

**The international politics of  
IFRS harmonization** Karthik  
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## **The international politics of IFRS harmonization\***

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### **Abstract**

The globalization of accounting standards as seen through the proliferation of IFRS worldwide is one of the most important developments in corporate governance over the last decade. I offer an analysis of the international political dynamics of countries' IFRS harmonization decisions. The analysis is based on field studies in three jurisdictions: Canada, China, and India. Across these jurisdictions, I first describe unique elements of domestic political economies that are shaping IFRS policies. Then, I inductively isolate two principal dimensions that can be used to characterize the jurisdictions' IFRS responses: proximity to existing political powers at the IASB; and own potential political power at the IASB. Based on how countries are classified along these dimensions, I offer predictions, *ceteris paribus*, on countries' IFRS harmonization strategies. The analysis and framework in this paper can help broaden the understanding of accounting's globalization.

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## **I. Introduction**

The globalization of accounting standards through the development and growth, since 2001, of International Financial Reporting Standards (IFRS) is one of the most important phenomena in corporate governance today. In an ironic twist to its staid perception in popular culture, accounting has been at the forefront of globalization: ahead in its efforts to converge standards internationally when compared to other related areas such as product quality standards, occupational safety standards, environmental standards, securities law, immigration reform, etc. Since the early 2000s, several countries, led by the European Union (EU), have embarked on a project to unite globally divergent accounting standards into one common set of accounting principles, IFRS. As of 2010, about 100 countries, including all of the world's major economies, either have adopted IFRS, or have initiated an IFRS harmonization program, or have in place some national strategy to respond to IFRS.

Over the 2001–2010 period, countries have varied in the degree and timing of their commitment to IFRS. There are a number of plausible hypotheses for this variation, including cultural differences, differences in corporate governance environments, technological differences, and differences in countries' natural resources (e.g., Ramanna and Sletten, 2009). In this paper, I investigate how some of these fundamental jurisdictional differences manifest in the international political dynamics that can contribute to countries' responses to IFRS. Using in-depth analysis of data gathered across a series of countries, I develop a framework that can help characterize the international political dynamics of the globalization of accounting standards. The framework can be used to help explain and predict countries' decisions on IFRS

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harmonization. Moreover, the framework can yield insights into the nature of IFRS itself and its potential structure in the future.

The emerging theory presented in this paper is based on an analysis of the IFRS harmonization strategies of three jurisdictions in particular: Canada, China, and India. Using separate field studies, I first describe unique elements of these jurisdictions' domestic political economies that are shaping their IFRS policies. Then, based on this analysis, I isolate two principal dimensions that can be used to characterize the jurisdictions' responses to IFRS. The dimensions represent two components of the international political dynamics of IFRS harmonization. The dimensions are: a jurisdiction's proximity to existing political powers at the IFRS' rule-making body, the International Accounting Standards Board (IASB); and a jurisdiction's own potential political power at the IASB. Based on how countries are classified along these dimensions, I offer predictions, *ceteris paribus*, for their responses to IFRS.

I begin my analysis by first briefly describing the development of IFRS over its first decade, particularly examining the role of the EU member states and their interests in the establishment and subsequent direction of the IASB (Section II, "The leadership of the EU"). This description is important to my study because it helps establish the baseline political identity of the IASB, against which other jurisdictions' IFRS harmonization responses can be evaluated. I survey the historical evidence on the IASB's first decade and conclude that the IASB has been, since its inception, defined by European, and in particular, British, interests. For example, the EU had a dominant role in the establishment of the IASB (EC, 2000), and there is anecdotal evidence from modifications to IFRS in response to the 2008–09 financial crisis suggesting that large

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EU member states enjoy substantial influence over the IASB. Recent empirical evidence also corroborates this historical evidence: there are data to suggest that expected improvements in economic relations with the EU are a significant source of the perceived benefits of IFRS adoption among other countries (Ramanna and Sletten, 2011).

In the context of the IASB's European origins, the case of Canada's decision to adopt IFRS provides important insights. In 2005, faced with increasingly globalized product and capital markets, and with the growing popularity of IFRS across the globe, Canadian capital market regulators considered abandoning their domestic accounting standards for IFRS. A significant fraction of Canadian industry (especially oil and gas companies), however, opposed this idea, arguing instead that Canada adopt U.S. Generally Accepted Accounting Principles (GAAP) as its standard. With over 80% of its exports being U.S. bound, and over 60% of its foreign equity portfolio investment from the U.S., the position that Canada adopt U.S. GAAP had strong merits. Nevertheless, Canadian regulators decided to embrace IFRS. The Canadian decision is interesting in that it bucked economic arguments for U.S. GAAP adoption and put Canadian capital markets at the discretion of rules set by the London-based IASB.<sup>1</sup> Section III, "Junior allies: the case of Canada," explores this counter-intuitive decision. Ultimately, I conclude that Canadian comfort with the IASB's Anglo-centric decision making structure and Canada's longstanding desire to distinguish itself from the U.S. were determining factors in the decision. Both arguments underscore the importance of identity politics in a country's IFRS response strategy.

<sup>1</sup> Technically, an IFRS standard must be included in the Canadian Institute of Chartered Accountants' Handbook in order to be considered Canadian GAAP. Thus, Canada has an "opt-in" rather than an "optout" mechanism to IFRS harmonization, which could make it easier for Canada to reject an IFRS standard in the future should the need arise.

Contrasting Canada's near complete commitment to IFRS, China's IFRS approach highlights the result of international political compromises in the IFRS harmonization process. This issue is discussed in Section IV, "Towards a multipolar IASB: the case of China." Citing China's "unique circumstances," the Ministry of Finance (MOF) in Beijing has been careful to customize IFRS to its needs where expedient. For instance, given state ownership of a substantial proportion of Chinese companies, the MOF noted that many state entities were likely to be subject to extensive related-party disclosure requirements under a strict interpretation of IFRS. Arguing against the onerous nature of such compliance, the MOF was able to successfully lobby the IASB to modify IFRS so that its state-owned enterprises were not subject to the same level of related-party disclosures as most other companies across the world. The substantive element of this victory is significant because the disclosure of related-party transactions is central to maintaining the integrity of the "entity concept," the fundamental idea in accounting that an enterprise's financials are its own. On a procedural level, the victory can be indicative of the MOF's growing clout at the IASB and its ability to shape IFRS in the future.

While the Chinese government has been successful in making its voice heard at the IASB, the ability of other emerging markets to do so is less clear. This issue is the focus of Section V, "Bigger fish from smaller ponds: the case of Tata Steel in India." Tata Steel is a large Indian multinational with extensive European operations funded by euro denominated debt. This natural hedge notwithstanding, Tata Steel is required under IFRS rules to translate the debt into its home currency, Indian rupees, for consolidated reporting purposes. Given the rupee's volatility, the IFRS translation requirement exposes

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Tata Steel's financial statements to substantial mechanical swings (about 64% of net income in 2009), affecting its financial covenants and its ability to raise further capital. I discuss the challenges faced by Tata Steel in organizing a response to the problem above.

I conclude that concerns such as those faced by Tata Steel can help explain India's decision to defer its IFRS convergence project twice in the past two years. The Tata case study has implications for the IFRS response strategies of other countries with similar or less international clout than India.

The country analyses outlined above can be used to derive a framework to analyze how international politics can shape countries' strategies on IFRS harmonization. The framework is characterized by a two-dimensional matrix, where (i) one axis represents a country's proximity to the existing political powers at the IASB and (ii) the other axis a country's potential political power, i.e., its ability to shape decisions at the IASB. For example, Canada, with its Anglo-French roots, scores high on the first dimension; China, for reasons briefly illustrated above, scores high on the second dimension. In Section VI, "The international politics of IFRS harmonization," I discuss how a classification of countries along the two dimensions can be used to help explain and predict their IFRS response strategies on the basis of international political dynamics.

Specifically, *ceteris paribus*, I expect: (1) countries scoring high on the first dimension but low on the second (i.e., countries with high proximity to the existing IASB political powers, but low potential political power, e.g., New Zealand) are likely to align themselves with the existing IASB powers, i.e., EU member states (as Canada has); (2) countries scoring low on the first dimension but high on the second (e.g., Japan) are likely to develop expedient exceptions as part of their IFRS response strategy (as China

has); and (3) countries scoring low on both dimensions are likely to either slow IFRS harmonization (as India has) or work in regional coalitions to gain a stronger voice in IASB decision making (as Singapore has).

The U.S., it can be reasonably argued, scores high on both dimensions (i.e., high proximity to the existing IASB political powers and high potential political power), so on the basis of these factors alone can be expected to harmonize with IFRS. In Section VII, “American exceptionalism?,” I briefly discuss the history of the IASB’s relationship with the U.S., and present some additional reasons rooted largely in America’s exceptionalist identity that are likely restraining the U.S. from embracing IFRS more fully.

In Section VIII, “The IASB at a crossroads,” I discuss the implications of the international political factors described above for the future of the IASB. I argue that the current debates around convergence versus adoption as the most effective means to proliferate IFRS can be seen as a manifestation of a power play between the IASB’s existing power base—the EU—and emerging powers such as China. I also discuss organizational changes being proposed at the IASB to diversify its decision making. For example, in the face of concerns that the IASB is dominated by Anglo-American interests, the board’s membership is being diversified geographically. I argue that redefining the IASB to include fewer Americans is likely to temper U.S. enthusiasm for IFRS, which in turn can make IFRS less attractive worldwide. I conclude with a discussion of the broader, theoretical implications of the international political dynamics of IFRS harmonization, and discuss associated questions for future research.

Two caveats are in order. First, while the dimensions of international political dynamics outlined in the framework above can have explanatory power in understanding

countries' IFRS harmonization decisions, they are not intended to be exhaustive. International politics is not the only or even the deciding element in understanding the growth of IFRS. Thus, the framework is at best a "partial equilibrium" analysis. Second, and relatedly, this paper sketches out a framework inductively; it does not test the framework in a large-sample database. Such a test must consider other determinants of IFRS harmonization including the perceived network benefits to adopting IFRS (e.g., Ramanna and Sletten, 2009; 2011). Thus, the scope of this paper is limited to theoretical development; there is an evolving empirical literature on IFRS harmonization that is complementary to the analysis herein.

## **II. The leadership of the EU**

### *The Anglo-European origins of international accounting standards*

The development of national accounting "standards" is itself a relatively recent phenomenon (e.g., Baxter, 1981), dating only to the post-World War II era, so the internationalization of accounting standards is still more recent.<sup>2</sup> An early systematic attempt at harmonizing standards across borders was the Accountants International Study Group (AISG), established in 1967. Three countries, Canada, the UK, and the U.S., were part of this effort, which involved comparing the jurisdictions' accounting and auditing practices with a view towards reducing differences (Camfferman and Zeff, 2007, p. 30). In its ten-year lifespan, the AISG published twenty studies to further accounting harmonization among its members (Camfferman and Zeff, 2007, p. 32).

<sup>2</sup> Baxter makes the distinction between pre-War GAAP that generally reflected the codification of widely accepted accounting practices, and post-War accounting "standards" that were motivated from conceptual ideas and thus did not always reflect existing practice.

Paralleling the development of the AISG, were efforts within the European Economic Community (of which the UK was not as yet a member) at accounting standards harmonization. These efforts had made significant progress by 1973 when the UK joined the EEC. In part to ensure its voice in European accounting harmonization in light of already established Continental momentum in this regard, the UK led in the establishment of a new group, the International Accounting Standards Committee (IASC), the same year (Benston, Bromwich, Litan, and Wagenhofer, 2006, p. 229).<sup>3</sup>

The IASC marked a major development in the globalization of accounting standards. The London-based IASC was an association of the professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK and Ireland, and the U.S. The IASC was explicitly concerned with narrowing differences in accounting practices across its member states, a task it saw as important in light of increasing international trade (e.g., Camfferman and Zeff, 2007). The IASC was reasonably successful in this regard, especially given that it had no specific intergovernmental mandate and no statutory enforcement authority. Perhaps in light of these limitations, the IASC focused on developing broad accounting principles with an eye on influencing jurisdiction-based accounting regulations, rather than on creating international accounting standards *per se* (e.g., Donnelly, 2010, p. 229).

By the late 1990s, there was growing consensus that the IASC's indirect approach to globalizing accounting standards was insufficient (Camfferman and Zeff, 2007, p. 447). The idea of a professionally organized, technocratic standard-setting institution,

<sup>3</sup> Camfferman and Zeff (Ch. 3) discuss other motives behind the formation of the IASC. Their discussion highlights the UK's central role, particularly through the activities of Lord Benson, president of the Institute of Chartered Accountants in England and Wales, whom they describe as (p. 44) "the guiding spirit behind the founding of the IASC."

with a direct objective to produce common worldwide accounting rules, came to take root. Early into the new millennium, the IASB was born. At least two concurrent events from the 1990s can be linked to the emergence of the IASB. First, the 1997 financial crisis, mostly felt in emerging market economies of East and South-East Asia, exposed numerous corporate governance shortcomings in these countries that were tied to unorthodox local accounting practices. Given the growth of foreign equity portfolios, there was pressure from capital providers in the West to bring accounting standards in these countries in line with “international” practices (Donnelly, 2010, p. 229). Second, the European Commission (EC), which was already pushing for a single set of accounting standards across its “common market,” wanted to play a more important role in the worldwide harmonization of financial reporting and thus avoid U.S. dominance of this process (Camfferman and Zeff, 2007, p. 17).

The London-based IASB was established to replace the IASC. The new board had from the beginning the strong support of the EU. In 2000, the EC decided to delegate European accounting standard setting to the as yet unborn IASB, and in 2002, the European Parliament approved this decision and required all companies listed in the EU to report according to IFRS from 2005 (European Parliament, 2002). The first chairman of the IASB was Britain’s then chief accounting standard setter, Sir David Tweedie.

### *The EU’s ongoing leadership at the IASB*

Just as European and, in particular, British interests were central to the foundation of the IASB, these interests continued to shape the IASB’s development through its first decade. One of the most palpable examples of EU influence over IASB decision-making

came during the 2008–09 financial crisis. The issue at hand was IAS 39 and IFRS 7, the extant international standards on the measurement, recognition, and disclosure of financial instruments. The standards did not provide companies the flexibility to reclassify financial instruments hitherto accounted for using fair values to a historical cost basis. This situation considerably inconvenienced several major European banks at the height of the financial crisis when the fair values of many asset classes were depressed. The banks argued that certain assets (including mortgage-based assets) were expected to be held for very long periods, so transitory depressions in their fair values should not affect bank balance sheets. A reclassification of these assets to a historical cost basis was sought (e.g., Norris, 2010).

Buttressing the banks' claim was the fact that U.S. GAAP allowed for a similar reclassification (e.g., Christoffersen, 2008). Arguing for a more "level playing field" with the Americans, the EC's Economic and Financial Affairs Council, under pressure from several key players in the European banking industry, called on the IASB on October 7, 2008 to address the issue (EC, 2008). On October 8, EC president Jose Manuel Durao Barroso threatened legislation to create a European carve-out from IFRS on the reclassification issue, a move that could have effectively subverted the IASB's legitimacy in the midst of the financial crisis. On October 13, the IASB rushed through amendments that gave the banks the ability to reclassify previously fair-valued assets to a cost basis, a decision that was backdated to July 1, 2008.<sup>4</sup> The decision likely compromised the IASB's emerging reputation for due process (e.g., Leone, 2008).

Evidence on the EU's centrality to the IASB can also be seen in more formal empirical tests. For example, Ramanna and Sletten (2011) conduct a study to test for the

<sup>4</sup> Reclassifying entities were required to disclose in footnotes results absent reclassification.

presence of network effects in the decisions of over 90 non-EU countries to adopt IFRS. They find robust evidence consistent with network effects. Interestingly, they find that (p. 27) “network benefits expected to accrue from economic relations with the EU” are a “dominant” source of the network effects. This latter conclusion is especially true for larger countries. The authors cite the anecdotal evidence from Skinner’s (2008) work on Japan as consistent with this conclusion. Skinner (p. 220) notes that IFRS harmonization attempts in Japan arose from pressure to “convince” the EU “that Japanese GAAP was ‘equivalent’ to IFRS,” since “Japanese companies rely heavily on European capital markets for external debt financing.”

In conclusion, the historical, political, and empirical evidence briefly discussed in this section are consistent with the EU having a strong leadership role in IASB affairs. This conclusion is not particularly controversial, but establishing it is important to the following analysis. The IASB’s European identity institutes a baseline against which other jurisdictions’ IFRS harmonization responses can be evaluated.

### **III. Junior allies: the case of Canada**

#### *The economic rationale for globalizing Canadian accounting standards*

In January 2006, the Accounting Standards Board (AcSB) of Canada announced that it would initiate a formal process of converging Canadian accounting standards with those of the IASB so that from January 2011, Canadian companies would effectively be reporting under IFRS (CICA, 2006). The decision was a major commitment by Canada—one of the world’s largest industrialized economies—to the IASB and its standards. Of particular note was Canada’s decision to embrace IFRS wholeheartedly, i.e., without

exceptions or limitations. Speaking of the decision, Paul Cherry, the then-head of the AcSB noted (Ramanna and Cheng, 2009, p. 7), “Once you say change, shades of gray don’t matter a whole lot.”

Also noteworthy in Canada’s commitment to IFRS was its decision to forgo the accounting standards of its closest neighbor and largest trade and investment partner, the United States. Throughout the process that led up to the AcSB’s January 2006 decision, U.S. GAAP had been a serious contender as Canada looked for a globally relevant alternative to its domestic standards.

Canada’s decision to globalize its accounting regime was born of domestic concerns that Canada did not have the scale to support its own unique accounting regulatory regime. Speaking on this issue Mr. Cherry noted (Ramanna and Cheng, 2009, p. 7), “Our decision is based very much on what we think is the economic reality of the moment and foreseeable future. Canadian markets are, if you are being charitable, about 3% of the global marketplace. It has become increasingly difficult to make foreign investors comfortable, in the sense of understanding, the Canadian accounting system that we have in place. It is very expensive to educate others. The choices are simple: it’s either U.S. GAAP or international standards.”

The Canadian economy in 2005 was heavily reliant on foreign trade, which accounted for almost three quarters of the country’s total gross domestic product (GDP). This represented a significant increase from the early 1990s, when foreign trade represented about half of GDP. The growing reliance on trade underscored a broader trend towards an increasingly globalized Canadian economy. For example, Canada’s capital markets were in 2005 also highly internationalized, with high levels of foreign

direct investment (representing more than 30% of GDP) and foreign portfolio investment (about 37% of GDP).<sup>5</sup>

The United States was Canada's largest trade and investment partner, accounting for roughly 84% of its total exports, 56% of its total imports, and almost two-thirds of total foreign portfolio investment in 2005. And although Canada's dependence on the U.S. had been decreasing in recent years (largely due to growing commerce with the EU and China), Canada's U.S.-reliance remained overwhelming.

Given America's significant role in the Canadian economy, the option to embrace U.S. GAAP as a global alternative to Canadian GAAP was popular in some quarters. For example, several important players in the Canadian oil and gas industry—one of Canada's largest industries—actively lobbied for U.S. GAAP adoption through 2005 (e.g., Ramanna and Cheng, 2009). In fact, since the early 1990s the AcSB had worked to keep Canadian GAAP aligned with U.S. GAAP to the extent possible, so the full adoption of U.S. GAAP seemed a logical next step to these players.

Among those arguing against U.S. GAAP were the global auditing firms. A comment letter on the issue from Deloitte summarized this opposition (Ramanna and Cheng, 2009, p. 16): "...efforts to harmonize [Canadian GAAP] with the U.S. would continue to produce standards of increasing complexity... Such a path is not likely in the best interest of Canadian capital markets and is certainly not in the best interest of Canadian non-public companies. Accordingly, we support the exploration of a different

<sup>6</sup> International Monetary Fund, Statistics Canada, and the World Bank. Several of the largest Canadian oil and gas companies are subsidiaries of U.S. counterparts.

<sup>5</sup> Data compiled from the

model: one that permits those who wish to use U.S. GAAP [the option] to do so, [and] the adoption of IFRS as Canadian GAAP...”<sup>7</sup>

Surveying the economic conditions and political climate in Canada in 2005 does not yield a clear prediction on Canada’s decision to adopt IFRS over U.S. GAAP. Thus, in the following subsection, I explore some additional hypotheses, in particular those based on cultural sentiments, as an explanation for the decision.

### *Cultural explanations for Canada’s IFRS adoption*

Canada has a strong system of formalized accounting and corporate governance practices dating back to the early 20th century. The Canadian accounting establishment is

generally recognized as being of high quality: for example, a 2005 IMD report ranked Canada as having one of the most highly regarded accounting establishments in the world

(see [www.worldcompetitiveness.com](http://www.worldcompetitiveness.com)). These systems have their origins in Canada’s status as a former colony and dependency of the British Crown. The early structure of the accounting profession in Canada closely followed British traditions, as they were set up under the guidance of such frameworks as the British Companies Act of 1900 (e.g., Baylin, MacDonald, and Richardson, 1996). The British influence on Canadian corporate governance practices is also evident: for example, Canadian principles of corporate disclosure were initially developed in compliance with the 1844 British law on joint stock companies (Gray and Kitching, 2005).

<sup>7</sup> The opposition of global auditing firms to U.S. GAAP is not restricted to Canada and not particular to U.S. GAAP, i.e., global auditing firms can be seen as promoting IFRS over local standards in all jurisdictions studied in this paper. There are at least two plausible reasons for this observation: (1) global auditing firms see one worldwide standard (such as IFRS) as lowering operating costs for themselves; (2) global auditing firms have greater *relative* influence at the IASB than at national standard-setting bodies (see Table 4), because their opposing interests at the IASB are more dispersed.



The UK also remains closely associated with Canada on a political level. Canada is a founding member of the British Commonwealth (the 1926 Imperial Commonwealth) and the UK's sovereign is still nominally Canada's head of state. Other evidence of Canada's close association with Britain can be seen in the incorporation of elements of the Union Jack in the flags of several Canadian provinces, and the visage of Queen Elizabeth II on Canadian legal tender. Generally, then, with the exception of Québec (a former French colony), Canadians are familiar and comfortable with British institutions.

This familiarity with British institutions could have facilitated Canada through any anxieties over adopting the London-based IASB as its *de facto* accounting standard setter. As discussed in the previous section, the IASB's origins can be traced back to British interests, and Britain, together with the rest of the EU, remains central to the IASB, as a lead underwriter.

In contrast to Canada's relationship with Britain, its relationship with the U.S., despite strong economic ties, is more nuanced. Several commentators have noted that the power asymmetry between Canada and its much larger neighbor to the south has engendered a Canadian national "inferiority complex" vis-à-vis the U.S. Moreover, acknowledgment of this inferiority complex is both longstanding (dating at least to the 1940s) and public (e.g., Denison, 1949; CBC News, 2010). In a widely cited tongue-in-cheek remark on the U.S.-Canada relationship, former Prime Minister Pierre Trudeau noted at the Washington Press Club in 1969 (CBC Archives, 1969), "Living next to you is in some ways like sleeping with an elephant. No matter how friendly and even-tempered is the beast, if I can call it that, one is affected by every twitch and grunt."

Thus, despite strong economic reasons for Canada to choose U.S. GAAP over IFRS—and attendant domestic political pressure from some Canadian corporations—cultural barriers, including Canadian sensitivities over ceding sovereign rights to the U.S., could have tipped the scales in favor of IFRS. It is noteworthy to point out, however, that some large Canadian companies have chosen to maintain their financial reports in compliance with U.S. GAAP rather than switch to IFRS (e.g., Johnson, 2010). This development suggests that the identity politics that shaped Canada's nationwide response to accounting globalization were insufficient to overcome, in at least some instances, economic incentives at the firm level to report under American standards.

#### **IV. Towards a multipolar IASB: the case of China**

##### *China's unique economic motives for IFRS adoption*

Starting in the late 1970s, a series of reforms undertaken by the Chinese central government transformed that country from a centrally-planned socialist economy into an export-driven powerhouse that grew at a 15% average annual growth rate. As a result of this growth, by 2010 China was the world's second largest economy (behind only the U.S.). Chinese exports totaled more than \$1.5 trillion that year (making it the world's largest exporter), up from \$195 billion in 1999.<sup>8</sup> In 2001, China was accepted into the World Trade Organization (WTO), a sign of its emergence from economic isolationism into one of the world's foremost traders.

And while exports played a central role in the thirty-year story of China's spectacular growth, China's domestic capital markets remained a relative sideshow. This

<sup>8</sup> Data from the U.S.-China Business Council, <http://www.uschina.org/statistics/tradetable.html>, Accessed October 12, 2009.

was partly due to the fact that shareholding had only just reemerged in the mid-1980s, as part of government efforts to create greater operating efficiencies at state-owned enterprises. China's two major stock exchanges, located in Shanghai and Shenzhen, had a total market capitalization of less than \$2 trillion in mid-2009, or only about ten percent of that at the New York Stock Exchange. Many A-tier Chinese companies preferred to list or to have a second listing on overseas stock markets (including Hong Kong). As of June 2009, the market capitalization of the 65 mainland Chinese firms listed on the NYSE was \$1.1 trillion, or more than half the total market capitalization of China's domestic stock exchanges.

In part to address this deficiency in its domestic capital markets, China, in 2005, announced plans to converge its accounting standards with IFRS. There had been numerous studies tying concerns with China's weak accounting institutions and questionable corporate reporting to the stunted development of its capital markets (e.g., DeFond, Wong, and Li, 1999; Tang, 2000). IFRS adoption was expected to improve accounting quality. In 2006, China introduced new accounting standards that, with a few important exceptions, were based on IFRS. By 2008, listed companies on China's two major stock exchanges as well as most of the country's largest state-owned enterprises had already begun using the new standards. By 2011, all Chinese companies were expected to adopt them.

The capital-market benefits expected to accrue from IFRS adoption are a common theme behind countries' decisions to embrace the standards.<sup>10</sup> For example, Canada's decision in this regard, discussed earlier, can be tied to these benefits. The remarkable

<sup>9</sup> Data compiled from various sources by Ramanna, Donovan, and Dai, 2009. <sup>10</sup> For evidence on such benefits see, for example, Armstrong, Barth, Jagolinzer, and Riedl, 2010.

pace of Chinese adoption and compliance with IFRS-based standards suggests, however,

that China had additional motives when it accepted international accounting standards.

One such motive, unique but critically important to export-driven China, is that country's bedevilement in international anti-dumping lawsuits.

Exporters from low manufacturing-cost locations, such as China, are sometimes litigated in the WTO for "dumping" their products in markets where manufacturing costs are higher. These anti-dumping lawsuits, usually brought by governments of destination markets, generally allege that the exporter is selling its products in a destination market at below cost (to establish a presence in that market). To contest an anti-dumping lawsuit, the exporter must show evidence of its "true" cost. Such evidence is particularly difficult for Chinese manufacturers to provide because, per China's WTO accession protocol, the country is classified as a "non-market economy," and as such, cost data from Chinese companies is considered unreliable in international litigation (WTO, 2001, pp. 8–9). Under these circumstances, anti-dumping lawsuits may be adjudicated using cost data from "surrogate" manufacturers in another country: common surrogates are companies from India, Indonesia, and even the U.S. (p. 9), countries that are generally uncompetitive vis-à-vis China in the worldwide manufacturing export arena. As a result of these conventions, China's success in contesting anti-dumping lawsuits is unimpressive.<sup>11</sup>

China's WTO accession protocol allows for exceptions to the surrogate rule in anti-dumping litigation if the litigated exporter can show that "market economy conditions" apply in manufacturing (WTO, 2001, p. 9). As part of establishing market economy conditions, the litigated exporter is generally required to provide audited

<sup>11</sup> See, for example, the World Trade Organization's statistics on anti-dumping initiations at: [http://www.wto.org/english/tratop\\_e/adp\\_e/adp\\_e.htm#statistics](http://www.wto.org/english/tratop_e/adp_e/adp_e.htm#statistics).



financial statements prepared “in line with international accounting standards,” i.e. IFRS (e.g., EC, 2009, p. 55). Thus, compliance with IFRS can provide a significant advantage to Chinese exporters, and in turn, the Chinese economy (from 1995 to 2008, over 20 percent of all anti-dumping measures worldwide were targeted at China). In fact, since China has adopted IFRS-based standards, there have been several successful cases of Chinese companies qualifying for market economy treatment on the basis of providing internationally compliant financials: in one case involving transport equipment, the winning exporter was able to reduce import tariffs by nearly 40% (EC, 2005, p. 7).<sup>12</sup>

### *The international political economy of China and the IASB*

The considerable anti-dumping benefits from IFRS adoption that can accrue to China’s export-driven economy suggest that convergence with international accounting standards is a major priority for the country. However, as discussed earlier, the principles of IFRS are currently largely shaped by European, and, in particular, British interests and traditions. It is unlikely, therefore, that the IFRS standards coming out of London are fully satisfactory to China. Not surprisingly, China has been careful to tailor IFRS to its needs, excepting certain provisions when crafting its domestic “IFRS-based” standards, and in one particular case, working with the IASB to modify IFRS itself to meet Chinese interests. This subsection details some of these exceptions and discusses ramifications.

The first such exception deals with the reversal of asset impairments, which is generally permissible under IFRS. Chinese accounting standards that predate IFRS

<sup>12</sup> The U.S. generally does not allow individual companies from non-market economies to qualify for market economy treatment. In fact, a recent attempt by the U.S. government to permit such treatment for Chinese companies met with resistance from U.S. businesses and was unsuccessful (DOC, 2007; ITA, 2007).

harmonization efforts eschewed impairment reversals, much like U.S. GAAP. The policy was justified by the traditional income-statement focus in Chinese financial reporting: Chinese investors pay more attention to the income statement at the expense of the balance sheet (e.g., MOF, 2008), and several formal contracting provisions, including exchange listing and delisting provisions, depend almost entirely on reported profits. Given this history, Chinese regulators were wary about unleashing impairment reversals<sup>13</sup> as part of IFRS harmonization efforts. Doing so could give companies the means to manipulate profits by opportunistically accelerating and reversing impairments. Accordingly, the IFRS-based Chinese Accounting Standards (CAS) limits impairment reversals, particularly for short-term and intangible assets.

The second IFRS exception in CAS deals with the use of fair-value estimates as a basis for accounting. Fair-value accounting has been one of the cornerstones of IFRS, and the IASB, at least until the 2008-09 financial crisis, was an enthusiastic champion of expanding fair-value use in accounting. China, by contrast, has been more tentative in its commitment to fair values. The argument advanced by some Chinese regulators for this hesitancy is the dominance of manufacturing (rather than financial) assets in the economy. Manufacturing assets do not have readily determinable current-value estimates. Moreover, market prices, when available, are unlikely to represent fundamental value due to China's strict capital controls and weak information-intermediation institutions. Fair-values, a senior Chinese regulator has argued, if unleashed unbridled, can facilitate misreporting. Accordingly, China has been judicious in permitting companies the use of fair values. Some Chinese regulators have even argued that the fact that fair values play a

<sup>13</sup> See, for example, comments by officials at the Shenzhen Stock Exchange reported in Ramanna *et al.*, 2009, pp. 7–8



minimal role in their system is one reason why China did not suffer more seriously<sup>14</sup>during the 2008–2009 financial crisis.

*INSERT TABLE I HERE.*

The third and perhaps most interesting of the Chinese exceptions to IFRS is not an exception *per se*. Rather, it details China’s success in working with the IASB to tailor the IFRS on related-party transactions to meet Chinese interests. When China signed the IASB convergence statement in 2005, a key issue for the MOF in Beijing had been the IFRS standards on disclosure of related parties. Several of China’s largest companies have considerable state ownership, and according to a strict interpretation of the then standard, IAS 24, many state-owned enterprises would have been considered related parties, and their transactions related-party transactions. The extent of disclosure required to satisfy the IFRS standards was simply unworkable for China. For a state-owned company to disclose all its related-party transactions “would require thousands of pages,” one Chinese regulator said (quote due to an official at the Shenzhen Stock Exchange, identity withheld, Ramanna *et al.*, 2009, p. 6). Over the course of four years, through 2009, Chinese officials at the MOF worked with the IASB to develop a new standard for related-party disclosures. (See Table 1 for a timeline of the events leading up to the IASB’s modified position on related-party disclosures.) The revised IAS 24, released by the IASB in November 2009, redefines “related parties” to provide a worldwide “partial exemption for government-related entities” (IASB, 2009).

The impact of the IAS 24 change cannot be understated. As noted earlier, the disclosure of related-party transactions is central to maintaining the integrity of the

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<sup>14</sup> Source: interviews with officials at the Shanghai Stock Exchange, Ramanna *et al.*, 2009, p. 7.



“entity concept,” the fundamental idea in accounting that an enterprise’s financials are its own. That a country with significant state ownership of industry was able to redefine worldwide accounting standards on an issue that is so central to accounting is indicative of China’s growing clout in international standard setting. Moreover, the incident can be a harbinger of the coming politicization of IFRS as the world grows increasingly multipolar. On this latter point, note that China’s strong central government allows the country to speak with one voice when advocating for itself in international forums such as the IASB. Other emerging market countries such as India are less likely to be successful in international power politics, as the following section discusses.

The IFRS exceptions in CAS have created, in some circumstances, difficulties for China’s exporters in anti-dumping litigation. For example, in a recent case involving a Chinese fine-paper manufacturer litigated in the EU, the EC ruled against the company despite it having demonstrated on paper “market economy conditions” (including providing audited financials in accordance with CAS). As part of its justification for the ruling, the EC noted differences between IFRS and CAS, and expressed skepticism about China’s “claimed equivalence” between the standards (EC, 2010, p. 12). Decisions such as this are likely to rouse China into adopting a more active role at the IASB, so that it can reduce the IFRS exceptions it currently carves out in CAS to meet local interests.<sup>15</sup>

## **V. Bigger fish from smaller ponds: the case of Tata Steel in India**

### *Accounting and globalization at Tata Steel*

This subsection describes a critical accounting challenge faced by Tata Steel, one of India’s largest and most international companies, as it embarks on an ambitious phase

<sup>15</sup> A less likely scenario is that China avoids creating domestic carve-outs to IFRS.

of globalization. The Tata Steel experience provides an example of the complexities that can emerge as business operations, accounting standards, and national economic policy globalize at different paces. The following subsection explores the implications of the Tata experience for the calculus of IFRS in India and other countries with similar or less international clout.

Tata Steel, described by Indian prime minister Manmohan Singh as (PIB, 2008) “the unique temple of modern India,” is one of India’s oldest, largest, and most respected companies. Its history, dating to the 1800s, is tied to the industrialization of India itself, and as such, the company and its parent, Tata Group, enjoy a near exalted status in the Subcontinent. Over the past twenty years, the company has been globalizing aggressively, in part to maintain its competitive position given the liberalization of India’s economy. In 2007, Tata Steel acquired UK-based Corus Steel for \$12.1 billion, in what was then the largest acquisition by an Indian company. The Corus deal catapulted Tata Steel from ranking as the world’s 56th largest steelmaker to a place among the top ten (e.g., *Moneycontrol*, 2007).

Tata Steel funded the Corus acquisition in part through a \$6.2 billion loan issued by its U.K. subsidiary. It planned to service the debt through the cash flows of its European operations, most of which used euros. Thus, as part of a natural hedging strategy, Tata Steel denominated the bulk of the debt in euros (Tata Steel, 2008). However, Tata Steel’s consolidated financials, prepared under a version of Indian Generally Accepted Accounting Principles (IGAAP) that had substantially converged with IFRS, did not recognize the natural hedge. IGAAP, like IFRS, mandated that foreign currency loans be translated into an entity’s functional (home) currency for reporting

purposes. Accordingly, the Corus loan was expressed in Indian rupees in Tata Steel's consolidated financial statements. With the onset of the financial crisis in 2008–09 and the subsequent appreciation of the euro against the rupee, this accounting treatment had led to the loan amount increasing by \$630 million on Tata Steel's balance sheet (a portion of this increase was amortized in Tata Steel's income statement for the year). \$630 million represented about 6.4% of Tata Steel's net debt for the year ending 2009, and about 64% of its net income.

The IFRS requirement to translate foreign debt into a reporting entity's home currency is relatively uncontroversial among U.S. and European companies that can easily circumvent the requirement by raising home-currency-denominated debt on world markets. But Tata Steel, as an Indian multinational, finds it difficult to raise rupee-denominated debt abroad because the Indian rupee, due to government-imposed capital controls, is not freely available overseas. The translation requirement presents Tata Steel with difficult options. It can: (1) switch the entire company's functional currency to euros, but that will expose the Indian operations to currency risk; (2) ignore the translation impact and hope equity and debt investors do the same, but this approach does not help address covenants that might be triggered by the currency fluctuations; (3) engage in costly lobbying with the IASB; (4) lobby Indian standard setters to create an IFRS exception in IGAAP for situations such as this.

Options (1) and (2) are unlikely to be economically viable for Tata Steel. Moreover, the company, as one of India's largest firms, has a history of leadership in guiding corporate regulation, including accounting standards, within India (see, for example, the description of Tata Steel's successful attempt at changing accounting

standards for employee severances in Ramanna and Tahilyani, 2010, p. 3). Thus, options (3) and (4) are likely to be more palatable to the company. With option (3), however, Tata Steel is likely to run up against several more-powerful interests, such as EU, U.S., and Chinese interests (the latter benefiting from a dollar-fixed exchange rate), and is thus unlikely to prevail. This process of elimination leaves the company with option (4) as the most practicable course of action. The implications of option (4) for the calculus of IFRS harmonization in India are the focus of the next subsection.

### *The calculus of IFRS in India*

Since at least the early 2000s, India's Accounting Standards Board (ASB) has issued accounting standards that are based on IFRS. When formulating standards, the ASB departs from IFRS only in unavoidable cases, usually when conflicts exist with the legal or regulatory framework prevailing in the country. In 2007, India announced that it would go a step further and achieve formal "convergence" with IFRS by 2011 (IASB, 2007). As in the case of Canada, the large global auditing firms supported this decision. Kumar Dasgupta, a partner at PriceWaterhouseCoopers in India, explained the rationale (Ramanna and Tahilyani, 2010, p. 6): "There is anecdotal evidence from our clients that they do get easier access to cross-border finance if they are using IFRS because on occasion the credibility of Indian GAAP as a standalone measure can be questioned."

*INSERT TABLE 2 HERE.*

Although India's 2008 convergence roadmap envisioned that the country's largest companies would be IFRS compliant by April 2011, the goal remained unmet as the date passed. In the past two years, India has had to postpone its convergence deadlines twice

(Tiwari and Sanyal, 2010; MCA, 2011). In part, the delays can be attributed to fundamental differences between IFRS and IGAAP that are difficult to reconcile. One such difference is in the area of depreciation. (See Table 2 for a summary of depreciation- accounting differences between IFRS and IGAAP.) Under IGAAP, depreciation is either at rates based on an asset's estimated useful life or on statutory depreciation rates that the country's Companies Act prescribes, whichever is higher. The effect is a mandatory minimum depreciation rate. IFRS, in contrast, has no concept of a minimum rate of depreciation: depreciation is based on the number of years an entity is expected to use the asset. The conservatism introduced by IGAAP in this and other contexts is often well-regarded by domestic investors. Sarju Simaria, a senior executive at Edelweiss Capital, a large financial services company, noted (Ramanna and Tahilyani, 2010, pp. 5–6): “On some policies, we are better placed in terms of what is being proposed by IFRS, and one of them is conservatism... Conservatism is a good policy particularly in an environment where you don't have a mature market...”

The delays in implementing India's convergence timetable can also be attributed to political concerns about the nature and priorities of IFRS. On the subject of accounting for foreign currency translations, Y. H. Malegam, chairman of India's National Advisory Committee on Accounting Standards noted (Ramanna and Tahilyani, 2010, p. 7), “If the U.S. borrows money abroad, often it will denominate that borrowing in dollars, therefore eliminating the translation impact. However, if India borrows money abroad they have to denominate it in sterling, [in] dollars, or in euros, leading to a translation impact and creating unnecessary volatility. An [Indian] company, which has dollar borrowings, and dollar earnings, can repay the loan from its dollar earnings; the exchange rate during the

period of the loan [should be] irrelevant.” Recognizing that the political interests shaping IFRS do not always line up with Indian interests, C.B. Bhave, India’s chief securities regulator noted (Ramanna and Tahilyani, 2010, p. 8), “The path [I see] is towards convergence and we must go down the path in a gradual manner. We speak English, but we speak Indian English. We understand British English and American English but we still prefer to speak Indian English.”

An alternative approach to “gradual” convergence for countries like India is to adopt China’s policy of engaging the IASB directly in shaping IFRS, particularly in areas of national interest. Historically though, India has adopted a passive mindset to international affairs rooted in a “soft power” identity (e.g., Khanna, 2007, p. 252). This policy can be traced to India’s first prime minister, Jawaharlal Nehru, who advocated a cold-war foreign policy based on “non-alignment,” “non-aggression, non-intervention, mutual benefit and equality, and peaceful co-existence” (see, for example, the Sino-India Treaty of 1954, UNO, 1958, p. 70). Moreover, even if India decides to engage the IASB, it is unclear whether it has the political clout necessary to steer policy at an international level. India, despite substantial economic growth over the past decade, is still generally considered well behind China in international standings of economic and political clout (e.g., *The Economist*, 2010).

To summarize, while there is a compelling economic argument for a country like India to adopt IFRS, differences between the political priorities of the IASB and those of India can delay convergence. One solution to this situation is for the country to engage the IASB more directly in standard setting discussions, but it is unclear whether India has the clout necessary to break through the already established interest groups at the IASB.

Another potential solution to the situation described above is cross-country regional alliances or coalitions, either by countries themselves or by companies with similar concerns. At the country level, such coalitions are already beginning to form: the Asia-Oceania Standard Setters Group and the International Financial Reporting Standards Regional Policy Forum being two prominent examples in Asia. Little is known about the political economy of these groups; whether they will be effective in first managing the diverse interests of their constituencies and then lobbying the IASB remains to be seen.

## **VI. The international politics of IFRS harmonization**

Sections II through V all sketch out important elements that contribute to an understanding of the international political dynamics of countries' IFRS harmonization decisions. Section II describes the central role of the EU, and in particular, British interests in the establishment and operation, thus far, of the IASB. The IASB can trace its origins to British- and Continental-led international collaborations on accounting matters. These antecedent organizations to the IASB were more consultative than legislative, and thus, did not expressly produce accounting standards for international consumption. However, they did lay the groundwork upon which the IASB was constituted. A key event in the conception of the IASB was the EU's desire to have one region-wide set of accounting standards; the IASB allowed the EU to project that vision worldwide. Since its establishment, the IASB has remained close to the EU, the latter's underwriting being an important element in the legitimacy and growth of IFRS across the globe. But the board's closeness to the EU has come with strings attached: the most visible recent example of which involved the IASB suspending an evolving reputation for due process

in acquiescence of European banking interests during 2008–09 financial crisis. This indecorous play of events led at least one British parliamentarian to refer to the board as “spineless” (Leone, 2008).

Section III describes the seemingly perplexing decision of Canada to adopt IFRS over U.S. GAAP. Canada in 2005, in the face of an increasingly internationalized economy, contemplated supplanting its own domestic GAAP for that of either its closest neighbor or the IASB. There were, and continue to be, strong economic arguments for Canadian adoption of U.S. GAAP: the U.S. is Canada’s largest investor and trade partner.

Nevertheless, Canada chose to converge with IFRS. The decision can be explained by the

cultural history of Canada’s relationship with Europe and the U.S. The territory that constitutes Canada emerged from British and French colonies in North America, and Canadian ties to these countries (particularly Britain) remain substantial. By contrast, Canada enjoys a nuanced connection to the U.S., sometimes described in the popular culture as an “inferiority complex.” These juxtaposing associations highlight the broader role that a nation’s cultural comfort with the dominant authority at the IASB (currently the EU) can play in its decision to adopt IFRS.

China’s process of convergence with IASB standards highlights another dimension in the international politics of IFRS harmonization. Section IV begins with a description of the unique economic pressures on Chinese exporters to present internationally accepted financials: these exporters are routinely subject to anti-dumping litigation in their destination markets. By harmonizing with IFRS, China’s MOF hoped to create a legitimacy around its financials in international litigation. But IFRS, shaped to function in markets characterized by well-defined monitoring and information processing

institutions (such as in Europe or Canada), is not particularly well-suited to China's emerging market conditions. Accounting technologies such as fair value and impairment reversals are seen by China's MOF as perilous. Moreover, the extensive disclosure on related-party transactions required under IFRS posed a compliance complexity for China's large and interconnected state-owned enterprises, which typify that country's economy. To meet the economic demands that drew it towards IFRS, but still maintain standards that reflect China's domestic conditions, the MOF adopted a dual process of excepting certain IFRS standards from Chinese GAAP and working with the IASB to move IFRS itself closer to Chinese interests. China is likely one of the few non-European powers to currently enjoy the international standing to pursue the latter element of this strategy; but the notion of IFRS being shaped by a multilateral political dynamic is one with important implications for the development and growth of the standards.

Just as elements in IFRS are ill-suited to Chinese markets, Indian companies suffer from some discordance between IFRS as issued by the IASB and international standards that would be optimized to their domestic conditions. In Section V, I lay out some accounting challenges faced by Tata Steel, one of India's largest companies, as it embarks on an ambitious program of globalization; the challenges can be traced to the differential pace in globalization of India's accounting standards, its other commercial regulatory provisions, and Tata Steel's own operations. The situation leaves Tata Steel in a position where it must either lobby the IASB to amend IFRS itself or seek exemptions from IFRS in Indian standards. Both approaches are costly on a number of dimensions, including the coordination costs of lobbying and the cost of differentiating standards. The costs suggest that there is some ambiguity about the usefulness of IFRS to companies

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such as Tata and countries such as India. Whether cross-country regional alliances among

companies or countries can be used to defray these costs remains an open question.

*INSERT FIGURE A HERE.*

From the various field studies abstracted above, I inductively develop a framework to analyze how international politics can shape countries' strategies on IFRS harmonization. The framework is shown as a 2x2 matrix in Figure A. In the matrix, the x-axis represents a country's proximity to the existing political powers at the IASB. The IASB, as it is currently set up, is strongly influenced by EU and, in particular, British interests; thus, Canada, with its Anglo-French roots, would score high on the x-axis dimension. The matrix's y-axis represents a country's potential political power, i.e., its ability to shape decisions at the IASB. China, as illustrated by the example of related-party transactions described above, would score high on this dimension, as would the larger EU member states, such as France, Germany, and the U.K. In the matrix, the benefits to IFRS adoption are held constant. The benefits include those discussed in the context of Canada, China, and India; in particular, the potential to lower translation costs to foreign financial-statement users by having a common worldwide accounting standard.

The lower right box in the matrix (Quadrant I) represents countries with high proximity to the existing IASB political powers, but low potential political power. I argue that countries such as Australia, Canada, and New Zealand can be classified as Quadrant

I countries. These countries enjoy close cultural and economic ties to the extant powers at

the IASB, i.e., the EU and particularly Britain, but are not in themselves likely to decidedly shape IFRS policy. Assuming translation benefits to IFRS adoption, the

strategy among this group is to align themselves with the existing IASB powers (i.e.,

Quadrant II countries). By doing so, such countries are likely to reap the benefits of IFRS adoption, while being reasonably ensured that IFRS standards continue to meet the economic and political conditions of their domestic markets.

Countries in the upper right box (Quadrant II) score high on both dimensions, and thus, have the greatest incentives to harmonize with IFRS. As described in Section II, these countries are expected to take a leading role in setting and legitimizing IFRS. An interesting question is whether countries currently in this quadrant, such as France, Germany, and the U.K., can continue to maintain *individually* their influence over the IASB, especially in the face of the growing role of other, larger countries such as China in shaping IFRS. The EU itself provides an important vehicle for these countries to speak collectively, but as discussed later, there are signs of greater discordance within the EU vis-à-vis accounting policy, particularly in the wake of the 2008–09 financial crisis. On a related point, the U.S., which can also be reasonably classified as a Quadrant II country, has not yet formally committed to an IFRS convergence timetable. I briefly explore some reasons for this situation in the following section.

The upper left box (Quadrant III) represents countries with low proximity to the existing IASB political powers, but high potential political power. China is a good example of such a country. Another possible candidate for this quadrant is Japan. Although, to my knowledge, Japan has not been directly involved in shaping a particular IFRS standard to meet its domestic interests, Japan has demonstrated its ability to do so in another standard-setting arena: defining banks' capital adequacy requirements under Basel III. Hawkins, Ramanna, Sato, and Yamazaki (2011) chronicle Japan's active lobbying during the negotiations over Basel III, in particular, to include deferred tax

assets in Basel III's definition of Tier 1 capital: without such inclusion, most of the major Japanese banks would fail Basel III's minimum capital standards. Countries in Quadrant III have markets that are culturally and institutionally different from those in the EU; thus, as seen in the section on China, IASB standards that predominantly reflect European conditions are unlikely to be satisfactory to such countries. One natural response for these countries is to develop expedient IFRS carve-outs, as China has in the case of fair values and impairment reversals. In addition, such countries are also likely to gradually exercise their ability to shape IFRS, so as to bring it closer to their interests. The exercise of this power is likely to result in a more multilateral IASB; but its implications for the quality of IFRS are less clear. I expand on this latter issue in the section titled "The IASB at a crossroads."

Finally, for countries in the lower left box (Quadrant IV), i.e., those scoring low on both dimensions, the political strategy on harmonization is least clear. India has been presented as an example of such a country, in part because it as yet lacks the political clout of China to shape IFRS and in part because its domestic political interests are not as well aligned as China's to speak with a strong voice internationally. Countries in this quadrant, like Quadrant III countries, find IFRS not particularly well suited to their domestic conditions. But such countries are unlikely to be able to individually advance their domestic interests at the IASB, so harmonizing with IFRS can bring real costs in the intermediate run. The recent development of regional standard-setting coalitions in Asia suggests one possible solution to the weak-power problem. Whether this solution will be effective in practice, especially given the costs of coordination, remains an empirical question for future research.

In considering the empirical validity of the predictions from the framework above, recall the caveats discussed in the introduction. The “partial equilibrium” nature of the analysis above suggests several other dimensions might affect countries’ IFRS harmonization decisions. One such dimension is the perceived network benefits to IFRS harmonization. Ramanna and Sletten (2011) study the importance of countries’ perceptions that they will lower the transactions costs to foreign users of financial statements by adopting IFRS. For a given country, the authors expect these perceived benefits to increase as more of the country’s trade partners adopt IFRS; they refer to perceived benefits so measured as the network effects of IFRS. The authors find that network effects are statistically and economically significant determinants of IFRS adoption after controlling for alternative explanations. Of particular interest to the framework in this paper, the authors find that perceived network benefits are more significant in the IFRS harmonization decisions of smaller countries. These countries are more likely to be classified as Quadrant IV countries in Figure A. Thus, in a more general equilibrium analysis, Quadrant IV countries may be seen as adopting IFRS contrary to the predictions above, but this decision can be attributed to perceived network benefits.<sup>16</sup> Notwithstanding such caveats, it is useful to understand how international political considerations can come to affect countries’ IFRS harmonization decisions: as discussed in Section VIII, the potential influence of international politics in IFRS has important implications for the IASB and for international accounting more broadly.

<sup>16</sup> In this sense, perceived network benefits can be viewed as a third dimension orthogonal to both dimensions in Figure A.

## VII. American exceptionalism?

In this section, I briefly explore the U.S.'s position on IFRS harmonization, noting its unique status in the process. The U.S. is at once one of the IASB's most powerful constituents and most reluctant endorsers. Relatedly, U.S. adoption of IFRS is likely to both increase the legitimacy of the standards and decrease the incentives for other nations

to adopt them (the latter because U.S. adoption is likely to result in IFRS taking on the litigation-proof character currently seen in U.S. GAAP). I expand on these ideas below.

Since its establishment in 2001, the IASB has intended for IFRS to become recognized in the U.S. Organizationally, the IASB has been designed to be similar to the U.S. Financial Accounting Standard Board (FASB). Such similarity, it was believed, would improve the chances of the U.S. eventually adopting IFRS (Benston *et al.*, 2006, p. 230). Americans also have broad representation across IASB structures: As of late 2010, four of the fifteen board members, five of the twenty trustees, and the foundation's top staffer, its chief operating officer, were all American (e.g., Ramanna, Misztal, and Beyersdorfer, 2011). No other nation enjoys this level of influence on the IASB.

A first step towards a U.S. commitment to IFRS was made in 2002, when the FASB and IASB pledged to make their accounting standards "compatible" (Benston *et al.*, 2006, p. 230). From 2002 to 2007, the bodies "converged" on issues such as accounting for changes in accounting standards, accounting for error corrections, and accounting for share-based compensation (e.g., Langmead and Soroosh, 2009). In recognition of the progress achieved, in 2007, the SEC lifted the requirement for foreign companies listed in the U.S. to provide U.S. GAAP financials, and allowed their alternative use of IFRS (SEC, 2007). In 2008, the SEC voted for an updated convergence

roadmap proposing a switch to a single set of standards for all U.S. companies by 2014, with a final decision scheduled for 2011 (SEC, 2008). Since then, however, the world has endured a major financial crisis that has significantly altered the political economy of U.S. capital markets. Moreover, a changed presidential administration and a changed SEC leadership since 2008 mean that prior American commitments to IFRS are less likely to be upheld. Thus, there is uncertainty about the extent of the U.S.'s continued commitment to IFRS.

American political reservations on IFRS can be traced to a longstanding popular cultural belief in American "exceptionalism," a phrase probably attributable to de Tocqueville, who referred to the adolescent nation he scrutinized in his influential 1835 tome as "exceptional" (2004, pp. 517–518). But the sentiment likely traces even further into American history, to the earliest British settlers: John Winthrop, the first governor of the Massachusetts Bay Colony, referred to the community he was to lead in 1630 as a "city upon a hill," a belief since reaffirmed by American presidents as diverse as John Kennedy and Ronald Reagan (e.g., Kennedy, 1961; Reagan, 1989). Relatedly, Thomas Jefferson's inauguration address in 1801 called for "honest friendship with all nations, [but] entangling alliances with none" (Jefferson, 2006). American exceptionalism has manifested itself in international policy on issues as substantial as the U.S.'s rebuff of the League of Nations after World War I to those as parochial as America's refusal to adopt the metric system (together only with Liberia and Myanmar). An ironic and serendipitous byproduct of such exceptionalism, if it does in fact result in an American holdout to IFRS, is that the FASB can offer some competition in ideas to its London-based counterpart: Several academics have argued that adopting IFRS in the U.S. could impede

innovation in accounting standard-setting, since such an adoption would virtually guarantee the IASB a worldwide monopoly over accounting issues (e.g., Kothari, Ramanna, and Skinner, 2010, and cites therein).

Also feeding into American disinclinations on IFRS are conceptual differences between U.S. GAAP and the international standards. For example, reflecting economic and political differences across different industries, U.S. GAAP permits industry-specific accounting: the same transaction can be recorded differently, depending on the industry; IFRS, on the other hand, makes no industry-specific exceptions. Further, while U.S. GAAP does not contain an embedded permission to override its standards (although exceptions can be made in “unusual circumstances,” e.g., Rule 203 of the American Institute of CPA’s Code of Professional Conduct), IFRS allows a “true and fair” override when needed for an appropriate financial presentation (e.g., Langmead and Soroosh, 2009). More generally, U.S. GAAP, with a longer history and a close working relationship with U.S. law, is often considered details- or rules-based; IFRS, reflecting in part the need to satisfy its many diverse constituencies, tends to be more principles-based.

As much as the U.S. is likely to benefit from IFRS adoption, ultimately, U.S. tentativeness on the subject can be attributed to the claim that IFRS needs the U.S. more than the U.S. needs IFRS. The IASB’s founding chairman, Sir David Tweedie noted on the subject of U.S. adoption of IFRS (e.g., Kranacher, 2010b), “I think it is critical. We can have international standards, but we will never have global standards without the United States... It would be very difficult for the rest of the world to accept [IFRS] if the United States said, ‘We are not going to do this.’”

## VIII. The IASB at a crossroads

### *One decade on: Major political challenges for the IASB*

The political considerations that can shape IFRS harmonization, as highlighted in the preceding sections, are important for the future of the IASB. In this subsection, I briefly outline some of the main challenges to the IASB in the context of the paper's analysis. In the following subsection, I discuss some potential responses being considered

by the IASB and its constituents. In the final subsection, I consider some broader, theoretical implications of the international political dynamics of IFRS harmonization, and discuss associated questions for future research.

Nearly ten years into its existence, the IASB has made significant progress towards internationalizing accounting standards. Especially when compared to other areas of corporate governance and policy, accounting, as a profession, has embraced globalization and made substantial inroads into developing an institutional response to globalization. As of 2010, about 100 jurisdictions worldwide required or permitted the use of IFRS in some form. However, as evident from the discussions above, the nature of countries' commitments to IFRS varies considerably with political-economy considerations. A few countries, including Australia and Canada, have adopted IFRS with almost no exceptions. Some other countries require IFRS only for certain segments of the economy (e.g., banks). Still other countries, such as China and India, have engaged in an often ambiguous process known as IFRS "convergence."

Convergence involves reducing and, where possible, eliminating through stakeholder consultations differences between national accounting standards and IFRS. It

differs markedly from "full adoption" of IFRS. When converging, a jurisdiction keeps its

own national standards and decides on the amount of alignment with IFRS. Because national standard-setters define the extent of “convergence,” two countries that the IASB identifies as IFRS-convergent can have very different local accounting standards.

The emergence and growth of convergence-based approaches to IFRS harmonization, especially among larger emerging-market nations such as China and India, raises interesting questions for the future of IFRS. On the one hand, convergence-based IFRS harmonization can be viewed as posing a serious threat to the conceptual goal of one set of global accounting standards. Advocates of adoption over convergence, represented visibly by the IASB itself and the Big Four audit firms, argue that fully replacing local GAAP with IFRS is the more effective way to ensure international comparability of financial statements (e.g., Sweeney, 2009). Incoming IASB vice-chairman, Ian Mackintosh notes (Kranacher, 2010a): “Convergence is [an] impossible dream. You will always find issues where you basically don’t agree and where both sides have good reasons for not agreeing. You’ve just got to make a decision. Fiddling with IFRS [locally] is not the way forward.” Convergence champions, on the other hand, stress the necessity to remain flexible and adjust accounting rules to the needs of domestic political economies. They argue that such adaptability of accounting rules to local needs leads to a better understanding of local business performance.<sup>17</sup> As a corollary, convergence ensures that there are numerous sources of innovation in accounting standard setting apart from the IASB, which in turn can strengthen IFRS. In addition, convergence is viewed as more politically palatable given concerns about surrendering jurisdictional sovereignty to a Euro-dominated IASB (e.g., Sweeney, 2009). Thus, convergence, with its emphasis on *realpolitik*, can be seen as a pragmatic solution to

<sup>17</sup> See, for example, the quotes from several Chinese officials reported in Ramanna *et al.*, 2009.

otherwise high political barriers to globalized accounting. Resisting convergence as a harmonization approach can have the perverse effect of increasing the politicization of IFRS. Without a convergence option, Quadrant III countries may be more likely to engage the IASB to align IFRS with their interests.

In addition to the procedural concern illustrated by the convergence versus adoption debate, the financial crisis of 2008–09 has uncovered substantive differences across countries around IASB standards. The substantive differences deal largely with fair-value accounting, a practice with which the IASB has been closely identified since its inception. The differences on fair value are suggestive of a fissure within the EU consensus that has underwritten the IASB for the past ten years. The first major dissonance on fair values started in 2003, when the EU prepared to vote on finalizing IFRS adoption. At the time, French banking interests protested the mark-to-market character of the IAS 39 regulations on financial instruments, demanding influence to reshape the proposal (e.g., Guerrero, Parker, and Pretzlik, 2003). In the wake of the 2008–09 financial crisis, frictions around fair values in IFRS have intensified. The IFRS 9 rules on hedge accounting are one such issue. On one side are France, Germany, and the European Central Bank who resist the introduction of more mark-to-market principles (e.g., Sanderson, 2009). “Stability is part of the quality of standards,” notes Jérôme Haas, head of the French accounting standards body (Jones, 2009). It has been argued that this

group considers the 2008–09 financial crisis to be primarily caused by illiquidity in financial markets, and so views promoting post-crisis stability as paramount (e.g., Sanderson, 2009). On the other side, the U.K., with its traditional faith in capital market institutions, is seen as promoting greater transparency in financial reporting through

increased fair-value use (especially for impairment) as a more appropriate post-crisis accounting response (e.g., Chancellor, 2008). A fissure within the EU on an issue as substantive as fair values can open the door for more emerging-market economies to play a defining role at the IASB. As a practical matter, it may result in more Quadrant IV countries being reclassified as Quadrant III countries.

*INSERT TABLES 3 & 4 HERE.*

The IASB's sources of financing are another important issue in light of the international political dynamics of IFRS harmonization. As of 2011, the IASB's funding model remains reliant on voluntary support from its constituents. This model was adopted from that in use by the FASB at the time of the IASB's founding. Since then, however, the Sarbanes-Oxley Act in the U.S. has introduced public funding for U.S. standard-setting (U.S. Congress, 2002, §109), leaving the IASB alone to justify its continued acceptance of private donations and open to the criticism that it is beholden to the demands of its financial sponsors. (See Table 3 for a summary of financial contributions to the IASB in 2009 by country; and Table 4 for a list of the IASB's largest private financial sponsors in 2009.) Charles Niemeier, a former SEC chief accountant, has said on the issue (Sweeney, 2009), "If the IASB wants its standards to be considered for use in the United States, it should present a plan for independent funding for the SEC to consider." An independent funding mechanism at the IASB can reduce the influence of political interests in IFRS standard setting, although there is no systematic empirical evidence to this effect in the case of similar changes at the FASB.

<sup>18</sup> Contributions to the IASB from several countries are via public funding schemes, although such schemes do not appear to preclude direct private contributions (IFRS Foundation, 2011, pp. 57–60).



### *The way forward for the IASB?*

As it enters its second decade, the IASB has been pursuing a number of organizational reforms that can mitigate the role of international politics in IFRS harmonization. Broadly, these reforms suggest the IASB views building greater stability and legitimacy around its due process as a way to further its appeal. Below, I discuss three such reforms that are likely to be particularly important.

First are the results of the IASB's recently concluded constitutional review. The IFRS Foundation's constitution of 2000 includes a requirement to conduct a review of the entire structure of the IASB and its effectiveness every five years (see [www.ifrs.org](http://www.ifrs.org)). The second such review, commenced in 2008 and concluded in 2010, focused on the IFRS Foundation's governance and public accountability. European politicians had in the past criticized the fact that the foundation was not answerable to democratic bodies. This criticism gained voice during the 2008–09 financial crisis when the IASB was seen as resisting pressures from European market regulators to suspend mark-to-market <sup>19</sup>accounting. The constitutional review created a new monitoring board of public authorities (currently composed of capital market regulators from, among others, the EU, Japan, and the U.S.) that is to hold the IFRS Foundation's trustees accountable (IFRS Foundation, 2009). On the one hand, the monitoring board, being composed of public regulators, can give the IASB increased authority to resist special-interest lobbying. On the other hand, the monitoring board itself can become a venue for special interests worldwide to engage IASB standard setters. Thus, the practical impact of the monitoring board remains an empirical question.

<sup>19</sup> Bengtsson (2011) provides citations to newspaper articles from 2008–09 on this subject.

The 2008–10 constitutional review also recommended an increase in the number of IASB members from 14 to 16 by 2012, included guidelines to ensure a broad international basis for board membership, and provided more flexibility regarding part-time members. The composition of the IASB board has been scrutinized regularly over the organization's first decade, particularly in light of the IASB's growing membership. Supporters of reform have sometimes criticized the board's Anglo-American orientation. Sir David Tweedie, himself, has acknowledged this in an interview (Kranacher, 2010b), "Currently on the board are people from South Africa, Australia, the U.K., and America; at least half of the board is Anglo-American, and we [all] account basically the same way. We could argue over certain aspects of accounting, but the whole thrust of the investor focus is very much an Anglo-American trait." The constitutional review has prescribed broader geographic diversity for an enlarged board of 16 by 2012. It has stipulated a targeted outcome of geographic diversity for the board: four members from Europe, four members from North America, four members from the Asia/Oceania region, one member from Africa, one member from South America, and two members appointed from any area subject to maintaining overall geographical balance (IFRS Foundation, 2009). These reforms are likely to reduce the influence of Americans at the IASB, which in turn can temper U.S. and thus worldwide enthusiasm for IFRS. Thus, while the broader geographic diversity at the IASB will reflect IFRS's international footprint, such diversity can ironically make IFRS less attractive across the globe.

Accompanying its new governance structure and the broader board is the IASB's new chairman. The search for the IASB's second head, commenced in the fall of 2009,

<sup>20</sup> For example, across a series of interviews with German accountants, Heidhues and Patel (2011) provide evidence of a German perception of Anglo-American bias at the IASB.

was extensive by most measures. Nominations from more than 500 stakeholder organizations were solicited; 300 candidates from 28 countries were considered; the final choice being made from a reduced pool of 45 persons from 20 countries (IFRS Foundation, 2010). On October 12, 2010, the trustees announced the appointment of Hans Hoogervorst, a former Dutch finance minister and head of the Dutch financial market regulator, as the new chairman of the IASB. The naming of a European to the board's leadership is a potential signal that Europe remains at the center of the board's thinking; but Britain's losing of the board's top job can suggest a greater voice for continental Europe in IFRS standard-setting. Hoogervorst's appointment also potentially signals a new deference to the political realities that are likely to shape international standard-setting; the world's top accounting standard-setter is no long to be an accountant, but rather a politician.

#### *Theoretical implications of the international political dynamics of IFRS harmonization*

The framework presented in this paper has important practical implications for the future of the IASB, which are discussed above. Beyond such practical implications, the international political dynamics of IFRS harmonization raise interesting theoretical considerations about the effectiveness of international standard setting. In particular, if international politics plays a significant role in shaping countries' IFRS harmonization strategies, does that make an international set of standards more or less effective as an institution of global governance? On one hand, a technocratic view of accounting advocates resisting political interference in standard setting decisions (e.g., Barth, 2006). Under this view, a politicized IFRS harmonization process can be indicative of

compromised legitimacy of IFRS. On the other hand, an evolving political-science literature on global governance institutions suggests an active cross-country political dynamic can be important to creating legitimacy for international organizations (e.g., Buchanan and Keohane, 2006).<sup>21</sup> Under this view, a vibrant role for international politics in IFRS harmonization is an affirmative sign for IFRS. The framework I present above is agnostic to these competing arguments, but more formal evidence consistent with the framework's predictions can inform this debate. Research on the political process in IFRS harmonization is important in evaluating the effectiveness of international accounting as a conceptual idea.

## **IX. Conclusion**

Over the 2001–2010 period, about 100 countries have in varying degrees committed themselves to the globalization of accounting through IFRS harmonization. The spread of IFRS worldwide is a complex phenomenon likely involving the understanding of numerous interweaving economic and political forces. In this paper, I offer an analysis of the international political dynamics of IFRS harmonization. While international politics is not the only or even the deciding element in understanding the growth of IFRS, it is likely to be important.

The analysis in this paper is based on field studies of three jurisdictions: Canada, China, and India. Across these jurisdictions, I first describe unique elements of domestic political economies that are shaping their IFRS policies. Then, I inductively isolate two principal dimensions that can be used to characterize these jurisdictions' IFRS responses:

<sup>21</sup> Hurrell (2005, p. 16) defines "legitimacy" as resulting in rule following that is "distinguishable from purely self-interested or instrumental behavior on the one hand, and from straightforward imposed or coercive rule on the other."

proximity to existing political powers at the IASB; and own potential political power at the IASB. Based on how countries are classified along these dimensions, I offer predictions, *ceteris paribus*, on their IFRS harmonization strategies.

The analysis in this paper helps in the understanding of accounting globalization. Moreover, a knowledge of the international political dynamics of countries' IFRS responses can be useful to the international standard-setting community as IFRS enters its second decade. Fundamental questions in IASB policy that are likely to be informed by international politics still remain unanswered. For example, should the IASB put more emphasis on convergence over full adoption in promoting the spread of IFRS? Should the IASB make more compromises in its organizational structure to facilitate adoption by the U.S.? Should the IASB make further adjustments to its governance and accountability to accommodate its growing membership and stakeholder base? The analysis in the paper has implications for these questions, but more research in the political process of the IASB is needed.

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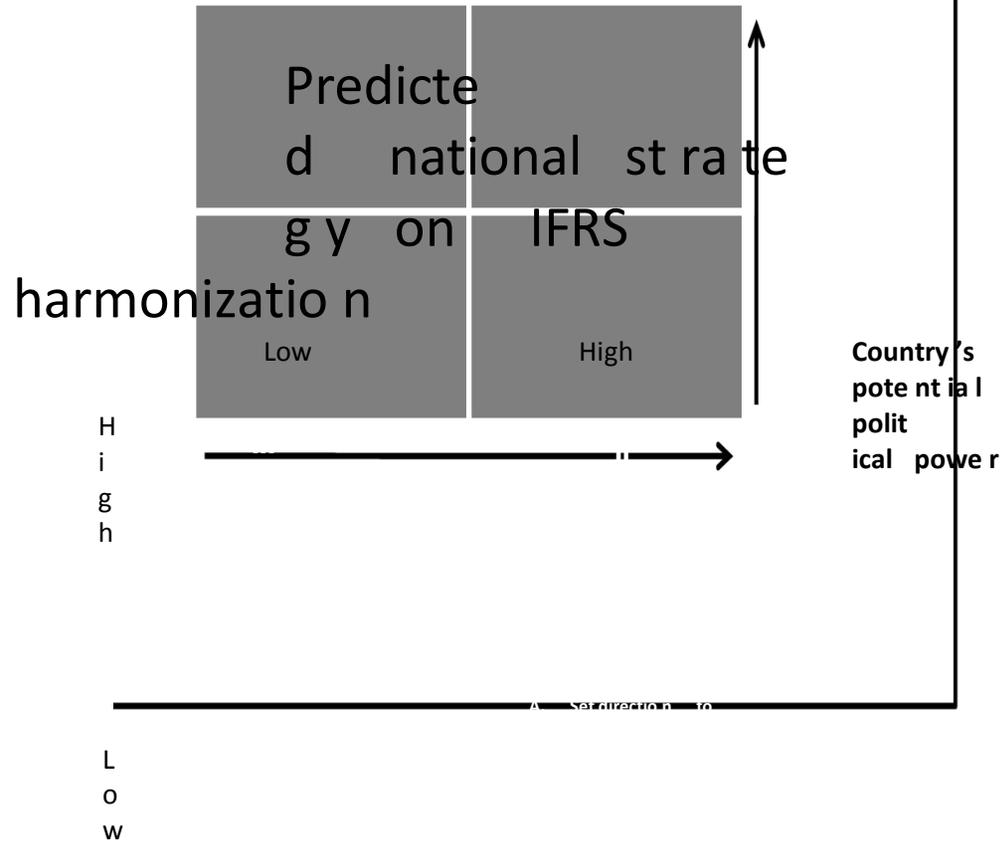
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**Figure A, The influence of international politics on countries' IFRS harmonization strategies**



Country's proximity to existing political powers at the IASB

## Table 1, IAS 24 Timeline

*Prior to 2003, state-controlled entities were exempt from IAS 24's related-party disclosure requirements. That exemption was removed in a 2003 revision which specified that profit-oriented state-controlled entities that use IFRS must disclose transactions with other state-controlled entities.* **Feb. 2006:** China's MOF and the IASB announce plans to converge Chinese accounting standards with IFRS; the MOF begins issuing CAS. **May 2006:** The IASB agrees to begin consultations on clarifying IAS 24 requirements for transactions between entities with significant state ownership. **Feb. 2007:** The IASB releases a draft of proposed amendments to IAS 24; the amendments (1) exempt some state-controlled entities from related-party disclosures, and (2) change the definition of a related party; the comment period is limited to 90 days in hopes that the amendment can be in place before the end of the 2007. **Oct. 2007–Jan. 2008:** In IASB discussions on the subject, talks end "in a degree of confusion" after the board determines: "in some jurisdictions including China, the state often nominates one or more board members. This fact alone [seems] to indicate that the state would normally 'participate in the operating and financial decisions' of state-controlled entities and thus would always fail the exemption criteria." **Sep. 2008–Nov. 2008:** The IASB formulates a new approach whereby related-party transactions of state-controlled entities need not be disclosed, but instead general disclosures about the types and extent of significant transactions would be required. **Jul. 2009:** The IASB tentatively approves changes to IAS 24, effective Jan. 1, 2011; plans to issue new standard in Nov. 2009. The changes (1) provide a partial exemption for disclosure by government-related entities, and (2) simplify the definition of a related party. **Nov. 2009:** The IASB issues revised version of IAS 24.

Source: IAS Plus, IASB Agenda Project, Deloitte Touche Tohmatsu, [www.iasplus.com](http://www.iasplus.com), accessed November 6, 2009.

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Component Accounting	Property, plant, and equipment are componentized and are depreciated separately.	a )
Computation of Depreciation	The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life. For plant, property, and equipment two accounting models are permissible:	C o s

of the asset.

t Model. The asset is carried at cost less accumulated depreciation and impairment. b) Revaluation Model. The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. The concept of useful life is based on the number of years that the entity expects to use the asset. The useful lives of assets are estimated after considering expected physical wear and tear, obsolescence, and legal or other limits on the use of the asset. The depreciation should be charged based on the best estimate of the management of the useful life and residual value

Depreciation Method The depreciation method used should reflect the

pattern in which the asset's economic benefits are consumed by the entity. The depreciation method should be reviewed at least annually and, if the

pattern of consumption of benefits has changed, the depreciation method should be changed

change, whereas on revision of asset life, the

Fixed assets are not required to be componentized and depreciated separately.

The depreciation amount of a depreciable asset is allocated on a systematic basis over its useful life, but a governing statute may provide rates for depreciation where those rates would prevail.

Depreciable amount means historical cost, or other amount substituted for historical cost in the financial statements less the estimated residual value.

Depreciable assets are assets that are expected to be used during more than one accounting period, have a limited useful life, and are not held by an enterprise for the purpose of sale in the ordinary course of business. Useful life is the period over which a depreciable asset is expected to be used by the enterprise. Where the useful life determined by the management is shorter than that envisaged under the relevant statute, the depreciation is computed by applying a higher rate. A company provides for depreciation at the rates specified in Schedule XIV of the Companies Act or as determined based on estimated useful lives of assets, whichever is higher.

Two methods of depreciation are prescribed: straight-line and diminishing. The impact of change in a depreciation method is determined retrospectively by computing depreciation under the new method and is recorded in the period of

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unamortized depreciable amount is charged over the revised remaining asset life. A change in depreciation method should be treated as a change in accounting policy.

**Table 3, Financial Contributions to the IASB in 2009 by country (amounts in GBP)**

**Contribution Breakdown (# of Private Donations) Countries (Cumulative\*)**

Contribution	0-25,000	25,000-50,000	50,000-100,000	100,000+
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United States	1,846,698	6	6	10	7	Japan	1,736,875	149	4	11	Germany	1,234,975	60	30	France	888,099	United Kingdom	800,000	China	750,105	15	3	1	Italy	683,683	Australia	463,009	Canada	452,946	2	1	Spain	440,373	1	1	The Netherlands	354,506	1	1	India	247,020	2	Republic of Korea	182,028	28	1	Switzerland	169,435	1	2	Hong-Kong	132,124	1	1	1	New Zealand	87,690	Norway	45,000	Luxembourg	44,655	Russia	18,203	Portugal	17,659	Greece	15,169	Singapore	10,509	Armenia	9,635	Uganda	7,064	Saudi Arabia	6,994	Slovakia	6,994	Ireland	6,729	Kazakhstan	6,029	Malaysia	6,029	Bulgaria	5,814	Cyprus	4,761
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**International Accounting Firms** Deloitte Touche Tohmatsu

\*\*1,282,000

Ernst & Young \*\*1,282,000 KPMG \*\*1,282,000 PricewaterhouseCoopers \*\*1,282,000 Grant Thornton \*96,150 BDO \*96,150 Mazars \*64,100 Other International Accounting Firms 305,727

**Other Donors** IASC Foundation Trustees \*\*\*110,000

Bank for International Settlements 68,404 European Central Bank 34,202

**TOTAL 16,583,544 264 45 26 12**

Source: Ramanna, Misztal, and Beyersdorfer (2011). Notes: \* Includes public (central banks, national accounting bodies, ministries of finance) and private sector donations. \*\* USD-denominated donations, converted to GBP according to 0.641 GBP per USD average exchange rate in 2009. \*\*\* Three trustees of the IASC Foundation waived their fees, which were accounted as contributions.

**Table 4, Largest Private Financial Supporters of the IASB, 2009 (amounts in GBP)**

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Entity	Country	Contribution
Deloitte Touche Tohmatsu	Global	*1,282,000
Ernst & Young	Global	*1,282,000
KPMG	Global	*1,282,000
PricewaterhouseCoopers	Global	*1,282,000
Canadian Institute of Chartered Accountants	Canada	100,000+
National Stock Exchange of India Limited	India	100,000+
Bombay Stock Exchange Limited	India	100,000+
Bolsas y Mercados Españoles	Spain	100,000+
Bank of America	United States	100,000+
Citigroup	United States	100,000+
ExxonMobil	United States	100,000+
Goldman Sachs Group Inc.	United States	100,000+
J P Morgan Chase	United States	100,000+
Morgan Stanley	United States	100,000+
Pfizer Inc.	United States	100,000+

Source: Ramanna, Misztal, and Beyersdorfer (2011). Notes: \* USD-denominated donations, converted to GBP according to 0.641 GBP per USD average exchange rate in 2009. The exact amounts of an additional £100,000+ in private donations were not disclosed. A £100,000 donation from the Dutch Ministry of Finance was classified as a "national donation" and excluded from this list of private supporters.