view that IFRS best represent "economic reality" and provide the "most useful" information is not self-evident or undisputed.

The explanation is also indiscriminate. The standards produced by the US FASB were as equally 'modern' as those of the IASB in the sense that they were ongoingly developed and revised in fora of expertise and in response to challenges from, and 'innovations' in, contemporary business practices.

The notion of modernization however, perhaps, is not entirely without causal force. Within the US itself, what the primary goal of corporations should be was a contested issue – a debate that goes back at least to Berle and Means (1932), but the mid-1980s was the beginning of a new wave of institutional shareholder activism with intensified demands that corporations focus on maximizing shareholder value (wealth) a corporate focus that drew increasing support from many corporate executives outside, as well as inside, of the US. As stock markets within Continental Europe, and elsewhere, expanded, and top executive pay was increasingly linked to the performance of corporate securities rather than product or market developments, the response within these countries varied but concerns were expressed that their image with opinion shapers such as *The Financial Times* and within major securities markets was as "developing countries" in terms of corporate governance. Companies which already had or planned to have foreign listings or sought to use their companies stock as currency in foreign acquisitions often faced critical and sceptical questions about their corporate governance practices. Within some countries at least the self-perception or the perception of others of their national systems of financial reporting, and corporate governance more widely, being old-fashioned would appear to influenced them towards 'modernization'. Credit rating agencies and financial analysts largely based in the two main securities markets – the US and the UK – have

been shown to be biased in favour of Anglo-American style financial reporting and corporate governance.

It is noteworthy that from around the mid-1990s 'modern' and 'modernization' became widely used term to justify particular political acts. For example during the Clinton regime, the Democrats in the US were re-named 'Modern Democrats'. The 1999 act which replaced the 1933 *Glass-Steagall Act* and removed the firewalls between retail and speculative banking was called the *Gramm-Leach-Bliley Financial Services Modernization Act*. In the UK during the Blair regime just about every government action was justified in the name of 'modernization'.

STANDARDISATION AS RATIONALITY

Explanation**:** The lack of uniformity in format, content, terminology, and underlying measurement bases of financial reports – was inefficient and ineffective for both producers and users of such reports. This provided strong incentives for transnational uniformity which inevitably led to convergence.

On the supply side, uniformity would eliminate the additional production, processing, training, and other costs of preparing and communicating diverse, multinational, financial reports. Multinational companies, for instance, could more readily monitor their subsidiaries; reduce the information bias against subsidiaries in countries with more conservative accounting (such as Germany); be more flexible in transnational movement of finance staff; achieve economies in staff training costs; and reduce compliance costs because of the reduction of diversity. As Paul A. Volcker states: "generally accepted international standards will reduce the cost of compliance with multiple national standards" (2002: 3).

On the demand side, users' capacity to understand and compare reports would be increased, fewer barriers to transnational trading in corporate securities would exist, and was widely claimed capital would be cheaper.[9] These benefits, it was also argued, would largely be achieved because users would be more familiar with and more competent in analysing reports based on uniform standards regardless of country of origin (SEC, 2000). Over time the cost of international communications and transactions plummeted. And the use of interactive data formats – whose use is made easier by financial reports produced through common standards based formats and terminology – grew extensively. Financial reports provided to external parties must first be audited prior to distribution. The large international firms that audit the financial reports of most multinational corporations had, and continue to have, incentives to promote transnational harmonization. This is evident in the central role they played in the establishment and funding of the IASB (Camfferman and Zeff, 2007). In addition to reduced training and processing costs, the transition from national standards to IFRS has boosted the firms' income fees.

The EU Commission had long sought to harmonize financial reporting across the EU in the context of its Single Market Project. The draft of its first directive on the subject was issued in 1971.[10] Amongst other arguments, the EU stated that national diversity of financial reporting was "hampering the development of a deep liquid single EU capital market" (Commission of the European Union, 2000) and as a consequence was said to raise the cost of capital for European companies. Commitment by the Commission to uniform financial reporting requirements, at least across EU countries, was unwavering.

So, undoubtedly a persistent push existed. But, as discussed below, it does not adequately explain the rise and increasing dominance of IFRS.

Timing: Calls for international harmonization predate the establishment of IASB in 1973. Prior to, and in parallel with, IASB a number of organizations apparently with greater power than the IASB, particularly the United Nations and the EU Commission also sought such harmonization on the basis of standards they would produce. The latter had a policy of achieving this aim, across EU[11] countries, as early as the mid-60s. If a perceived demand for efficiency were a sufficient explanation then harmonization would have occurred much earlier -even before the founding of IASB, not more than twenty years after it was founded. The UN's attempts to generate and monitor such standards were quashed in 1983. In 1995 the EU abandoned (albeit reluctantly) its long-standing plan to establish a *European Accounting Standards Setting Body* (Camfferman and Zeff, 2007).

Already Existing Standards: Even before 1973 a comprehensive body of standards existed. These had been produced within, and were mandatory for, listed companies in the economically most powerful country - the US. If 'efficiency' were a sufficient explanation these standards in existing, or modified form, would have been adopted by EU countries and elsewhere. They were not.

Motivation*:* There is persuasive evidence that a major motive for the establishment of the IASB, effectively by these then essentially Anglo-American firms, was a result both of their fear that the EU financial reporting programme would continue to be dominated by German accounting (an issue that had become more pertinent for the firms with the new membership of the EU by the UK and Ireland in 1973)[12] and by their desires to extend and deepen the scale of their business activities within Continental Europe (Hopwood, 1994). Although international convergence was one of the stated founding aims of IASB, overwhelmingly its member bodies focused on national, not transnational, standards.

Mode and Content: Notions of efficiency and effectiveness[13] do not explain the mode of harmonization. Why, as discussed above, did the IASB became the standard setting institution and not the UN, the EU, the OECD, the US FASB, or whoever else? Nor can these notions explain the content of the standards. Why did standards of a particular type, specifically shareholder orientated standards, in short Anglo-American-type standards, rather than, say, creditor orientated, more conservative, accounting, in short German-style standards, became the transnational standards?

Insufficiency: Financial harmonization is patchy. Notions of efficiency are also pertinent to other financial areas such as the auditing of financial reports, money laundering safeguards, and takeover rules. But these have not been harmonized transnationally, even within the EU. Whilst the initial adoption of IFRS in 2002 was accepted almost unanimously by the European Parliament, a proposed takeover directive has been highly controversial in that parliament.[14]

But we cannot dismiss the influence of the notions of efficiency and effectiveness. Both featured in the justification by EU and US authorities for the greater prominence they gave to IFRS. And a changed context increased their pertinence. Quite separate from changes in product markets, securities markets became increasingly transnationalized from around the mid-1980s and accelerated even faster during the 1990s and beyond. Two indicators: between 1986 and 1997 the number of European companies on US stock markets increased from 52 to 206 (Gadinis, 2008). By 1996 the share of non-US companies of the total NYSE capitalization was 25% (Porter, 2005). And the flow was not one-way. CalPERS, the largest US pension fund, for instance, had increased its investments in foreign markets from 12% of total assets in 1994 to 20% in 1997. In 2000 foreign shareholders accounted for 37%, 27%, 18%, and 15% of the capital of all companies in the UK, France, Japan, and Germany respectively. The proportion of foreign ownership of large companies is even greater.

The majority of shares of many former national corporate champions became foreign owned. For instance, Total, Saint-Gobain, and Péchiney of France and ICI, P&O and Pilkington of the UK. In 2000, companies from sixty countries were listed on the London Stock Exchange. The comparable figure for the New York Stock Exchange was forty-nine. Growing transnationalization of markets increased the costs of diversity and thus increased the incentives for harmonization. In Germany, actions by many large corporations (including reductions in cross shareholdings between industrial companies) and changes to laws and regulations (including reduction of a capital gains tax constraint on the sale by banks and insurance companies of their shareholdings) [15] opened up the ownership of these companies to trading in ever more active stock markets – principally, but not exclusively in New York and London.

In addition to arguments about economies in preparing and processing financial information, made more pertinent by the increasing financial internationalization of many large companies, it was also held that financial reporting harmonization would reduce the cost of capital. The "prime justification for International Accounting Standards is", Paul A. Volcker, Chairman of the Trustees of the International Accounting Standards Committee Foundation states, "a positive one. An essentially borderless world of finance requires the standarization of accounting standards if it is to operate efficiently, promoting a truly economic allocation of capital" (2004: 4). This is a widely-held yet fanciful image of financial markets. But one that is real in its consequences. Rather than rational and efficient, self-optimizing, accurately valuing assets and achieving optimal resource allocation as Volcker, and many others suggest, there is a also a long-standing and immense body of empirical studies demonstrating that securities markets are characterised by irrationalities including their use of financial reports (above).

Nonetheless this unreal image of efficient and rational securities markets appears to have considerable belief and appeal.

STANDARDIZATION AS A RESPONSE TO CRISIS

Explanation: Transnational IFRSization was a caused by the Asian Financial Crisis and/US Corporate Scandals.

Two crises especially have been credited with the transnationalization of IFRS: the Asian Financial Crisis of 1997-98 and the 2001-02 corporate scandals (especially the collapse of Enron and the subsequent fall-out, including the vaporization of one of the Big 6 auditing firms - Arthur Andersen).

Asian Financial Crisis: The crisis was triggered by the collapse of the Thai badht in mid-1997 (Walter, 2003; Krugman, 1998) and had a severe knock-on effect especially in East Asian countries.

> Western economists, financial leaders, and international organizations alike pointed their collective fingers at poor accounting, lax corporate governance, and crony capitalism (Volcker, 2002: 1).

Inadequate and inappropriate accounting (financial reporting) by banks and by their clients, including the opacity of their indebtedness, was seen as having misled investors and regulators and as having prevented timely interventions which might have prevented the crisis. This raised the profile of "high quality" financial reporting standards in transnational organizations and meetings.

Following the crisis, the Basel Committee on Banking Supervision (BCBS) undertook a review of fifteen IFRS. In April 2000 it gave its approval to seven of the standards but expressed some concerns about the remaining eight (Martinez-Diaz, 2005). A joint IASB-BCBS committee was set up to remedy these concerns. In May 1998 the G-8 ministers of finance recognized the need to develop "international and auditing standards" (Martinez-Diaz, 2005: 13). In October of the same year the G-7 called on the IASB to "finalize by early 1999 a proposal for a full range of internationally agreed accounting standards" (G-7, 1998).

The idea that "poor accounting" and "lax corporate governance", and "crony capitalism" were the causes of the crisis is contestable. Volcker states that the emphasis on them was "overdone" and that "other systemic factors were at play" (2002: 1). The crisis *per se* did not generate the response but rather it was a particular interpretation of the crisis and the priority given to that interpretation.

Corporate Scandals: In 2001 and 2002 confidence in US GAAP was shaken by a number of corporate scandals – especially those of Enron and WorldCom in the US. As Paul A. Volcker states:

> Strong reservations about international standards [i.e. IFRS] in the United States have faded. In the light of all that has happened, no longer can American standard setters, regulators, or even politicians sit back and claim that U.S. GAAP is the logical and only model for the world (2004: 6).[16]

In the Enron case, the company greatly exaggerated its profits by siphoning debt and losses into off-balance sheet entities which in reality were under the direct control of Enron management. Between 1993 and 2001 Enron set up more than 3,000 off-balance sheet partnerships to massage its financial reports. It took eight years for Enron's "creative accounting" practices to be uncovered. Enron was America's seventh largest firm by market capitalization. *Fortune Magazine* hailed it as America's most innovative firm for five year's running. Whether or not Enron's financial reporting practices were in breach of US GAAP remains contested (Eaton, 2005). But there was a widescale belief, including in the US Congress, that this, and other crises, had revealed flaws in US GAAP. Much of the criticism focused not on the specifics of the rules within US GAAP, but rather it was asserted that there were too many rules in US GAAP. Those standards are an amalgam of dispersed (and sometimes contradictory) literatures published primarily by the FASB but also by other bodies, including the SEC and the main US professional accountancy body, the American Institute of Certified Public Accountants. If only US GAAP had been shorter, less complex, that is, principles-based, like IFRS, then, many critics claimed "Enron's shenanigans would have been preempted" (cf. Cunningham, 2008: 117). The central criticism was that rules-based accounting enabled and encouraged "accounting engineering" – the creative use of the details of the rules to evade the spirit. IFRS on the other hand were lauded both within the EU, US and elsewhere for being "principles based". This was a reverse of an earlier context in which, especially from within the US, IFRS were criticized for being too loose and vague.

> High-quality accounting standards are the bedrock of good financial reporting and the principles based approach of the IAS [sic] will ensure that accounts reflect economic reality, thus restoring investors' confidence that things are really the way they look. The aim of the International Accounting Standards Board (IASB) to minimize defined rules and exemptions will defeat a culture that boils down to "where does it say I cannot?", one which the many thousands of pages of rules-based standards of US GAAP have fostered" (Bolkestein, 2002: 117).[17]

The separation of financial reporting standards into those which are "principles-based" and those which are "rules-based" is specious, as is the claim that IFRS are of the first type and US GAAP of the second. [18] True, a US GAAP standard is more rules-dense, has more rules, usually many more, than an equivalent IFRS. But both contain principles (explicitly or implicitly) and both contain rules. But like many false ideas the distinction was real in its consequences. It was vigorously used in criticisms against US GAAP and in favour of IFRS by parties both within and outside the EU and the US. To such an extent that the SEC was mandated by the US Congress, via the Sarbanes-Oxley Act (2002) – a legislative response to the scandals - to study the distinction. In its report the

SEC stated that "rules-based standards often provide a roadmap to avoidance of accounting objectives inherent in the standards" (SEC, 2003: 13).

The Special Investigative Committee's report (2002) on the collapse of Enron shows that the company plainly violated US GAAP – that the illegal practices were undetected by a failure of auditing, fuelled by demands and plaudits of securities markets, and naively lauded by leading business schools, including Harvard Business School. But instead of focusing on reform of audits and securities markets (whose profound dysfunctionality became dramatically evident in the recent 'economic crisis') in a context which emphasized deregulation and light-touch regulation, and denied the possibility of securities market failure (McSweeney, 2009), it was convenient for some interests to scape-goat US GAAP (Cunningham, 2008; Eaton, 2005). For example, the interim report of the *Committee on Capital Markets Regulation* (2006)(commissioned by US Treasury Secretary Henry M. Paulson, Jr.) and McKinsey & Co.'s *Sustaining New York's' and the U.S.' Global Financial Services Leadership* (2007)[19] (commissioned by New York City Mayor Michael Bloomberg and US Senator Charles Schumer (NY)) are examples of widely publicized post-Enron reports criticizing the US regulatory environment. Each routinely calling the environment (including US GAAP) rules-based and advocating a principles-based approach.

Opinion was not unanimous within the SEC, a SEC sub-committee report of 2007 was of the view that "the principles vs. rules dichotomy is a specious debate" (in Cunningham, 2008: 118). In the same year a SEC Commissioner described the distinction as "a false dichotomy". But the dominant public position, including statements by the SEC Chairman, and another SEC Commissioner, was very critical of the "intense rules-based approach of U. S. GAAP" and largely favourable towards rules-based standards, often including explicit positive references to IFRS. In its official releases SEC avoided outright approval of "principles-based" standards. Instead it advanced the notion of "objectives-based" standards scarcely distinguishable from the former. Recognition to the 'adequacy', if not the desirability, of what was represented as principles-based standards was in effect given by the SEC in August 2007 when it permitted non-US companies listed on US securities markets to report exclusively on the basis of IFRS.

Both crises encouraged the adoption of IFRS. After the Asian Financial Crisis the IMF and the World Bank routinely included in their prescriptions and this is likely to have encouraged a number of Asian countries to adopt IFRS [20]. In the US in particular, the US corporate scandals of 2001-2002 weakened the opponents of acceptance of IFRS such as the US FASB,[21] through the shadow cast on US GAAP, and strengthened its supporters. A key relay was the demonization of rules-based standards and the widescale lauding of principles-based standards. Neither crisis influenced the EU Commission's decision to seek to have IFRS adopted for all EU countries – that decision had been made before both crises – in 1995.

> Long before Enron started to make headlines in the press. Europe made the choice of international accounting standards of high quality with the potential to become truly global standards (Bolkestein, 2002: 4).

However, formal approval for that policy had to be given by the EU Parliament. That was sought and achieved after the crises - in 2002. Within that Parliament, IFRS – were represented by the EU Commission and others - as European standards whose superiority over US GAAP had been revealed by the US corporate scandals (Bolkestein, 2002: 4). But that was just one of many arguments the Commission in favour of acceptance. During the discussion in the Parliament the scandals were mentioned by just a few members. As the endorsement of IFRS was approved almost unanimously (492 for, 5 against, and 29 abstentions) it is unlikely that the corporate scandals had a significant influence on that decision. The major crisis impact was in weakening resistance to IFRS in the US and more widely boosting that image of IFRS.

STANDARDIZATION AS US HEGEMONY

***Explanation*:** Transnational IFRSisation is an outcome of US hegemony – seen as benign or predatory. The adoption of IFRS is regarded as a pretense of multilaterism. In effect IFRS are said to be US standards by another name.

> [T]the IASC has provided the cover of multilateral legitimacy to mostly U.S. standards … an exogenous expression of the [US] domestic political economy" (Simmons, 2001: 611 and 595).

As with the other explanations above there is some truth, but not complete truth, in this explanation. First, the validity of the explanation is described and then counterviews are considered.

Similarity: Notwithstanding claims that US GAAP is rule based whilst IFRS are principles based, fundamentally, IFRS and US GAAP are similar in many respects. That is not a coincidence nor is it the outcome of agreement between equals. In addition to US GAAP's "first-mover" advantage, it is the product of, amongst other processes of domination, the commanding position in IASB of Anglo-American auditing firms; the patronage of, and influence on, the IASB by the US SEC dominated International Organization of Securities Commissions[22] (IOSCO); the frequent meetings of IASB staff with the much more extensively resourced US FASB[23]; and the intellectual preeminence in accounting and finance structures of knowledge (such as the major peer reviewed journals) by US academics.

US Stock Markets: Increasingly large and vocal US institutional shareholders and (some hedge funds) both expanded their ownership of securities in European (and other) firms and pressed for changes in corporate governance to conform to the US model. In 1997 and 1998 for instance, CalPERS issued corporate governance recommendations about the UK, France, Germany and Japan indicating its reluctance to invest in countries whose corporate government requirements deviated significantly from those of the US. Given the proximity of the UK and US models, its criticisms of the UK system were mild, but it

was highly critical of those in the other three countries including the ‘inadequacy’ of their financial reporting compared with that in the US and it called for linking executive “compensation” (pay) with increases in “shareholder value” (stock prices).
Throughout the 1990s the IASB worked closely with US based financial reporting, regulatory and stock market bodies. In 1993 International Organization of Securities Commissions (IOSCO) (in which arguably the US SEC was the most powerful member) agreed to look to IASB to develop financial reporting standards and set out what it deemed to be the essential “core” standards. In a moment of self-reflection, the chair of the IOSCO committee responsible for the list described the list as perhaps “too much influenced by the preoccupations of our North American colleagues” (IASC, 1993: 5). By 1998 IASB had completed the “core” standards required by IOSCO. In 2000 IOSCO gave largely unqualified endorsement to IFRS:

> The IASB’s work to date has succeeded in effecting significant improvements in the quality of the IASB standards. Accordingly, the President’s Committee recommends that IOSCO members permit incoming multinational users to use the 30 IASB 2000 standards [IFRS] to prepare financial statements for cross-border offerings and listings, as supplemented … where necessary to address outstanding substantive issues at national or regional level (in Eaton, 2005: 5).

Acceptance for listing on US stock markets by non-US companies first required production of financial reports on the basis of US GAAP, later (from 1983) reports could be produced according to IFRS with the addition of a statement of reconciliation with US GAAP; and since November 2007 reports based solely on IFRS are acceptable. However, that does not, it is implied in this explanation, primarily indicate a reduction of resistance within the US towards IFRS but a sustained process of US standardization of IFRS – and of the very structure and composition of the IASB. The differences between IFRS and US GAAP is radically smaller than the gap between IFRS and the German equivalent. The adoption of IFRS by the EU “should”, EU Commissioner Bolkestein, stated “pave the way for the United States [*sic*] to accept international standards for listing purposes” (Bolkestein, 2002). The relevant bodies within the US, and the SEC in particular, would not have done so unless they were happy the IFRS were fundamentally similar to US GAAP, a convergence they had actively sought to achieve.

***Reconsititution*:** In April 2001 the IASC was reconstituted, and renamed the IASB. The reorganization was of a type advocated by the US SEC but it differed in significant respects from that sought by the EU Commission. The changes in the structures, membership, voting powers, and so forth essentially mirrored those of the US FASB (Eaton, 2005).

The considerable influence of ideas and institutions based in the US on IFRS is undoubted. However, to describe this as a consequence of US hegemony is problematic in a number of respects.

Diversity within the US: The explanation is state-centered, in the language of international relations theory, it is ‘realist’. That is, dominance is supposed to be achieved

by a state (in this instance the US) which is assumed to be a coherent whole with uniform interests and objectives. Thus, by illustration, EU Commissioner Bolkestein, above, refers to acceptance to the US, not to entities within the US, such as the SEC. And yet autonomous or relatively autonomous organizations within the US, influential in the field of financial reporting have been at odds with each other, rather than echoing or determining a common US position.

The FASB has consistently opposed acceptance of IFRS for general use within the US and even for listing by non-US companies. Within the American Accounting Association, the preeminent academic accounting body in the US two studies reached different conclusions (Sunder et al., 2007; Hopkins et al., 2008). Both called for an end to the exclusive use of US GAAP by US companies, but one argued for competition – US companies should be permitted to choose either US GAAP or IFRS – the other for exclusive use of IFRS. US stock markets, and especially the NYSE, have vigorously advocated specific and general acceptance of IFRS for those markets. Amongst the processes used by the NYSE has been to hire lobbyists to try to influence the US congress and the SEC. The former goal accomplished, lobbying for the latter continues. The SEC has vacillated somewhat (above), but has approved exclusive IFRS reporting by non-US companies and may (the outcome is unpredictable) allow US companies to chose either IFRS or US GAAP or require exclusive use of IFRS. Within each of these organizations, opinions have varied. The US government has sought 'regime change' in a number of countries, but it does not have a set and uniform policy on transnational financial reporting. IASB required the expensing of stock options before the FASB, albeit the FASB supported such a position but was delayed in approving such a standard because of extensive lobbying against such an action by various parties in the US.

US Standards or Liberal Capital Market Standards? During the rise to prominence of the IASB the US securities markets were the largest in the world (in terms of capitalization and volume of turnover) but during that period other securities markets also grew and attracted not only home country but also foreign listings. In 2000, for example, Volkswagen; Hoechst; and Deutsche Bank were quoted on 11, 10, and 9 different securities markets respectively (Morgan, 2002). In 2006 Deutsche Börse was able to make a credible bid to acquire the London Stock Exchange. Post Cold-War even Moscow and Beijing have active and growing securities markets. In the early IASB period few countries had the infrastructure to raise and trade large volumes of securities. The fact the most established standards – which have shaped IFRS – were those developed in the US (the largest securities market – accounting for nearly 50% of the world's stock market valuation)(Simmons, 2001: 594) - does not make them US standards in the sense that they reflect and serve something uniquely of the US, even the US securities markets, as they are standards which orient financial reports towards developed liberal securities markets regardless of location: New York, London, Paris, Hong Kong, or wherever. In so far as the notion of hegemony is meaningful in this context, what has happened is hegemony of increasingly transnational finance capital not of US securities markets.

US Concessions: The abandonment of the requirement for foreign companies listing in US securities markets to comply with US GAAP suggests that non-US companies had

some leverage. Rather than being able to insist on the exclusiveness of US GAAP, as urged by the FASB, the first-mover monopoly had to be abandoned.

Financialization within Continental Europe: The main motive for listing on US stock markets by foreign companies was not exclusively or primarily to raise capital, as much of the literature suggests. Many false characteristics are attributed to securities markets. In fact such markets are, overall, a trivial source, even in so-called liberal market economies such as the US and the UK (cf. Nölke, 2008). By illustration, between 1970 and 1994 as a source of funds for corporations' new shares were -4.6% and -7.6% in the UK and the US respectively.[24] In the US between 1940-1978 only 8% of corporate funds were raised via new shares (O'Sullivan, 2000). Between 1960-1987 only 13% of Fortune 500 companies issued/sold shares more than once (Ellsworth, 2002). 'Investment' by shareholders in their own assets through purchase of shares from other shareholders (secondary market trading) is confused in the funding myth with investment in a corporation (primary market). Only a miniscule quantity of shares traded is new investment, overwhelmingly it is trade of shares in an old investment.

Listing, however, provided two other gains for the top executives of the newly listing companies. First, it converted their companies' shares into a usable 'currency'. Internationally, their shares were more acceptable for share swaps for mergers and acquisitions. Morgan (2002) reports that in the period 1984-1994 the bulk of the growth of employment in German multinationals derived from the acquisition of, or merger, with other largely non-German firms. The Daimler-Chrysler merger, for instance was achieved by a share swap. Secondly, greater volumes trading in companies' securities in larger and more active markets increased the value of top executives share options as a form of 'compensation' that grew in popularity in Germany and elsewhere. Legislative changes in 1998 in Germany, for instance, significantly facilitated the implementation of stock option plans (Langmann, 2007). As Cunningham (2009: 146) observes "managers compensated using stock option or other devices based on reported results will demand a different level of conservatism [in financial reporting] than managers not so compensated". IFRS is less conservative than the standards/regulations of most Continental European countries – it produces higher reported profits and higher measurements of net assets. Furthermore, the segmental information required by IFRS, but not heretofore in Germany or in many other Continental European countries, reduced the possibility of cross-division subsidization and facilitated divestment (Ball, 2004).

The picture here is not a dominating US state, nor even a dominating US capital market, but an increasing financialization of companies whose securities are traded in multiple markets by institutional shareholders, by private equity firms, hedge funds and 'investment' banks. Financialization is not just externally imposed but has been enabled and encouraged by top management elites in leading corporations. The break-out by German top management and the partial break-up of the German model in the 1990s was particularly significant.

The US stock markets were, and remain, albeit not as significantly, the primary securities markets. But the EU sought to compete with, not capitulate to, those markets. The EU

was committed to “match the United States economically” and regarded the development of a “single capital market” across the EU – for which uniform financial reporting was considered to be “a necessary precondition (Inglewood [rapporteur of the EU’s Committee on Legal Affairs and the Internal Market] 2002: 1) – to be essential.

When urging the EU Parliament to approve a regulation which would make IFRS mandatory for consolidated financial reports in all EU countries, the commissioner responsible stated:

> This subject is of the highest importance … If we succeed in this it will give a strong political signal that the European Union is not only serious about achieving an integrated capital market by the year 2005, as requested by the European Council in Lisbon two years ago, but also ready to lead on the development of international accounting standards. Comparable, transparent financial reporting is an essential building block for the realization of integrated, competitive and attractive EU capital markets … IAS will also provide the relevant and reliable information which investors and other stakeholders need to make meaningful cross-border and cross-sector comparisons throughout the European Union. Listed European companies have long been awaiting the signal that this Parliament is now ready to give (Bolkestein, 2002: 4).

Earlier the Commission had observed that: “Investors are deprived of comparable accounts and therefore essential information. Cross border trade is hampered. In short, the result is market fragmentation that puts EU securities markets globally at a severe competitive disadvantage” (Commission of the European Communities, 2000:5).

A London based body[25] gave the appearance of being Europe based and the EU did not have the time or the technical resources to develop its own standards. In 1995 the EU Commission had already observed that:

> There is a risk that large European companies will be increasingly drawn towards US GAAP. They and the member states are looking to the Union for a solution that can be implemented rapidly (European Commission, 1995: para. 3.3)(emphasis added)

And went on to say:

> [T]he IASC is producing results which have a clear prospect of recognition in the international capital markets within a timescale which corresponds to the urgency of the problem (European Commission, 1995: para.4.4).

Not Identical Outcomes: Notwithstanding the similarities between IFRS and US GAAP, financial reports based on them are not necessarily, and are in fact very rarely, identical to each other.

Of the 130 SEC filings covering fiscal year 2006 by foreign private issuers, containing IFRS reports reconciled to U.S.GAAP, only two reported identical profit amounts. The variations tend to result in higher reported IFRS profits than U.S. GAAP (eighty-four of these instances existed, by a median differentiation of 12.9%) although there were also forty-four instances where IFRS reported lower profit than GAAP (by a median difference of 9.1%). Across the European Union, differences are significantly influenced by the legal origin of the firm's home country (i.e., common law or civil law traditions).

Two reasons are largely responsible for the differences. First, overall, IFRS are less conservative than US GAAP (Cox, 2009). Secondly, IFRS are not as prescriptive as US GAAP and usually provide a greater number of options for a reporting company to choose from, and contain relatively lesser guidance options. These options can be chosen in a more or lesser conservative way. In increasingly financialized financial markets the pressure is towards less conservative (i.e. higher profit reporting choices).

Top management of listed companies have increasingly become a key driver within financialized markets as their pay has become ever more linked to stock market performance. Notions of 'agency' – and the idea that shareholders were the only group whose interest should be maximized by a corporation - became fashionable and influential not only in the US, but more widely. In 1980 stock options accounted for 19% of CEO remuneration in large United States corporations but it had risen to about 49% by 2000 (Lazonick, 2007). Anecdotal evidence strongly suggests that it has continued to rise further since then. Directly linking significant portions of the payments (usually euphemistically called 'compensation') of top management with financial markets was supposed to channel them "away from extracting opportunistic rent and towards maximizing shareholder value" (Devers, Cannella, Reilly, and Yoder, 2007, p. 1025). The aim is "to motivate managers to disgorge the cash [to shareholders] rather than investing it at below cost or wasting it in organizational efficiencies" (Jensen, 1986: 33).[26]

But identifying the relationship(s) between CEO (and other top management) remuneration (widely defined) and corporate performance is rather elusive as corporate performance is multifaceted and not just a consequence of top management decisions (Devers, Cannella, Reilly and Yoder, 2007; Larcker and Richardson, 2007; McGahan and Porter, 1997; Pfeffer and Sutton, 2006; Yermack, 1997). It is also created by the actions of others within and outside corporations and by circumstances beyond the control of top management. Based on a review of 220 studies, Dalton, Daily, Certo and Roengpitya (2003) found "few examples of systematic relationships" between stock ownership and corporate performance. A meta-analysis of 137 CEO remuneration studies found that firm performance accounted for less than 5% of the variance in CEO remuneration (Tosi, Werner, Katz and Gomez-Mejia, 2000). In 2007, average pay of top management of US listed companies increased by 20.5% over 2006 earnings, but in the same period those corporations' profits had, on average, increased by only 2.8% (AFL-CIO, 2009). A major beneficiary of the financialization of corporations has been its CEOs and other top management. As Froud *et al*. (2006) conclude that "top managers … appear to be an averagely ineffectual officer class who do, however, know how to look after themselves."

Not surprisingly therefore, support for less conservative IFRS has come from many US listed companies and their representative bodies. As it has from similar elites in many other countries – but not because of a 'US' imposition.

CONCLUSIONS AND DISCUSSION

The rise of the IASB a private organization from comparative obscurity to huge international significance is not a unique achievement. [27] But that accomplishment by private organizations has both common and different features. Global harmonization or global adoption of some standards have occurred with little or no role by the public sector (including central state authorities). However, in relation to the near global harmonization of accounting standards (for consolidated reports) public sector actors the US SEC and the EU Commission played – and continue to play - crucial roles (Boztem and Quack, 2006). However, for decades adoption of IFRS, and into a period of more intense use by significant numbers of major European companies, their use was voluntary. It was not imposed directly or indirectly by a national or regional state. Indeed that accelerated voluntary use was a major influence on the decision by the EU to make their use mandatory. The lengthy process was political both in the sense of struggles within and between countries/regions and in that the technical and the political were intertwined (Frankel and Højberg, 2009). Constestation between interested parties retarded transnationalization in some circumstances, but it accelerated it in others.

The paper does not attempt to provide a complete model of how and why the transnationalization of IFRS occurred. It is unlikely that such closure is possible. However, through an analysis of single cause explanations which dominate the literature on the genesis of international financial reporting standards, the paper has sought to move towards a richer explanation by identifying both the limitations and insights of each of the singular explanations.

Exclusively exogenous, or more precisely: extra-national, explanations alone obscure how sub-state actors and interactions were essential. What happened both in the EU and the US was the consequence of deep-domestic as well as a transnational or international process. The 'break-out' of some major Continental European firms from the corporate governance traditions in their home countries via listings on the New York Stock Exchange – motivated in part by the desire to convert their shares into a more acceptable acquisition 'currency' generated pressure both within their home countries and on the EU Commission. Intertwining between financial institutions and industrial companies loosened, formal and informal restrictions on top executive pay weakened the nationalities of owners of shares in these companies increasingly extended beyond the home country – home in the sense of the location of the head-office. The transnational mobility of finance capital increased quite dramatically. Within these developments changes in perceptions about the roles of financial reporting both reflected and contributed to these many of these changes, not least in increasing the demand for the production of financial reports of a type which buyers, holders, and sellers of corporate

shares were more familiar. Use of US GAAP by non-US companies grew. This created a dilemma for the EU.

On the one hand it had long sought to harmonize financial reporting across the EU – as part of its Single Market aspiration - but had been frustrated by an impasse between the UK and Germany with very different corporate governance systems and related types of financial reporting. In contrast with the stalled progress across the EU at inter-governmental level, sub-state (non-governmental, within country) actors viz. some large European corporations were moving towards harmonization through adoption of US GAAP, and to a lesser extent IFRS.

On the other hand adopting US GAAP – produced in a non-EU country - as EU standards would have been unacceptable to the EU Commission, though not necessarily to some corporations at least, and quite probably to the EU Parliament also (who would have had to approve adoption). Adopting IFRS provided a better, albeit not perfect, alternative for the EU. The 'break-out by many large EU companies had made resolution urgent. The EU Commission feared wholesale use of US GAAP by large EU companies. But the EU did not have an alternative set of standards to US GAAP nor could it develop such standards within a reasonable period. IASB, however, during its decades of peripheralization, had created a comprehensive set of standards. The IASB, unlike US standard setters, was not 'tied' to one or indeed any state, but London based it could be represented as a European organization. Whilst the EU could not directly influence the standard setting and approval processes of either the US FASB or the US SEC, there was a prospect that they might be able to do so with the IASB and it reserved, and continues to reserve, the right not to accept individual IFRS. Furthermore, US GAAP in the mangle of practice – especially in the very litigious US environment - had become rule and guidance dense - too lengthy and complex to be imposed *de novo* on countries which had not previously used it.

The acceptability to, indeed the pressures for acceptance of, multinational adoption of IFRS generated by EU and US stock markets, and by the international body of stock market regulators, IOSCO, made the adoption of IFRS by the EU both easier and more desirable. Reasons for the attractiveness of IFRS for stock markets have not been explored in this paper, but briefly one can point to the increased volume of trading stock markets anticipated widescale adoption of IFRS would generate and the somewhat less conservative underpinning of IFRS seen as especially desirable during the period of focus on boosting shares prices secure in the 'knowledge' that financial market failure was impossible (McSweeney, 2009a).

Changing contexts, sub-state actors, exogenous influences, national or rather regional pride, urgency, a history of tardy progress at inter-governmental level, and an already established set of standards all contributed to the adoption of IFRS by the EU.

The process of part (and potentially full) adoption of IFRS in the US was also a combination of the external and the internal intensified by a specific event or events. External pressure came from a variety of sources. The increasing growth of non-US stock

markets reflecting a wider economic ‘liberalization’ and a general shift of economic focus eastwards generated much commentary on ways to improve the ‘competitiveness’ of US stock markets. Allowing non-US companies listed on US stock markets to report via IFRS - less onerous than US GAAP - was one adopted change. The prior adoption of IFRS by the EU made the change apparently more desirable. Notwithstanding the desires and active lobbying of Congress and elsewhere for wholesale adoption of IFRS for all (domestic and non-domestic) listed companies in the US continuity of US GAAP seemed assured until the surfacing of a number of major corporate – most significantly Enron - scandals in the US. It is highly questionable whether Enron was a consequence of a failure of US GAAP. Whilst the Enron (and other corporate scandals) initially generated the Sarbanes-Oxley Act (an increase in regulation) Enron ‘post-mortems’ greatly emboldened light-touch/de-regulation advocates whose views were sympathetically heard by the Bush Jr. administration. A rather facile, but highly influential distinction between rule-based US GAAP and principles-based IFRS was echoed in a range of US policy-making circles, most significantly for financial reporting, in the SEC.

VARIETIES OF CAPITALISM

For more than two decades the field of international or comparative financial reporting had been dominated by studies of national differences. The focus was on ‘fundamentally different’ ‘patterns’ or ‘systems’ in different countries or clusters of countries. Countries or states seemed to be the ‘natural’, unit of comparison. Usefully that literature enhanced awareness of the influence of ‘environment’, or ‘societal effects’ on accounting development and practice away from the depiction of a neutral technology which ‘faithfully reflected economic reality’. But the primary or exclusive environmental influence it focused on was a supposedly uniform national one and as a consequence the outcome is deemed to be homogeneity within countries and differences between countries. The transnationalisation of IFRS across all European Union (EU) countries – and their acceptance in many other countries – would seem to have made the notion of national differences redundant – at least in relation to financial reporting regulations. But is that so?

Some versions of varieties of capitalism represent institutions within nations as all part of an integrated mutually dependent and supporting whole (Hall and Soskice, 2001). Within that model “[a]ccounting standards are an integral foundation of a particular variety of capitalism” (Nölke, 2008: 13). If that is so, then the adoption of IFRS by German listed companies is both a symptom and part of the cause of the demise of a German variety of capitalism. However:-

Incoherent: The logic of path dependence theories - including the national cultural and the institutional varieties of capitalism schools - predict the stability of regulatory arrangements, including the law and policy of corporate governance. But these have undergone remarkable change. For more than twenty years, research in social science (economics, sociology, politics, accounting, and so forth) which has looked beyond a single country has been dominated by the nation as the comparative unit of analysis

(Strange, 1996) and as the main actor in the international sphere (Waltz, 1993). Emphasis is put on uniformity (of institutions, values, etc.) *within* countries, or clusters of countries, and differences *between* them. It is difficult, if not impossible, to credibly explain change on this basis (McSweeney, 2002a, 2002b, 2009b). The insistence on national uniformity precludes any theory of change springing from internal dynamics (Archer, 1988). Logically the component parts of any complex can generate change but only if some internal heterogeneity is allowed. The neglect, indeed effectively the denial, of internal dynamics means that change can only be plausibly explained by external force (not merely influence). National varieties models (cultural and institutional) can cope with the fact that changes in external circumstances do not always lead to internal change but they incorrectly predict that externally created changes will also always have national variation. There are many counter-examples of which the transnational IFRSisation is one.

Revisionist work in the varieties of capitalism field by Colin Crouch, Wolfgang Streek, and others reject the idea of national institutions as institutionally complete and coherent – institutions, and elements of institutions, can, it is argued, be combined. Inherently contradictory codes can co-exist in varying types of separation or combination (Elias, 1969). Thus a change in one institution or one element in an institution does not, of itself indicate or cause a change to the whole.

Diversity Continues: IFRSs are required within the EU (and elsewhere) for consolidated accounts, not (as discussed above) for individual company financial reports. The former may influence the latter but there are barriers to change within countries where individual company financial reporting is closely tied to the calculation of corporate tax. IFRS (and US GAAP) are built on a supposition of separateness. That distinction applies in some countries, including the US and the UK, but not in others such as Germany and France. Diversity of reporting by individual companies will therefore continue into the foreseeable future. Very strong objections have been expressed in the EU Parliament to the extension of IFRS (even IFRs-lite) to small and medium sized companies across the EU.

Implementation*:* Formal acceptance of new standards/regulations tells us little about their implementation, use, and impact. Whilst it is reasonable to suppose that differences – in terms of format and disclosure at least – in consolidated financial reports of listed companies will be reduced significantly – formal rules do have impacts - harmonization is likely to remain incomplete. IFRS, like all sets of financial accounting standards are not totally prescriptive. They are not a 'total enclosure' as they do not cover all aspects of financial reporting; they allow choices in particular instances; and rely on management judgment in others. All important financial reporting decisions require judgments. Valuations of assets, for instance, necessarily rely on expectations about hypothetical *future* events (McSweeney, 2000).

Those choosing between alternative policies, when IFRS provide alternatives, and in making judgments (which must be made whether or not alternatives are permitted) do so in the contexts of the specific strategies of the individual corporation about which a

financial report is being prepared and subject to other local factors. Thus, we must await wider use of IFRS and more empirical research on the implementation of IFRS to see what impact particular contexts of production and use may have in different countries and other contexts. Furthermore, if differences in interpretation are institutionally/culturally created then given their extensive *intra*-national variation (McSweeney, 2009b) then we should see continuing variation in practice – harmonization will not achieve uniformity across or indeed within EU countries. In contrast with the US where a federal body, the Securities & Exchange Commission is in charge of financial reporting standards, the enforcement of IFRS within the EU is being left largely to individual EU countries. Some EU member states are notorious for ignoring EU directives and regulations, especially the Czech Republic, Greece, Italy, Luxembourg, and Portugal. In 2006 IOSCO established a process to identify varieties of interpretation of IFRS within the 100 or so countries affiliated to it. On the one hand this is an indication of anticipated deviations but also of likely attempts to eliminate or reduce diversity. Overtime, that diversity may damage the image of IFRS as uniformly creating "high quality" and comparable financial reports.

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[1] This paper was first presented at: *Governing Through Standards An International Symposium*, Copenhagen, 24-26 February 2010. The symposium was organised by the Danish Institute for International Studies.

[2] Some of the standards – those first developed – are called International Accounting Standards (IAS). Subsequent standards are called International Financial Reporting Standards (IFRS). The distinction is a historical legacy and does not indicate any qualitative difference between the standards. In this paper 'IFRS' refers to both IAS and IFRS.

[3] In 2001 The International Accounting Standards Committee (IASC) was restructured and renamed the International Accounting Standards Board (IASB). There is "substantial continuity" (Ball, 2006: 6) between the organizations. In this paper, unless otherwise stated, the label IASB is used regardless of whether the organization was at the time referred to known as the IASC or the IASB.

[4] Transnational standards may be enforced on the basis of deference or endorsement. In the former case, once a standard is adopted by a recognized standard setting body, it becomes a binding standard in member states. In the latter case a sovereign authority such as a national (or multi-national) securities regulator or legislation must formally enact them. In most instances, including the EU, endorsement of IFRS is required.

[5] It is likely that the target deadline of 2012 will slip, but the commitment is firm.

[6] IASB was founded by organizations of accountants (accountancy bodies) – not the financial reporting regulatory bodies - of a number of countries viz. Australia, Canada, France, Germany, Ireland, Japan, Mexico, the Netherlands, and the United States. These bodies were dominated by the national parts of the large auditing firms.

[7] Botzem and Quack's (2006: 266) view that after its formation in 1973 IASB "could claim centre stage of the international [financial reporting] standard-setting arena" greatly overstates IASB's influence.

[8] That is not to argue that it is possible to examine a situation uninfluenced by categories, theories, hunches, and so on.

[9] The magnitude of cost of capital benefits from financial report disclosure is an unsettled research question (Ball, 2006: 11).

[10] Approved in 1978.

[11] Then called the European Economic Community.

[12] The same year IASB was formally founded.

[13] For a deconstruction of the notions of 'efficiency' and effectiveness see McSweeney (1988).

[14] The Parliament has subsequently been split over some standards e.g. IFRS 8.

[15] These sales allowed much greater purchases of shares in German companies by non-Germans who by 1999 owned 15% of all German shares (Jürgens, Naumann and Rupp, 2000).

[16] Europe was not free of corporate financial scandals, for example, Gescartera in Spain and Parmalat in Italy.

[17] At that time, Bolkestein was an EU Commissioner.

[18] The US is an enforcement intense society. The rules density of US GAAP is in part a product of engagements over time with diverse and controversial applications. In contrast, IFRS are much newer than US GAAP standards. A maturing IFRS might be expected to become more rule dense.

[19] This report contains extensive data confirming New York's declining dominance as a capital market.

[20] This latter point is speculative. I have not yet sought evidence for or against this view.

[21] In October 2002, the FASB and the IASB announced the issuance of a memorandum of understanding, called the Norwalk Agreement. The two bodies acknowledged their joint commitment to the development, "as soon as practicable," of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. At that time, the FASB and the IASB pledged to use their best efforts to make their existing financial reporting standards fully compatible as soon as is practicable and to co-ordinate their future work programs to ensure that once achieved, compatibility is maintained.

[22] Founded in 1983 out of an inter-American organization of 1974.

[23] The two boards "have established a video link between each other's meetings so Board and staff members can observe and participate in each other's discussions" (Tweedie, 2005: 598).

[24] The reason for shares being a negative source in this period in the US and the UK is primarily the increase in share buy-backs by companies.

[25] Although the full-time staff of the IASB are located in London its controlling entity the International Accounting Standards Committee Foundation is incorporated in the US state of Delaware Ironically, whilst the IASCF/IASB calls for greater disclosure (of a particular type), Delaware is the U.S. state requiring the lowest level of disclosure in the US.

[26] Amongst other things, this eulogy of financial markets ignores the fact that available evidence suggests that corporations which are not controlled by financial markets performed at least as well as those which are (Fligstein and Choo, 2005) and relies on the normative justification of favouring shareholders interests, at the expense of other stakeholders.

[27] To take the example of the International Organization for Standardization (ISO) and its sister organization the International Electro-technical Commission (IEC), like the IASAB they had long been established but were little known and of minor significance until into the 1980s. Both like the IASB are, and were, privately funded. They too stood (like IASB) in the shadow of powerful

national organizations such as DIN (the German Institute for Standardization) or BSI (the British Standards Institution). But today they jointly account for approximately 85% of all known international technical standards and their annual output has doubled since the early 1980s (Mattli and Büthe, 2003).