

Interest Group Influence on the Development of
International Financial Reporting Standard (IFRS) 9
Financial Instruments

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SUMMARY

The International Accounting Standards Board (IASB) finalised its International Financial Reporting Standard (IFRS) 9 *Financial Instruments* project in July 2014. The project was significant, resulting in the replacement of the previous International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement* with a new accounting standard that will be effective from January 2018. However, interest groups' involvement in the development of the crucial IFRS 9 expected credit loss model from the release of its first proposal until the issue of its final proposal has not been studied. Redressing the research gap, this study investigates whether significant influence had been exerted by interest groups on the IASB during the development of all three expected credit loss model proposals of the IFRS 9 impairment phase. By conducting content analysis on 327 comment letters, this study did not find significant influence by any particular interest group across five out of the six key changes identified amongst the proposals (the 2009 exposure draft, 2011 supplementary document and 2013 exposure draft). Additional analysis conducted on the comment letters, the IASB expert advisory panel summary document and the two IASB outreach summary documents identified that interest group inputs had played an important role in shaping the proposed expected credit loss models, making them more operational, less complex and productive of more comparable financial information (within and across entities) than the preceding proposals. This study has important theoretical and practical implications.

STATEMENT

I hereby certify that this thesis is the result of my own research and that it has not, nor has any part of it, been submitted for a higher degree to any other university or institution.



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Samindi Mawanane-Hewa

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1.0 INTRODUCTION

1.1 Introduction

In July 2014, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 9 *Financial Instruments* with a mandatory effective date of 1 January 2018, as the replacement of International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement* (IFRS Foundation, 2016). Introduced in 1998, IAS 39 stipulated the accounting guidelines for financial instruments, which by definition are contracts that generate a financial asset in one entity and a financial liability/equity instrument in another (Association of Chartered Certified Accountants, 2016; Camfferman, 2015). Concluding an almost two-decade long presence of IAS 39 which has been subject to multiple criticisms, IFRS 9 was introduced by the IASB with the objective of addressing the limitations of IAS 39 (Deloitte Global Services Limited, 2016; IASB, 2009).

IAS 39, used widely by financial institutions, has been heavily criticised due to complexity in its application, lack of financial information comparability, and delayed credit loss recognition of financial instruments, amongst others (Financial Reporting and Assurance Standards Canada, 2016; Leman, 2016). Notably, the delayed credit loss recognition approach prescribed by IAS 39 was in the spotlight as a weakness during the 2007-2008 global financial crisis (GFC) with entities incurring credit losses as borrowers failed to pay their debts (IFRS Foundation, 2014). The criticisms against IAS 39 during the GFC were fierce, prompting the IASB to urgently attend to the issues on financial instruments accounting by replacing IAS 39 (Epstein and Jermakowicz, 2010).

The replacement of IAS 39 with IFRS 9 is noteworthy with the new standard predicted to be “the biggest change in banks’ financial reporting since the introduction of IFRS” (Housa and Biggins, 2012, para. 1). This prediction has been reaffirmed by KPMG, one of the big four accounting firms, through its depiction of IFRS 9 as one of the most pivotal accounting changes many banks will ever face (KPMG, 2016). Furthermore, Fitch Ratings, a world leading credit ratings and research company, has also recognised the significance of IFRS 9 by predicting that the new standard will likely diminish bank capital significantly and cause volatility in earnings and regulatory capital ratios (Fitch Ratings, 2015).

The IFRS 9 project development spanned five years from 2009 to 2014. During this time span, IFRS 9 went through three project phases, which are known as classification and measurement, impairment, and hedge accounting (IFRS Foundation, 2016). Amongst the three phases, the impairment phase has successfully occupied the spotlight of discussion with entities including Moody’s Analytics and the United Kingdom Treasury describing new impairment guidelines as “the biggest change for banks moving from IAS 39 to IFRS 9” (Leman, 2016, paras. 3-4) and as the “most significant change in IFRS 9” (Her Majesty’s Treasury, 2016, p. 13).¹ In addition, Chartered Accountants Australia and New Zealand (2015) has predicted that the new impairment model will cause the most significant impact on

¹ Impairment of a financial instrument arises when the carrying amount of the financial instrument exceeds its recoverable amount.

accounting practices of financial instruments for financial institutions. Furthermore, Deloitte, another big four accounting firm, notes the significance of the new impairment model by presenting it as the ‘biggest challenge’ in their overview of IFRS 9 (Deloitte 2014, p. 27).

The significance of the IFRS 9 impairment model arises from the major difference in credit loss recognition between the IAS 39 and IFRS 9 guidelines. The impairment requirements for financial instruments in IAS 39 had been based on an *incurred* loss model. As the name suggests, the incurred loss model prescribes that entities recognise credit losses when they are incurred. The result of this approach is a delay in credit loss recognition with entities failing to account for credit losses until a credit loss event occurs (Ernst and Young, 2014). This delayed credit loss recognition approach was identified as a crucial accounting limitation during the GFC. As a result, the credit loss recognition approach of IFRS 9 was introduced to overcome the weakness of delayed recognition by introducing an *expected* credit loss model.

In comparison to the delayed loss recognition of the IAS 39 incurred credit loss model, the expected credit loss model of IFRS 9 recognises credit loss expectation prior to the losses being incurred (Deloitte Global Services Limited, 2016). This revolutionary approach towards credit loss recognition, which has been described by the current IASB chairman as the most important improvement achieved through the IFRS 9 project, has been predicted to cause major changes in the financial reports of financial institutions (Hoogervorst, 2014). The enormity of this predicted accounting change was further emphasised in the 2014 Deloitte Global Banking Survey, in which more than half of the banks surveyed anticipated that the new accounting requirement would “increase loan loss provision by up to 50 per cent” (Agnew, 2014, para. 11). In addition, an IFRS foundation publication in 2015 indicated that a rise in balance sheet allowances under the IFRS 9 guidelines could cause a material reduction in shareholders’ equity (IFRS Foundation, 2015). Given the enormity of predicted impact that IFRS 9 brings to reporting of financial instruments, it is worth investigating how various interest groups have participated in the development of this crucial component of IFRS 9, the expected credit loss model.

The IASB commits itself as an independent standard-setting body that works in the public interest, and seeks to conduct its standard development “in a transparent manner, considering a wide range of views from interested parties” (IFRS Foundation, 2013, p. 5; Bruce, 2011). Serving over 120 nations as a private sector accounting standard-setting body with no elected authority, the IASB’s commitment to solicit stakeholder inputs during standard development forms a crucial aspect of the standard setter’s legitimacy (IFRS Foundation, 2016; Jorissen et al., 2012). Legitimacy, which is considered by multiple scholars as a valuable resource can aid entities in attracting stakeholder support and other resources (Suchman, 1988, as cited in Suchman, 1995; Ashforth and Gibbs, 1990). In international accounting standard setting, legitimacy is recognised by researchers as a crucial resource needed for the IASB’s long-term survival (Heidhues and Patel, 2012)

The IASB’s commitment to solicit stakeholder inputs during standard development can be deemed to assist the international accounting standard setter to establish and maintain its procedural legitimacy,

thus demonstrating its transparency and independence (Heidhues and Patel, 2012; Burlaud and Colasse, 2011).² Furthermore, stakeholder participation during standard development can aid the IASB to achieve influence legitimacy, which emerges when a standard setter involves stakeholders in its standard setting and, as a consequence, the standard setter gains support from stakeholders since it is viewed as being responsive to stakeholders' interests (Larson, 2007). In addition, soliciting stakeholder inputs during standard setting generates an inexpensive source of professional expertise/labour for the IASB, which has been overshadowed in the past by funding limitations (Chasan, 2011), and by limited technical expertise amongst IASB staff in areas such as financial instruments accounting (Camfferman and Zeff, 2015).

Although the IASB's commitment to soliciting a variety of stakeholder inputs can enhance its independence, procedural and influence legitimacy, transparency in standard setting, and help source professional expertise/labour; stakeholder participation during the comment periods is known to result in lobbying by those who attempt to influence a standard to secure their own interests (Alali and Cao, 2010).³ During a standard setting process that is subject to lobbying, standard setting bodies such as the IASB has to establish a balance between the needs of interest groups (Brown and Tarca, 2001, as cited in Chand and Cummings, 2008). Achieving this balance is crucial for the survival of the largely privately funded IASB, which commits itself to be an independent standard setter (IFRS Foundation, 2016; Tiberghien, 2013; Rich et al., 2012).

The IASB initiates different avenues of public consultation to solicit a variety of stakeholder inputs, including the release of a discussion paper and the publication of an exposure draft, which have been embedded in the due process of international accounting standard setting (IFRS Foundation, 2016). Amongst these, the publication of an exposure draft is recognised by the IASB as its main vehicle of public consultation (IFRS Foundation, 2016). Importantly, the publication of an exposure draft is a mandatory step that exposes the draft of the proposed standard to public comment (IFRS Foundation, 2016). During the development of the IFRS 9 expected credit loss model, the IASB issued its first exposure draft in 2009, followed by a supplementary document (to the 2009 proposal) in 2011, which was succeeded by the final exposure draft in 2013 (IFRS Foundation, 2016). The proposed guidelines in the final exposure draft were converted by the IASB into the final IFRS 9 expected credit loss model in 2014 following minor re-deliberations.⁴

The three proposals (i.e., the 2009 exposure draft, the 2011 supplementary document, and the 2013 exposure draft) that led to the final IFRS 9 expected credit loss model represented diverse approaches for recognising and measuring expected credit losses. Due to the IASB's commitment towards "considering a wide range of views from interested parties", different interest groups' inputs are

² Procedural legitimacy refers to the fairness of a political decision making process by which inputs are converted into outputs (Richardson and Eberlein, 2011).

³ Lobbying is the act of seeking to "influence (a legislator) on an issue" (Stevenson, 2010, p. 1036).

⁴ In the process of finalising the impairment phase, the IASB re-deliberated particular aspects of the 2013 recommendations with the objective of presenting additional clarifications and guidance for entities to assist in the implementation of the proposals (Ernst and Young, 2014).

expected to have played a key role in initiating the changes amongst the proposals (IFRS Foundation, 2013, p. 5). However, there is an absence of research evidence demonstrating how interest groups may have shaped the expected credit loss model development by exerting influence on the IASB.

Although there is an absence of studies investigating interest group influence during the development of the IFRS 9 expected credit loss model, existing accounting literature contains studies built upon several international accounting standard development projects. Amongst these studies are mixed research evidence on the significance of the influence exerted by interest groups on the IASB in shaping the proposed accounting standards. For example, Giner and Arce (2012) found no evidence of significant influence amongst interest groups on the development of IFRS 2 *Share-based Payment*. In comparison, Cortese et al.'s (2010) investigation into IFRS 6 *Exploration for and Evaluation of Mineral Resources* and Kwok and Sharp's (2005) study on the development of IAS 14 *Segment Reporting* identified significant influence by financial statement preparers.

Based on the mixed findings of significant influence in the existing literature, it is difficult to speculate if significant influence had been exerted by any interest group(s) on the IASB during the development of the IFRS 9 expected credit loss model. Therefore, the current study is introduced with the motivation to identify whether significant influence was exerted by interest groups on the IASB in shaping the IFRS 9 expected credit loss model, which is anticipated to considerably increase the credit loss allowances of financial institutions. Hence, based on this motivation, this study proposes the following research question:

*Research question 1: Has significant influence been exerted by any interest group on the IASB during the development of the IFRS 9 expected credit loss model?*⁵

Many studies that have investigated interest group influence on international accounting standard setting have primarily based their research on quantitative inquiries that were addressed by quantifying qualitative data such as condensing the content of a comment letter to a '+1', '-1' or '0' representing agreement, disagreement or no opinion regarding a proposal (Chircop and Kiosse, 2015; Giner and Arce, 2012). As a result, these studies have overlooked the rich insights that could have been obtained by introducing a qualitative inquiry into the arguments put forward by interest groups. Addressing this limitation, this study proposes a second research question to identify the arguments put forward by due process participants who influenced the IASB during the development of the IFRS 9 expected credit loss model:

Research question 2: What were the arguments that influenced the IASB in developing the expected credit loss model of IFRS 9?

To address the two research questions, the three proposals of the IFRS 9 impairment phase (2009 exposure draft, 2011 supplementary document and the 2013 exposure draft) were analysed to identify

⁵ Influence is having an effect or change on "how someone or something develops, behaves, or thinks" (Cambridge University Press, 2011, p. 436).

the key changes which differentiate the proposals. This analysis identified three key changes between the 2009 exposure draft and the 2011 supplementary document, and three key changes between the 2011 supplementary document and the 2013 exposure draft.⁶ These key changes were then assessed against the results of content analysis conducted on 327 comment letters to find out if the inputs put forward by comment letter respondents were successful in influencing the IASB.⁷

Frequency calculations were then introduced to derive the frequencies of comment letters with influence corresponding to each interest group. This step was followed by Fisher's exact test which determines whether there has been significant interest group influence on the IASB in changing the proposals. Subsequently, content analysis of the comment letters, the IASB expert advisory panel meeting summary document, and the two documents containing the inputs received during IASB outreach activities was undertaken to obtain rich insights into the arguments of comment letter respondents that had influenced the IASB.

Addressing the first research question, this study finds that financial institutions dominated the frequencies of those who influenced the IASB through comment letters, whilst the Fisher's exact test showed no significant influence by any interest group(s) on the IASB across five out of the six key changes. However, significant influence was observed in one key change attributed to amending the scope of the 2011 proposal to open portfolios.

The qualitative data analysis conducted for the second research question, which explores the arguments that influenced the IASB, provides evidence suggesting that interest group inputs had played an important role in shaping the proposed expected credit loss models, making them more operational, less complex and productive of more comparable financial information (within and across entities) than the preceding proposals.

In conclusion, this study makes a valuable theoretical contribution by redressing the gap in the literature with respect to interest group influence on the development of the IFRS 9 expected credit loss model. In addition, this study delivers a valuable practical contribution by providing the IASB with an assessment of its independence from significant interest group influence during the development of the IFRS 9 expected credit loss model.

1.2 Background

In 2001, the IASB inherited the accounting guidelines of IAS 39 from the IASC (IFRS Foundation, 2014). According to Camfferman and Zeff (2015, p. 140), IAS 39 was the 'most controversial element' of the IASC standards, and some IASB board members had only reluctantly agreed to adopt IAS 39 at its inaugural meeting.

⁶ Key changes are explained in detail in sub sections 1.2.1, 1.2.2 and 1.2.3.

⁷ 327 represents all published comment letters received by the standard setter in response to the 2009 exposure draft and the 2011 supplementary document, by the respective comment letter deadlines.

Since its introduction, IAS 39 has been heavily criticised due to its considerable reliance on fair value accounting (FVA), complexity in its application, and its impairment guidelines for financial instruments which result in a delayed recognition of credit losses (Mügge, 2014; IFRS Foundation, 2013; IASB, 2008). Being impacted by numerous criticisms, IAS 39 attracted multiple political interventions in the 2000s. One of these notable interventions took place in 2003, when the then French President Jacques Chirac wrote to the president of the European Commission, requesting a review of IAS 39 (Van Mourik and Walton, 2013). In his letter, President Chirac discussed the reliance of IAS 39 on FVA, and predicted that the fair value guidelines of IAS 39 would destabilise the economy (Jones, 2015).

In addition to the intervention by Jacques Chirac, the European Commission made its own intervention in 2004 by temporarily carving out prescriptions related to the IAS 39 full fair value option and hedge accounting (European Commission, 2004). The dual carving out of IAS 39 became a major concern for the IASB with its then chairman, Sir David Tweedie, stating that the board “could not survive another carve out” by the Commission (Great Britain. House of Commons, 2009, p. 94). Recognising the significance of the European Commission’s two carve outs, the IASB published an amended IAS 39 in 2005 with a fair value option containing restrictions on the availability of the mark to market option (Gwilliam and Jackson, 2008; European Commission, 2005).

Aside from the notable 2005 amendments, IAS 39 has been subject to numerous revisions since its introduction (Deloitte Global Services Limited, 2016). Despite the many revisions, the 2007 global financial crisis (GFC) brought the maligned standard back into the limelight. In particular, the GFC directed widespread criticism towards the incurred credit loss model of IAS 39, which was deemed as restricting “the recognition of losses to situations where objective evidence exists of ‘loss events’ that have occurred before the balance sheet date” (Camfferman, 2015, p. 1-2).

The events which led the incurred credit loss model of IAS 39 to attract criticisms during the GFC can be traced back to the early 2000s. In the early 2000s, the US government’s reduction of interest rates for the promotion of lending drove many in the US towards home ownership, whilst easy credit provided the foundation for financial institutions to pursue the profitable and popular market of subprime mortgages (Kothari and Lester, 2012). However, the popularity of subprime mortgages came under scrutiny with a 4.25% rise in the interest rate from 2004 to 2007 resulting in a large number of borrowers defaulting on their monthly loan repayments (Kothari and Lester, 2012). Experiencing a large number of loan defaults and collapsing real estate values during the 2006-2008 period, financial institutions proceeded to recognise the decline in the value of their subprime loans (Cable, 2010; André et al., 2009). During this period, both IAS 39 and US Generally Accepted Accounting Principles (GAAP) were equipped with an incurred loss approach for loan loss provisioning, which was driven by the assumption that “all loans will be repaid until evidence to the contrary is identified” (Barth and Landsman, 2010; IASB, 2009, p. 1). As a result, banks were overstating profits whilst lacking prudent provisions to compensate for expected credit losses (Agnew, 2014). Consequently, this incurred loss approach was fiercely criticised during the GFC due to its presentation of “an initial, over-optimistic assessment of no

credit losses, only to be followed by a large adjustment once a trigger event occurs” (Camfferman, 2015; IASB, 2009, p. 1).

In response to the financial reporting issues and criticisms arising from the GFC, the IASB and the Financial Accounting Standards Board (FASB) jointly set up the Financial Crisis Advisory Group (FCAG) in October 2008 (IASB, 2011). The FCAG was tasked to provide recommendations for improving financial reporting to strengthen investor confidence in the capital market. In its 2009 report, the FCAG presented challenges in utilising FVA in illiquid markets, delayed recognition of losses in financial instruments, off-balance sheet structures of financing, and the complexity of numerous impairment approaches as the fundamental weaknesses of financial reporting (FCAG, 2009). One of the FCAG’s recommendations was to introduce alternative approaches to replace the incurred loss model for loan loss provisioning (Ernst and Young, 2015; FCAG, 2009).

According to Stevenson (2012, p. 15), the IASB had been actively responding to the FCAG recommendations with its ‘most significant move’ being the decision to replace IAS 39 with a new standard, IFRS 9. The IFRS 9 project responded to the FCAG’s call for an alternative to the incurred credit loss model by developing the expected credit loss model through its impairment phase. The development of the expected credit loss model progressed through the November 2009 exposure draft, January 2011 supplementary document (to the 2009 exposure draft), and a final exposure draft in March 2013.

1.2.1 The 2009 Exposure Draft

The expected credit loss model proposed in the 2009 exposure draft required entities to recognise the initial expected credit losses over the life of the financial asset (IASB, 2009; Ernst and Young, 2014). This allocation of expected credit losses was to be conducted by incorporating the anticipated credit losses in the effective interest rate calculation in the initial recognition of the asset.⁸ Any subsequent changes in expected credit losses were to be recognised as adjustments to profit or loss (Ernst and Young, 2015). Although the 2009 proposal was hailed as being ‘conceptually sound’, feedback received on the proposed expected credit loss model prompted the IASB to introduce a new proposal in 2011 (Deloitte Global Services Limited, 2013, para. 3).

1.2.2 The 2011 Supplementary Document

In January 2011, the IASB and the FASB jointly published a supplementary document to the 2009 exposure draft (IASB, 2011). Depicting a favourable step towards the convergence efforts of the IASB’s and FASB’s accounting proposals on impairment, the 2011 proposal contained a common solution for the two standard setters. Whilst achieving this common solution, the 2011 supplementary document gave rise to a number of notable changes from the 2009 exposure draft.

⁸ Example of an effective interest rate calculation: If the contractual interest rate of a loan is 10% inclusive of a 3% compensation for the lender for credit loss (based on the initial credit loss estimate), the effective interest rate will be 7%.

As shown in *Table 1*, one major difference between the 2009 and 2011 guidelines was the change of scope between the two proposals. Unlike the 2009 proposal, which was applicable to all financial instruments measured at amortised cost, the scope of the 2011 proposal was based only on open portfolios, where financial assets are continuously added to, and removed from the portfolio (IASB, 2011). This change was made to address the difficulties in applying the 2009 expected credit loss model to open portfolios.

Moreover, the 2011 proposal contained a second significant change from the 2009 guidelines due to decoupling of the credit loss integrated effective interest rate. As a result of this change, the 2011 supplementary document required entities to separate credit loss recognition from the interest rate calculation.

Another major change evident in the 2011 proposal is the grouping of financial assets into two categories. One of these categories, characterised as ‘bad book’, consisted of financial assets considered (by the entity’s internal risk management) to be problematic whilst other financial assets were to be allocated into the ‘good book’ category (IASB, 2011, p. 4). Preparers were provided with the flexibility of including and transferring financial instruments between the two books on the basis of their internal credit risk management. The accounting treatment proposed for the bad book category involved the immediate recognition of the full amount of lifetime expected credit losses. In comparison, expected credit losses of the good book were to be recognised at each reporting date, on a portfolio basis, by conducting two calculations to derive the time proportional impairment allowance and the foreseeable future floor /minimum allowance amount.⁹

Table 1: Key Differences between the 2009 and 2011 Proposals

1. Changing the scope of the proposal to open portfolios (<i>Open portfolios</i>)	By changing the scope of the proposal to open portfolios, the IASB attempted to address the issues with applying the 2009 proposal to open portfolios.
2. Decoupling of the integrated effective interest rate (<i>Effective interest rate decoupling</i>)	In comparison to the expected credit loss integrated effective interest rate proposed in the 2009 proposal, the 2011 guidelines contained no credit loss integration in the interest rate.
3. Grouping of financial instruments (<i>Grouping</i>)	Unlike the 2009 proposal, the 2011 guideline contained classifications of financial instruments into good book/bad book categories for determining the expected credit loss provisions.

1.2.3 The 2013 Exposure Draft

The IASB issued its final exposure draft of the IFRS 9 impairment phase in March 2013. As presented in *Table 2*, this exposure draft embraced a number of notable changes from the preceding proposal in the 2011 supplementary document. One of these changes was the replacement of the good book/bad

⁹ Time proportional allowance represents a portion of the remaining lifetime expected losses of the portfolio. Foreseeable future floor allowance represents expected credit losses of the foreseeable future (no less than 12 months).

book classification with a new classification based on the credit quality deterioration of the financial instrument. As a result of this change, entities were required to classify their financial instruments based on whether the instruments have or have not “deteriorated significantly in credit quality since initial recognition” (IASB, 2013, p. 5).

Demonstrating the same guidelines provided for the bad book classification in the 2011 proposal, recognition of lifetime expected credit losses was put forward in the 2013 exposure draft for financial instruments that have significantly deteriorated in credit quality since initial recognition. Despite this similarity, the accounting treatment proposed for the remaining classification had notably varied between the 2011 and 2013 proposals. One of these significant variations was the elimination of the dual calculation (in the 2011 proposal), which required entities to calculate both the time proportional impairment allowance and the foreseeable future floor allowance amounts. As a result, the number of expected credit loss calculations for the good book was reduced from two to one in the 2013 proposal.

Furthermore, in the elimination of the dual calculation requirement, the standard setter was faced with the choice of eliminating either the time proportional or the foreseeable future floor allowance calculation. The resulting change was the elimination of the foreseeable future floor which had been introduced through the 2011 supplementary document.

Table 2: Key Differences between the 2011 and 2013 Proposals

4. Changing the classification of financial instruments (<i>Classification</i>)	The good book/bad book classification was amended in the 2013 proposal by introducing a new classification based on the significant increase in credit risk of financial instruments.
5. Reducing the dual calculation to a single calculation requirement (<i>Dual calculation</i>)	The dual calculation requirement of financial instruments excluded from the immediate recognition of lifetime expected credit losses was replaced by a single calculation requirement.
6. Elimination of the foreseeable future floor (<i>Foreseeable future floor</i>)	The foreseeable future floor calculation introduced through the 2011 supplementary document was eliminated from the 2013 proposal.

Following the inputs received on the 2013 exposure draft, the IASB proceeded to finalise its impairment project by re-deliberating certain aspects of the 2013 proposal (Ernst and Young, 2014). The re-deliberations were minor and contained clarification on significant credit risk increase assessments, and added guidance on defining defaults amongst others. Upon the completion of these re-deliberations, the IASB published its finalised expected credit loss model in July 2014 (Ernst and Young, 2014).

The subsequent chapters of this thesis are organised as follows. Chapter Two presents the literature review, followed by Chapter Three which discusses the methodology. Chapter Four reports and discusses the results. Lastly, Chapter Five concludes the study, outlines its contributions and limitations, and suggests avenues for future research.

2.0 LITERATURE REVIEW

Interest group participation and influence on accounting standard development has attracted extensive research interest. Research in this area can be broadly classified into two streams. One stream is research built upon national standard setting contexts, for example, in Australia (Ang et al., 2000; Walker, 1987), the United Kingdom (Stenka and Taylor, 2010; Georgiou, 2004), and the United States (Schultz et al., 2003; Hill et al., 2002). Notably, a significant number of studies built upon the national standard setting contexts have been concerned with accounting standard development in Anglo-American nations. However, limited exceptions such as Susela's (1999) study on Malaysian accounting standard setting are also evident in the literature.

The other research stream examines international accounting standard development. Research built upon the international standard setting context targets both multiple and individual standard setting projects. Amongst studies that investigated multiple standard setting projects, Larson (1997) and Jorissen et al. (2012) provide insights into lobbying during the reigns of the IASC and the IASB respectively.

Although studies on multiple standard development projects have enabled scholars to generalise lobbying activities, these studies may not "deeply explore the sense of comments issued by the interested parties or the impact of such comments on the standard setting process" (Giner and Arce, 2012, p. 657). This limitation has been mitigated by a number of existing studies that have been based upon individual standard development projects. By narrowing down the research focus onto individual standard development projects, researchers can better position themselves to gain in-depth insights into interest group lobbying.

In the extant literature, researchers have investigated interest group lobbying in a number of individual standard development projects. These studies have focused on the development of IAS 31 *Financial Reporting Interests in Joint Ventures* (Kenney and Larson, 1993), IAS 19 *Employee Benefits* (Chircop and Kiosse, 2015), IFRS 6 *Exploration for and Evaluation of Mineral Resources* (Cortese et al., 2010), IFRS 2 *Share Based Payments* (Giner and Arce, 2012), and IFRS 4 *Insurance Contracts* (Kosi and Reither, 2014), amongst others.

In addition to the classification of studies based on international and national accounting standard setting contexts, research on accounting standard setting can be broadly classified into three categories. These categories classify studies on (1) interest group participation during standard setting, (2) interest groups' approaches of exerting influence, and (3) significance of interest group influence during accounting standard setting.

2.1 Interest group participation during standard setting

Amongst studies that have investigated interest group participation during standard setting, Larson (1997) provided valuable insights into corporate participation during the reign of the IASC. Larson (1997) identified that corporations which lobbied the IASC tended to be large and have multiple foreign

stock exchange listings. Arguably, these entities have more labour and monetary resources to participate, and gain more benefits from lobbying the international standard setter, compared to smaller entities.

In addition to Larson (1997), Jorissen et al.'s (2012, p. 693) 'multi-issue', 'multi-period' analysis investigated interest group participation in the IASB's due process via comment letters. Focusing on the IASB's standard setting process from 2002 to 2006, Jorissen et al. (2012) identified financial statement preparers as the leading interest group in comment letter submissions. The observed high level of participation by preparers has been complemented by several studies including Chircop and Kiosse's (2015) investigation into the development of IAS 19 *Employee Benefits* and Giner and Arce's (2012) research on the construction of IFRS 2 *Share Based Payments*.

Although Jorissen et al.'s (2012) study is limited to comment letter analysis, it found three important aspects of interest group lobbying through comment letters. Firstly, it was noted that preparers, accountants and standard setters react significantly when proposals have a considerable effect on a corporation's accounting numbers (Jorissen et al., 2012, p. 693). Secondly, the researchers observed users to "write significantly more comment letters" when the standard setting agenda involved disclosure issues (Jorissen et al., 2012, p. 693). Thirdly, Jorissen et al. (2012) noted significant participation by preparers and users when new proposals represent a substantial deviation from existing accounting prescriptions.

Notably, Jorissen et al. (2012) identified that only 3.7% of inputs originated from financial statement users. This observation of limited user participation complements several other studies including Kosi and Reither's (2014) investigation into the replacement of IFRS 4 and Georgiou's (2010) UK based study on user participation and perception of the IASB's standard setting activities. In critically evaluating the reasons for limited user participation, it can be argued that user participation during the IASB's due process may be inhibited due to the cost of lobbying and due to the considerable amount of technical competence required in responding to the standard setter's proposals, amongst other factors (Burlaud and Colasse, 2011; Georgiou, 2010). Despite the existence of these reasons, the accounting literature suggests that the international accounting standard setter "may want to stimulate its stakeholders to participate more in the IFRS due process" if it is seeking to strengthen its legitimacy (Larson, 2007, p. 230).

2.2 Interest groups' approaches of exerting influence

Sutton (1984, as cited in Georgiou, 2004) presents several approaches followed by interest groups for exerting influence including comment letter submissions, talking at the IASB's public meetings, organising private meetings with the IASB members amongst others. According to Sutton (1984), interest groups' various approaches of exerting influence during accounting standard setting cannot be deemed equally effective. To further clarify, Sutton (1984, as cited in Orens et al., 2011) identified that private meetings with the standard setter's members and appealing to accounting bodies were more effective methods of exerting influence in comparison to other approaches such as submitting comment letters.

More recent studies have demonstrated the high effectiveness of comment letter submissions in influencing accounting standard setting. For example, Hansen (2011, p. 59) states that “comment letters have a significant impact on the form of the final standard”. In addition, Georgiou (2004) and Georgiou (2010) depicted participation in standard setting through comment letter submissions as an effective method of lobbying from the perceptions of financial statement preparers and users. Based on the above discussion, it can be argued that submission of comment letters is another means of influencing the standard setter, similar to holding private meetings with the standard setter’s members.

2.3 Significance of interest group influence during accounting standard setting

Although studies conducted within the international accounting standard setting context cover a number of standards developed within the reigns of the IASB and the IASC, only a limited number of studies have investigated significant interest group influence on international accounting standard development. Within these limited studies are mixed findings into the international accounting standard setter’s susceptibility to be significantly influenced by one or more interest groups (Giner and Arce, 2012; Cortese et al. 2010; Kwok and Sharp, 2005). As an example, Giner and Arce’s (2012) investigation into the development of IFRS 2 *Share-based Payment* found no evidence of significant influence by interest groups. However, Cortese et al.’s. (2010) study on the development of IFRS 6 *Exploration for and Evaluation of Mineral Resources* revealed significant influence on the IASB by powerful extractive industry constituents in introducing flexible accounting requirements for financial statement preparers. Similarly, Kwok and Sharp (2005) found significant influence by financial statement preparers during the development of IAS 14 *Segment Reporting*.

Based on these mixed findings in the existing literature, it can be argued that the IASB’s tendency to comply with interest groups’ requests and recommendations is distinctive for each standard setting project. Acknowledging this distinctiveness and the paucity of research investigating the significance of interest groups’ influence on the IASB’s standard setting, the current study serves as one of the first studies that examine the extent of interest groups’ influence on the IASB during the development of the IFRS 9 expected loss model.

2.4 Existing studies on IFRS 9

Since the commencement of the IFRS 9 project, the standard has been a subject of interest in a number of studies, including Onali and Ginesti (2012), Shields (2014), Okamoto (2014), O’Hanlon et al. (2015), Hashim et al. (2016) and Novotny-Farkas (2016). Amongst them, only a conference paper by Okamoto (2014) and a doctoral thesis by Shields (2014) have examined interest group influence on the IASB during the development of IFRS 9. Specifically, Okamoto (2014) investigated how lobbying modified an exposure draft on the classification of financial instruments, whilst Shields (2014) studied how lobbying had impacted the IASB’s construction of standards on financial instruments from 2001 to 2012. However, Okamoto (2014) and Shields (2014) did not cover the progression of IFRS 9’s impairment phase from the publication of the first exposure draft proposal in 2009 up to the publication of the final

proposal in 2013. In addition to this literature gap, researchers are yet to investigate interest group influence on the development of the expected credit loss model under the IFRS 9 impairment phase – which is considered to be the “biggest change for banks moving from IAS 39 to IFRS 9” (Leman 2016, paras. 3-4). The current study is therefore designed to bridge this gap in the literature by providing an investigation into interest group influence from the publication of the first exposure draft proposal of the IFRS 9 impairment phase until the publication of the final proposal, which was converted into the finalised standard in 2014.

2.5 Relevant theories

Accounting standard setting has been studied by scholars through different theoretical lenses. Amongst these theories, the positive theory of standard setting (Koh, 2011; Ang et al. 2000), capture theory (Chalmers et al., 2012; Cortese et al., 2010), public interest theory (Abela and Mora, 2012; Chalmers, 2012), legitimacy theory (Bamber and McMeeking, 2016; Larson and Kenny, 2011), and resource dependence theory (Cortese and Irvine, 2010; Kenney and Larson, 1993) have been subject to multiple discussions in the existing literature.

2.5.1 Positive theory of standard setting

Watts and Zimmerman’s (1978) positive theory of standard setting is useful for understanding why managers representing financial statement preparers might lobby to influence accounting standard setting. In essence, this theory assumes that “individuals act to maximise their own utility” and as a consequence “management lobbies on accounting standards based on its own self-interest” (Watts and Zimmerman, 1978, p. 113). Amongst the multiple studies that have utilised positive accounting theory, Koh (2011) has incorporated the theory into investigating the drivers of firm participation during the FASB’s Statement of Financial Accounting Standards (SFAS) 123(R) stock option expensing proposal in 2004. Additionally, Ang et al. (2000) utilised this theory in their investigation of Australian public companies’ incentives to lobby against the Australian Accounting Standards Board’s (AASB) proposed superannuation standard AASB 1028 *Employee Benefits*.

Although the positive theory of standard setting has been applied in several studies in explaining lobbying behaviour, it can be critiqued since the assumption of individuals’ self-interest can be challenged by stewardship theory or stakeholder theory. By utilising these theories, it can be argued that managers’ decisions to lobby accounting standard development projects can also be driven by the motives of their stakeholders’ interests.

2.5.2 Capture theory

Capture theory has also been used in the field of accounting standard setting (Chalmers et al., 2012; Cortese, 2011; Cortese et al., 2010; Walker, 1987). Within the spectrum of regulation theories, capture theory assumes that “although the purpose of regulation is to protect the public interest, this goal is not necessarily achieved because the regulatee controls or dominates the regulator and is able to assure that its private interest dominates the public interest” (Chalmers et al., 2012, p. 1014). For example, Cortese

et al.'s (2010) study on the development of IFRS 6 *Exploration for and Evaluation of Mineral Resources* showed that the IASB has been captured by extractive industry constituents. In addition to Cortese et al. (2010), Chalmers et al.'s (2012) study incorporated capture theory to explain general purpose water accounting standards development in Australia.

Despite its use within the accounting literature, capture theory has not been widely used to describe the standard setting of the IASB. Based on the mixed research evidence provided in section 2.3 of the Literature Review regarding the existence of significant interest group influence during international accounting standard setting, it can be argued that the notion of regulatory capture may, or may not apply to the IASB's standard setting. However, capture theory cannot be overlooked in determining a potential theoretical framework for explaining the IASB's standard development because the theory has previously been successfully applied within the international accounting standard development context.

2.5.3 Public interest theory

At the other end of the spectrum of regulation theories is public interest theory. This theory suggests that the regulator (the standard setter in this case) is an 'infallible entity' that is not vulnerable to political influences (Abela and Mora, 2012, p. 150; Dellaportas and Davenport, 2008, p. 1093). According to Zeff (2002, p. 43), political influences in accounting standard setting refer to "self-interested considerations or pleadings by preparers and others that may be detrimental to the interests of investors and other users".

It is important for the IASB to protect itself from political influences and serve the public interest. However, since the IASB is largely privately funded, concerns have been raised in the existing literature regarding the impact of corporate funding on its commitment to the public interest. As an example, Larson and Kenney (2011, p. 6) question the vulnerability of the IASB to 'influence-buying' by large businesses, along with concerns that contributions from large companies may be detrimental to the public interest.

Larson and Kenny's (2011) questioning of the IASB's vulnerability to private interest is complemented by Abela and Mora (2012), who suggest that assumptions underlying public interest theory are unlikely to hold in reality. Depicting a stance contradictory to Abela and Mora (2012), Chalmers et al.'s (2012) investigation into Australian general-purpose water accounting standard setting implies that formalised accounting standards can serve the public interest by providing quality and credible financial information for both internal and external stakeholders.

2.5.4 Legitimacy theory

The theoretical lens of legitimacy has been incorporated in multiple studies on accounting standard setting (Bamber and McMeeking, 2016; Larson and Kenny, 2011). Legitimacy theory suggests that organisations continually "seek to ensure that they operate within the bounds and norms of their respective societies" (Brown and Deegan, 1998, p. 22). According to Bamber and McMeeking (2016), legitimacy theory is built upon the principle of neutrality. Consequently, if a standard setter favours one

stakeholder group over another, the act of favouring one stakeholder over another will negatively impact stakeholders' perception of its procedural legitimacy. Bamber and McMeeking's (2016) study on the development of IFRS 7 *Financial instruments: Disclosures* noted concerns depicting accounting firms as an IASB favoured interest group in literature, but observed influence by accounting firms to be of limited statistical significance. Also, the study noted that the IASB had acted fairly and objectively, which are two desirable elements for maintaining the IASB's procedural legitimacy.

2.5.5 Resource dependence theory

Within existing research concerning interest group influence on international accounting standard setting, the utilisation of resource dependence theory is evident in studies by Cortese and Irvine (2010) and Kenney and Larson (1993). Fundamentally, resource dependence theory suggests that entities are not self-contained nor self-sufficient, and therefore they rely on the external environment for much needed resources (Pfeffer and Salancik, 1978, as cited in Kassinis and Vafeas, 2006). Expanding this core principle, resource dependence theory suggests that "organizational behaviours become externally influenced because the focal organization must attend to the demands of those in its environment that provide resources necessary and important for its continued survival" (Pfeffer, 1982, as cited in Frooman 1999, p. 200).

Amongst the studies that have incorporated the principles of resource dependence theory, Cortese and Irvine (2010) obtained insights into the IASB's funding arrangements and questioned whether the IASB can produce a democratic and unbiased standard setting when it is largely financed by those who are required to comply with the standards it sets. Expanding their discussion, Cortese and Irvine (2010, p. 91-92) stated that the "relative resource dependency of the IASB lends weight to the inference that the IASB's due process could be covertly influenced by powerful constituents". Similar to Cortese and Irvine (2010), Kenney and Larson (1993) referred to the former international accounting standard setter, the IASC's dependence on external financial contributions. Although these two studies have considered the international accounting standard setter's dependence on funding/contributions, the IASB's resource dependence can be attributed to both monetary and non-monetary resources.

The applicability of resource dependence theory in accounting standard setting lies in its ability to demonstrate how interest groups benefit the resource dependent IASB by providing much needed monetary (e.g. funding) or non-monetary resources (e.g. legitimacy, professional labour). In turn, resource dependence theory can demonstrate how the IASB's dependence on interest groups' inputs can lead the standard setter to accommodate the requests of interest groups, who provide the IASB with much needed resources.

The preceding discussion indicates that research in accounting standard setting can be framed by different theories including the positive theory of standard setting, capture theory, public interest theory, legitimacy theory and resource dependence theory. These theories are assessed later in the Results and Discussion chapter to determine the most suitable theoretical explanation based on the findings of this study.

3.0 METHODOLOGY

This study adopts a content analysis research method. Content analysis involves the collection of qualitative data, which is then analysed through qualitative and quantitative data analysis techniques (Creswell and Clark, 2011). Known as one of the most popular, fast-growing research techniques, content analysis can be utilised by researchers for recognising and documenting attitudes, interests and views of individuals and groups, amongst other areas of inquiry (Drisko and Maschi, 2016; Neuendorf, 2016). Content analysis has a number of advantages. Firstly, with the availability of pre-collected data, content analysis assists researchers working within a limited timeframe to save valuable time and professional labour that would have been expended in collecting data (Waltz, 2005). Secondly, conducting content analysis can be regarded as a favourable step towards maximising the internal validity of the study since it eliminates reactivity threats that emerge due to the likelihood of research subjects changing their normal behavior under research conditions. Thirdly, content analysis provides researchers with data sources covering longer time frames (Waltz, 2005).

Many studies that have investigated interest group lobbying during international accounting standard setting have used content analysis of comment letters (Giner and Arce, 2012; Cortese et al., 2010; Larson and Brown, 2001). According to Kosi and Reither (2014), empirical research has primarily investigated interest group participation in standard setting through the lens of comment letter submissions since formal participation has become paramount under the IASB and its independent board members. In addition, analysis of comment letters is ideal for studies seeking to investigate interest group influence since comment letters have been recognised by scholars as being capable of significantly influencing the accounting standards (Hansen, 2011, as cited in Kosi and Reither, 2014). Moreover, financial statement preparers' and users' perceived effectiveness of lobbying through comment letter submissions further justifies the analysis of comment letters in investigating interest group influence on the IASB (Georgiou, 2010; Georgiou, 2004).

Having identified the analysis of comment letters as an established research approach in the existing literature (Giner and Arce, 2012; Cortese et al., 2010; Larson and Brown, 2001), this study utilises content analysis of comment letters to answer the two research questions on interest group influence. Specifically, this study analyses all 327, publicly available comment letters corresponding to the expected credit loss models set out in the 2009 exposure draft and the 2011 supplementary document of the IFRS 9 impairment phase, that had reached the standard setter by the submission deadlines. This analysis enables the capture of possible interest group influences from the publication of the first exposure draft of the impairment phase in 2009 until the publication of the final exposure draft in 2013. Interest group influence between the publication of the 2013 exposure draft and the finalised IFRS 9 in 2014 has not been investigated in this study as the two documents exhibit only minor differences.

In addition to examining comment letters directed at the 2009 and 2011 proposals, the current study also analyses the IASB's expert advisory panel meeting summary document containing inputs by preparers and accounting practitioners about the 2009 proposal, and two IASB outreach activity documents

containing inputs put forward by interest groups for the 2009 and 2011 proposals.¹⁰ This additional analysis is conducted to account for interest group influence exerted through all observable avenues of formal consultation during the international accounting standard setting process.

Techniques that formulate the methodology of content analysis have been increasing in both usage and variety (Neuendorf, 2002). Despite the availability of numerous techniques, this study primarily follows the guidelines in Krippendorff's (2013; 2004) *Content Analysis: An Introduction to Its Methodology*, since it is the most cited guide to content analysis as a research methodology (Dumay and Cai, 2015). Based on insights obtained from Krippendorff's (2013) guide, a four-step content analysis approach consisting of (1) unitizing, (2) sampling, (3) coding and reducing data to manageable representations, and (4) abductively inferring contextual phenomena, is followed in the current study prior to narrating the answers to the research questions (Krippendorff, 2013).

3.1 Unitizing

Unitizing is the process where “the researcher draws relevant distinctions within an observational field” and creates a multiplicity of units for analysis (Krippendorff, 2013, p. 98). Texts may be divided into various units from alphabetical characters to whole documents, and content analysts should demonstrate that the information required for the analysis is represented in the collection of units (Krippendorff, 2004). In this study, two different units of analysis are selected for three types of chosen documents (comment letters, expert advisory panel summary, outreach summaries) to distinguish between different interest group inputs presented to the IASB.

Firstly, in analysing IASB documents on outreach activities, this study recognises sections (either single or multiple paragraphs) that had already been categorised by the IASB to clearly distinguish different interest group inputs as units of analysis. Secondly, in analysing the IASB document summarising expert advisory panel meetings, the whole document is considered as a unit of analysis since its entire contents have been presented as the summary of inputs put forward by two different interest groups consisting of preparers and accounting practitioners. Similarly, each interest group representative's comment letter submission (whole document) is considered as a unit of analysis since the content of each comment letter represents the input of a single interest group.

In general, each unit of analysis represents inputs from one interest group classification amongst *preparers from financial institutions, preparers from non-financial institutions, accounting practitioners, financial statement users, standard setters, regulatory bodies, and the miscellaneous group (which consists of all other interest groups such as academics and other interested individuals etc.)*. The expert advisory panel summary document is the only exception with the unit of analysis containing indistinguishable inputs from both financial statement preparers and accounting practitioners. The stated approach to interest group classification complements and expands Larson's (2007) classification of four interest groups consisting of preparers, users, accounting practitioners and

¹⁰ Outreach activities consists of several other stakeholder interaction avenues created by the IASB, including discussion forums, meetings, and webcasts amongst others (Deloitte Global Services Limited, 2016).

regulators. The reclassification of preparers to represent *financial institution* and *non-financial institution*, the separation of regulators into *regulatory bodies* and *standard setters*, combined with the addition of the *miscellaneous* interest group is introduced to add more depth to the data analysis.

3.2 Sampling

Sampling allows the researcher to “economize on research efforts by limiting observations to a manageable subset of units that is statistically or conceptually representative of the set of all possible units, the population or universe of interest” (Krippendorff, 2004, p. 84). Although sampling provides researchers with practical and efficient means for data collection and analysis, it also paves the way for sampling errors that arise when the sample “does not perfectly represent the population” and sampling bias that arises when the sample “varies in some systematic way from the larger population” (Wrenn et al., 2002, p. 159). To overcome these limitations, the current study incorporates the entire population of the 327 publicly available comment letters that had been submitted to the standard setter in response to the 2009 exposure draft and the 2011 supplementary document by the respective deadlines.

3.3 Coding and reducing data to manageable representations

According to Krippendorff (2013, p. 127), coding is researchers’ interpretation of “what they see, read or find”. Coding also involves researchers stating their experience in formal terms and in accordance with observer-independent rules. This crucial step is succeeded by data reduction, which is carried out by researchers to achieve efficient representations of large volumes of data (Krippendorff, 2013). In this study, manual coding is chosen over computer assisted coding since, unlike qualitative research software that is limited to a number of pre-programmed basic functions, manual coding places the researcher in charge of critically interpreting the meaning of texts (Bucy and Holbert, 2013). Despite this advantage, manual coding is unlikely to be feasible in managing and categorising a large amount of data from a considerable number of sources. To overcome this limitation, the current study conducts manual coding through Nvivo 11, with the software incorporated to assist the researcher in organising and managing the large amount of manually coded data from the 327 comment letters, one expert advisory panel meeting summary document and two IASB outreach activity documents.

In answering research question one, which investigates if any interest group had significant influence on the IASB, the compatibility of each comment letter participant’s overall position with the key themes representing the change in the subsequent proposal were coded as either explicitly agree ‘+1’, explicitly disagree ‘-1’ or no opinion ‘0’. This quantification approach of qualitative data for statistical analysis was introduced after reviewing identical approaches that were followed by a number of previous studies including Giner and Arce (2012) and Kowk and Sharp (2005).

To further clarify the coding approach, the researcher reviewed the comment letter responses received for the 2009 proposal and located inputs related to the identified three key themes which distinguish the proposed model (2009 proposal) with its successor (2011 proposal). Amongst these inputs, concerns, requests for changes, or disagreements regarding the guidelines in the 2009 proposal were coded as ‘+1’

under the respective themes. Furthermore, respective themes were coded as ‘-1’ if there was acceptance of the proposed guideline in the 2009 exposure draft with no concerns or disagreements. In addition, a ‘0’ was assigned to the respective themes if there was no explicit position, if there were ambiguous arguments, or if there were no inputs regarding the guidelines presented in the 2009 proposal. The same process was followed in analysing the responses received for the 2011 supplementary document.

Subsequently, binomial testing was conducted in SPSS to determine whether the IASB had aligned itself with a majority of participants’ inputs. This test was incorporated into the current study following a review of the identical approach utilised by Giner and Arce (2012) and Kowk and Sharp (2005). Following binomial testing, frequencies and percentages of each interest group’s influence (represented by inputs coded ‘+1’) were calculated through SPSS. This step identified the interest group with the highest number of comment letter submissions representing influence for each of the key themes which differentiate IASB’s three proposals.

The frequencies of comment letters with influence do not alone reveal if there had been interest groups with significant influence since high frequencies of influence may have resulted from a substantial amount of comment letters submitted by a certain interest group. To address this concern during the assessment of significant influence, Fisher’s exact test was introduced with each interest group’s proportional representation amongst the population of comment letters submitted for each proposal factored into the expected frequencies calculation. For example, preparers from financial institutions represented 57 out of the total of 147 comment letters received for the IASB’s proposed model in 2009, and the expected frequency calculation of influence in this scenario has resulted in preparers representing 21.9 responses of the 51 total observed influence.¹¹ Fisher’s exact test was chosen for the current study for assessing significance in comparison to chi-square testing, since some of the expected frequencies of influence calculated for each interest group breach an assumption of chi-square testing by failing to meet the minimum expected frequency of 5 (Gravetter and Wallnau, 2007).

The three documents containing the expert advisory panel inputs and inputs obtained through the IASB outreach activities were excluded from the preceding data analysis which addresses the first research question. These three documents were excluded from the assessment of significant influence since the level of influence exerted by multiple preparers during the expert advisory panel meetings, or by multiple users during IASB’s outreach activities, cannot be considered to match the level of influence exerted through an individual comment letter contained within the analysis. However, the expert advisory panel summary document and the two IASB outreach activity documents was included in the data analysis addressing the second research question.

In addressing research question two that investigates the arguments put forward by interest groups who have influenced the IASB, all responses coded as ‘+1’ amongst all 330 documents were manually

¹¹ 21.9 had been derived by multiplying the 57/147 proportional representation of financial institutions, by the 51 total influence observed amongst the 147 responses.

analysed, and categorised through Nvivo 11.¹² The following data analysis process was initiated by incorporating guidance from a number of texts including Flick (2013) and Silverman (2016). As the first step of this data analysis process, line-by-line analysis of the content of each response was conducted to identify portions of data which relate to the key themes identified in the subsequent IASB proposal. This step was followed by open coding to provide a one-word or two-word summary of each portion of data. As the third step, a list of codes was constructed by the researcher prior to locating similar and redundant codes, and reducing the number of codes.

The above process was followed by constant comparisons, where the researcher referred back to the original data to check if the new codes matched with the data. Subsequently, closed coding was performed to identify the overarching themes or categories that group the open codes. Once closed coding had been conducted, specific sentences/phrases were quoted from the content that makes up the themes and were examined for any relationships between themes. The same process was continued for the remaining documents within the same interest group classification to compare themes across different participant inputs.

3.4 Abductively inferring contextual phenomena

The application of inferences distinguishes content analysis from other forms of empirical research techniques since inferences are considered to extract what may be concealed in the human coding process (Dumay and Cai, 2015). Building upon Krippendorff's (2013) insights, Dumay and Cai (2014) argued that deductive inferences do not unveil what is included in texts or their meaning, whilst inductive inferences which are built upon the probability of a hypothesis being true could give rise to false conclusions.¹³ In comparison with deductive and inductive approaches, Krippendorff (2013) advocates abductively inferring contextual phenomena to eliminate the gap between descriptive accounts and meanings of texts, and directs the research lens towards unobserved phenomena which are of interest to the researcher. To simplify, abductive inferencing involves the consideration of every possible theoretical explanation for the data and seeking to uncover the most plausible explanations (David and Sutton, 2011). Following Krippendorff (2013), the current study has refrained from initially basing the investigation within a pre-specified theoretical framework. Instead, the current study perused multiple theoretical rationales to identify the most logical explanations for the insights derived from the content analysis.

3.5 Reliability and Validity

Content analysis is a method which requires researchers to establish a compelling case for its reliability, which is itself defined as "the extent to which measuring a procedure yields the same results on repeated

¹² 330 documents refer to 327 comment letters, one IASB Expert Advisory Panel meeting summary document and two outreach activity summary documents.

¹³ Deductive inferences "goes from the general to the specific and consists of a major premise, a minor premise and a conclusion" (Dumay and Cai, 2014, p. 130). Inductive inference involves "proceeding from particular propositions, such as a sample of observations, to general propositions, such as to statistical generalizations of that sample" (Krippendorff, 2013, p. 384).

trials” (Potter and Levine-Donnerstein, 1999, Neuendorf, 2002, p. 112). Krippendorff (2004) and Dumay and Cai (2015) have proposed several recommendations to enhance the reliability of content analysis. Representing a number of these recommendations, the current study established specific coding instructions agreed upon by the researcher and the two supervisors, and initiated a pilot testing session to ensure that an acceptable level of coding is produced throughout the entire coding process.

Importantly, the current study contains an inter-coder reliability test involving three coders (researcher and the two supervisors), which was introduced to demonstrate the replicability of this study. By establishing two different coder combinations for each proposal to enhance robustness, the researcher (first coder) and the second coder analysed and coded eight responses attributed to the 2009 proposal, whilst the researcher and the third coder analysed and coded nine responses attributed to the 2011 proposal. This sum of 17 responses represented a 5% sample of the population of 330 documents.¹⁴ Based on insights obtained from Neuendorf (2002), the 0.715 and 0.737 Cohen’s kappa reliability coefficients derived for the coded samples of 2009 exposure draft and 2011 supplementary document responses represent good inter-coder agreement beyond chance.

Validity is described as “the extent to which a measuring procedure represents the intended, and only the intended, concept” (Neuendorf, 2002, p. 112). According to Drisko and Maschi (2016, p. 46), coding systems in most content analysis is considered ‘face valid’ since the data can be observed to fit with its interpretation. Consequently, attempts to further establish validity is rarely seen in published accounts of content analysis (Drisko and Maschi, 2016). Additional forms of validity such as predictive validity and construct validity can be achieved through theory utilisation (Potter and Levine-Donnerstein, 1999). However, Wood and Ross-Kerr (2010) explained that most exploratory studies cannot exceed face validity since they are not established upon theoretical or conceptual frameworks. Hence, the current study, given its exploratory nature, has primarily relied upon the establishment of face validity of the content analysis.

¹⁴ There is no set sub-sample size for reliability measurements in content analysis (Neuendorf, 2016).

4.0 RESULTS AND DISCUSSION

The initial analysis of the 2009 exposure draft, 2011 supplementary document and the 2013 exposure draft provided in the Background (specifically section 1.2) identified six key changes that differentiate the three proposals. The following results demonstrate how different interest groups have influenced the IASB to produce those six key changes.

4.1 Comment letter participants

As presented in *Table 3*, the 2009 exposure draft attracted 147 comment letters. Approximately 53% of the comment letters were submitted by financial statement preparers, with financial institution and non-financial institution preparers representing 38.8% and 14.3% of the comment letter participants respectively. Aside from preparers, accounting practitioners, standard setters and regulatory bodies represented 19.7%, 11.6%, and 6.1% of the comment letter participants respectively. Notably, financial statement users only accounted for 5.4% of the total participants.

Table 3: Comment Letter Submission for the 2009 Exposure Draft

Interest group	Frequency	Percentage
Preparers – Financial Institutions	57	38.8%
Preparers – Non Financial Institutions	21	14.3%
Accounting Practitioners	29	19.7%
Financial Statement Users	8	5.4%
Standard Setters	17	11.6%
Regulatory Bodies	9	6.1%
Miscellaneous	6	4.1%
TOTAL	147	100%

Based on the data presented in *Table 4*, financial statement preparers represented the major group for the 2011 proposal. The majority (53.9%) of the comment letters were submitted by financial institution preparers and 10.6% of the letters were from non-financial institution preparers. Accounting practitioners constituted the second largest group (14.4%). Standard setters, regulatory bodies and financial statement users represented 7.2%, 5% and 1.1% of the participants, respectively.

Table 4: Comment Letter Submission for the 2011 Supplementary Document

Interest group	Frequency	Percentage
Preparers – Financial Institutions	97	53.9%
Preparers – Non Financial Institutions	19	10.6%
Accounting Practitioners	26	14.4%
Financial Statement Users	2	1.1%
Standard Setters	13	7.2%
Regulatory Bodies	9	5.0%
Miscellaneous	14	7.8%
TOTAL	180	100%

4.2 IASB's alignment with interest group's preferences

Following Kwok and Sharp (2005), binomial testing was performed for each of the three identified key changes between the 2009 and 2011 proposals and for the three key changes between the 2011 and 2013 proposals. Binomial tests were utilised to assess whether the IASB aligned itself with the opinions of the majority of comment letter participants who had explicitly stated their preferences.

4.2.1 The 2009 Exposure Draft – The 2011 Supplementary Document

As illustrated in *Table 5* below, the numbers of comment letters that expressed explicit agreement (influence) with each of the three identified changes between the 2009 and 2011 proposals significantly ($p < 0.001$) exceeded the numbers of comment letters that explicitly disagreed (no influence) with the three changes. These key changes had emerged through basing the scope of the 2011 proposal on open portfolios, decoupling the credit loss integrated effective interest rate, and through grouping financial instruments for determining the expected credit loss provisions. This observed difference between explicit agreement and disagreement indicates that the IASB had been influenced by the stated preferences of the majority of comment letter participants.

To further clarify, for each of the three key changes between the 2009 and 2011 proposals, the IASB agreed with the inputs of over 80% (shown in the Observed Proportions column in *Table 5*) of the participants who held an explicit position on the subject matter regarding the change. The results also revealed that for each of the three key changes, the number of participants who represented the majority opinion of agreement with the change was significantly ($p < 0.001$) greater than the number of participants who represented the minority opinion of disagreement with the change.

Table 5: Binomial Tests for Key Changes between the 2009 and 2011 Proposals

Panel A Open Portfolios				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	51	0.86	0.50	0.000***
Disagreement with the change	8	0.14		
Total	59	1.00		
Panel B Effective Interest Rate Decoupling				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	70	0.89	0.50	0.000***
Disagreement with the change	9	0.11		
Total	79	1.00		
Panel C Grouping				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	57	0.85	0.50	0.000***
Disagreement with the change	10	0.15		
Total	67	1.00		

*** $p < 0.001$

4.2.2 The 2011 Supplementary Document – The 2013 Exposure Draft

Binomial tests performed on each of the three changes between the 2011 and 2013 proposals indicate that the IASB had aligned itself with a majority of the comment letter participants' preferences. The results in *Table 6 - Panel A* indicate no significant difference between the number of participants that agreed with the change in financial instrument classification in the subsequent proposal and the number of those who disagreed with the change. Despite this lack of statistical significance ($p > 0.05$) between the two groups, the IASB had aligned itself with the inputs put forward by the 54% (74 out of 136) majority who held an explicit position on the theme of classification.

In comparison, *Table 6 - Panel B* indicates a significant ($p < 0.001$) difference between the number of participants who explicitly agreed and the number of participants who disagreed with the elimination of the dual calculation requirement of financial instruments that were excluded from the immediate recognition of lifetime expected credit losses. Similarly, *Table 6 - Panel C* demonstrates a significant ($p < 0.001$) difference in the numbers of the groups agreeing and disagreeing with respect to the elimination of the requirement of calculating expected credit losses in the foreseeable future (no less than 12 months). In addition, both *Panels B and C* of *Table 6* present that the IASB had aligned itself with the positions of 89% (66 out of 74) and 67% (87 out of 130) of the participants who held explicit positions regarding the dual calculation and foreseeable future requirement respectively.

Table 6: Binomial Tests for Key Changes between the 2011 and 2013 Proposals

Panel A Classification				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	74	0.54	0.50	0.346
Disagreement with the change	62	0.46		
Total	136	1.00		

Panel B Dual Calculation				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	66	0.89	0.50	0.000***
Disagreement with the change	8	0.11		
Total	74	1.00		

Panel C Foreseeable Future Floor				
Category	N	Observed Proportion	Test Proportion	Exact Significance
Agreement with the change	87	0.67	0.50	0.000***
Disagreement with the change	43	0.33		
Total	130	1.00		

*** $p < 0.001$

4.3 Has significant influence been exerted by any interest group on the IASB during the development of the IFRS 9 expected credit loss model?

4.3.1 The 2009 Exposure Draft – The 2011 Supplementary Document

4.3.1.1 Changing the scope of the proposal to open portfolios

As shown in *Table 7*, 51 out of the 147 comment letter participants presented arguments for basing the scope of the proposal on open portfolios. In comparison, eight participants submitted arguments which contradict the change in the scope of the subsequent proposal to open portfolios. The remaining 88 comment letters contained no explicit opinion.

Table 7: Influence of Interest Groups - Open Portfolios

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	32	24	1	57
Preparers – Non Financial Institutions	3	17	1	21
Accounting Practitioners	5	23	1	29
Financial Statement Users	0	6	2	8
Standard Setters	7	10	0	17
Regulatory Bodies	4	3	2	9
Miscellaneous	0	5	1	6
TOTAL	51	88	8	147

Notably, preparers from financial institutions held a 62.75% representation (32 out of 51) of the participants whose inputs were included in the subsequent proposal. This was followed by standard setters with a mere representation of 13.72% (7 out of 51).

To assess the presence of significant influence, Fisher's exact test was conducted by factoring in each interest group's percentage representation in the population of 147 comment letters into the expected value calculation. The exact significance value of 0.023 ($p < 0.05$) in *Table 8* represents that significant influence had been exerted by interest groups in influencing the IASB to introduce a proposal applicable to open portfolios.

Table 8: Fisher's Exact Test - Open Portfolios

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	32	21.9	10.1	0.023*
Preparers – Non Financial Institutions	3	8.1	-5.1	
Accounting Practitioners	5	11.1	-6.1	
Standard Setters	7	6.5	0.5	
Regulatory Bodies	4	3.4	0.6	

* $p < 0.05$

4.3.1.2 Decoupling of the expected credit loss integrated effective interest rate

As per *Table 9*, 70 of the 147 comment letters presented arguments in support of decoupling the expected credit loss integrated effective interest rate whilst only nine submissions favoured the integration of credit loss expectations into the effective interest rate calculation. The remaining 68 participants had not put forward an explicit position on the proposed effective interest rate calculation.

Table 9: Influence of Interest Groups - Effective Interest Rate Decoupling

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	40	16	1	57
Preparers – Non Financial Institutions	6	14	1	21
Accounting Practitioners	8	20	1	29
Financial Statement Users	4	2	2	8
Standard Setters	8	9	0	17
Regulatory Bodies	3	3	3	9
Miscellaneous	1	4	1	6
TOTAL	70	68	9	147

Preparers from financial institutions again showed a high representation (40 out of 70) amongst those who influenced the IASB. This was followed by standard setters and accounting practitioners, with each interest group holding an 11.43% (8 out of 70, for both groups) representation amongst the comment letters that influenced the IASB in decoupling the integrated effective interest rate.

Fisher's exact test was conducted to assess if significant influence had been exerted by any interest group on the IASB in the lead-up to decoupling the integrated effective interest rate. As presented in *Table 10*, each interest group's proportional representation was factored into the expected value calculation of the Fisher's exact test. The calculated exact significance of 0.067 ($p > 0.05$) suggests that interest group influence on the IASB with respect to decoupling the effective interest rate was insignificant.¹⁵

Table 10: Fisher's Exact Test - Effective Interest Rate Decoupling

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	40	27.1	12.9	0.067
Preparers – Non Financial Institutions	6	10	-4.0	
Accounting Practitioners	8	13.8	-5.8	
Financial Statement Users	4	3.8	0.2	
Standard Setters	8	8.1	-0.1	
Regulatory Bodies	3	4.3	-1.3	
Miscellaneous	1	2.9	-1.9	

¹⁵ Exact significance of 0.067 is marginally significant at $p < 0.10$. However, this study has established the 'customary' p value of 0.05 as the cut-off point for determining significance to deliver a consistent assessment of statistical significance across all six key changes (Lavrakas, 2008, p. 18).

4.3.1.3 Grouping of financial instruments

Based on the results in *Table 11*, 57 of the 147 participants provided inputs in favour of grouping financial instruments for determining the allowance for expected credit losses. In contrast, 10 participants put forward arguments that contradicted the grouping of financial instruments for determining the allowance for expected credit losses whilst the remaining 80 participants held no explicit opinion.

Table 11: Influence of Interest Groups - Grouping

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	29	27	1	57
Preparers – Non Financial Institutions	6	13	2	21
Accounting Practitioners	9	19	1	29
Financial Statement Users	3	3	2	8
Standard Setters	7	9	1	17
Regulatory Bodies	2	5	2	9
Miscellaneous	1	4	1	6
TOTAL	57	80	10	147

Preparers from financial institutions held a majority representation of 50.88% (29 out of 57) of the participants that influenced the IASB to introduce grouping of financial instruments for determining the allowance for expected credit losses. In comparison, the second highest level of influence was exerted by the accounting practitioners with a representation of 15.80% (9 out of 57).

Fisher's exact test was executed for the 57 comment letters representing influence, with each interest group's proportional representation in the 147 comment letters factored into the expected value calculation. Based on the exact significance of 0.598 ($p > 0.05$) presented in *Table 12*, it was not evident that any interest group had exerted significant influence on the IASB to introduce the grouping of financial instruments for determining the allowance for expected credit losses.

Table 12: Fisher's Exact Test - Grouping

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	29	22.1	6.9	0.598
Preparers – Non Financial Institutions	6	8.1	-2.1	
Accounting Practitioners	9	11.2	-2.2	
Financial Statement Users	3	3.1	-0.1	
Standard Setters	7	6.6	0.4	
Regulatory Bodies	2	3.5	-1.5	
Miscellaneous	1	2.3	-1.3	

4.3.2 The 2011 Supplementary Document – The 2013 Exposure Draft

4.3.2.1 Changing the classification of financial instruments

As per *Table 13*, 74 of the 180 comment letter participants sought to amend the good book/bad book classification. In comparison, 62 participants stated their preference for utilising the good book/bad book approach whilst the remaining 44 participants were identified as having ambiguous arguments or no explicit opinion on changing the proposed classification.

The 74 participants whose inputs were incorporated into the subsequent proposal had a 55.40% (41 out of 74) majority representation of financial statement preparers from financial institutions, followed by accounting practitioners with a 17.56% (13 out of 74) representation. These figures place financial institutions well ahead of other interest groups in terms of exerting influence.

Table 13: Influence of Interest Groups - Classification

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	41	17	39	97
Preparers – Non Financial Institutions	6	9	4	19
Accounting Practitioners	13	8	5	26
Financial Statement Users	2	0	0	2
Standard Setters	2	2	9	13
Regulatory Bodies	3	4	2	9
Miscellaneous	7	4	3	14
TOTAL	74	44	62	180

In assessing the presence of any significant influence, each interest group's percentage representation in the population of 180 comment letters was factored into the expected value calculation for the Fisher's exact test. As per *Table 14*, Fisher's exact test was conducted for the 74 responses that had sought to amend the good book/bad book classification. Based on the exact significance of 0.512 ($p > 0.05$), it can be concluded that there had been no statistically significant difference amongst interest groups who had influenced the IASB to amend the good book/bad book classification of financial instruments.

Table 14: Fisher's Exact Test - Classification

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	41	39.9	1.1	0.512
Preparers – Non Financial Institutions	6	7.8	-1.8	
Accounting Practitioners	13	10.7	2.3	
Financial Statement Users	2	0.8	1.2	
Standard Setters	2	5.3	-3.3	
Regulatory Bodies	3	3.7	-0.7	
Miscellaneous	7	5.8	1.2	

4.3.2.2 Reducing the dual calculation to a single calculation

As per *Table 15*, contained within the 180 comment letters were 66 participants who had put forward arguments in support of changing the dual calculation requirement, whilst eight participants' inputs

disagreed with the change in the subsequent proposal. The remaining 106 participants did not hold an explicit position on the proposed dual calculation approach.

The majority participants who presented arguments for changing the dual calculation requirement were financial statement preparers from financial institutions, with a notable 68.18% (45 out of 66) representation. This was followed by preparers from non-financial institutions, with a 13.64% (9 out of 66) representation.

Table 15: Influence of Interest Groups - Dual Calculation

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	45	49	3	97
Preparers – Non Financial Institutions	9	9	1	19
Accounting Practitioners	5	20	1	26
Financial Statement Users	0	1	1	2
Standard Setters	5	7	1	13
Regulatory Bodies	0	9	0	9
Miscellaneous	2	11	1	14
TOTAL	66	106	8	180

As per the Fisher's exact test demonstrated in *Table 16*, each interest group's percentage representation in the population of 180 comment letters was factored into the expected value calculation when assessing significant influence. Based on the exact significance of 0.162 ($p > 0.05$), it can be concluded that there was no significant influence by any interest group in amending the dual calculation requirement.

Table 16: Fisher's Exact Test - Dual Calculation

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	45	37.9	7.1	0.162
Preparers – Non Financial Institutions	9	7.4	1.6	
Accounting Practitioners	5	10.2	-5.2	
Standard Setters	5	5.1	-0.1	
Miscellaneous	2	5.5	-3.5	

4.3.2.3 Elimination of the foreseeable future floor

As illustrated in *Table 17*, support for the elimination of the foreseeable future floor was presented in 87 of the 180 comment letters. Conversely, 43 participants stated their preference for the foreseeable future floor, whilst 50 comment letters did not present an explicit position.

The results indicate that preparers from financial institutions have, again, emerged as the leading interest group amongst those who influenced the IASB with 58.62% (51 out of 87) representation, followed by the accounting practitioners with a representation of 16.09% (14 out of 87) of participants who exerted influence.

Table 17: Influence of Interest Groups - Foreseeable Future Floor

Interest Group	Agreement with the Change	No Explicit Opinion	Disagreement with the Change	TOTAL
Preparers – Financial Institutions	51	26	20	97
Preparers – Non Financial Institutions	6	10	3	19
Accounting Practitioners	14	4	8	26
Financial Statement Users	1	0	1	2
Standard Setters	6	6	1	13
Regulatory Bodies	3	1	5	9
Miscellaneous	6	3	5	14
TOTAL	87	50	43	180

As per the results in *Table 18*, Fisher’s exact test (factoring in each interest group’s proportional representation in the 180 comment letter population) has produced an exact significance value of 0.912 ($p > 0.05$), indicating no statistical significance amongst interest groups in exerting influence to eliminate the foreseeable future floor.

Table 18: Fisher's Exact Test - Foreseeable Future Floor

Interest Group	Observed N	Expected N	Residual	Exact Sig.
Preparers – Financial Institutions	51	46.9	4.1	0.912
Preparers – Non Financial Institutions	6	9.2	-3.2	
Accounting Practitioners	14	12.6	1.4	
Financial Statement Users	1	1.0	0.0	
Standard Setters	6	6.3	-0.3	
Regulatory Bodies	3	4.4	-1.4	
Miscellaneous	6	6.8	-0.8	

4.4 Interest groups’ inputs through expert advisory panels and IASB’s outreach

4.4.1 The 2009 Exposure Draft – The 2011 Supplementary Document

4.4.1.1 Expert advisory panel

Overall, inputs put forward by expert advisory panel participants representing financial statement preparers and accounting practitioners expressed support for the three key changes between the 2009 and 2011 proposals, namely, producing an expected credit loss model applicable to open portfolios, decoupling the integrated effective interest rate, and grouping of financial assets for determining expected credit losses. Hence, expert advisory panel participants have influenced the standard setter to initiate all the three key changes identified between the 2009 exposure draft and the 2011 supplementary document.

4.4.1.2 IASB outreach

The IASB’s outreach sought inputs for the 2009 exposure draft from financial statement preparers and users. Overall, inputs put forward by preparers raised concerns about the integration of credit losses in

the effective interest rate. Furthermore, there were no recorded comments made by preparers during the IASB's outreach in regard to the grouping of financial assets or in regard to the proposed model's applicability to open portfolios. In comparison to financial statement preparers' inputs, financial statement users did not present an explicit position on any of the three key changes between the 2009 and 2011 proposals. Based on these observations, it can be concluded that inputs provided by financial statement preparers during the IASB's outreach period influenced the standards setter to introduce the decoupled effective interest rate through the 2011 proposal.

4.4.2 The 2011 Supplementary Document – The 2013 Exposure Draft

4.4.2.1 IASB - FASB outreach

The IASB - FASB outreach revealed that financial statement users, United States (US) based financial statement preparers and auditors had exerted influence on amending the good book/bad book classification by stating their disagreements and concerns. Conversely, preparers representing smaller US entities supported the proposed classification. Furthermore, users, non-US preparers and non-US auditors exerted influence by raising disagreement and concerns regarding the foreseeable future floor, whilst preparers representing smaller US entities were supportive of the proposal. Moreover, the proposed dual calculation requirement attracted disagreement from US preparers, non-US preparers and non-US auditors, whilst the remaining interest groups did not provide explicit opinions.

4.5 What were the arguments that influenced the IASB in developing the expected credit loss model of IFRS 9?

4.5.1 The 2009 Exposure Draft – The 2011 Supplementary Document

4.5.1.1 Changing the scope of the proposal to open portfolios

Responses submitted for the 2009 exposure draft proposal and the feedback from the expert advisory panel stressed the importance of introducing an expected credit loss model which is operational for financial instruments managed in open portfolios. Specifically, several preparers, the expert advisory panel, and a number of standard setters and regulatory bodies emphasised that financial institutions generally manage their portfolios on an open basis, where financial instruments continuously enter and exit the portfolio, thus changing the risk characteristics of the portfolio over time. Several interest groups stressed that the guidelines in the 2009 proposal were suited to closed portfolios and requested the IASB to propose guidelines which reflect how financial institutions manage their portfolios. An example of the inputs provided by the participants is provided below:

“The model should reflect the way banks manage their credit through ‘open portfolios’ where loans are assumed to enter and exit the books on a continuous basis. The proposed model does not conform to this principle, because continually reassessing net present values virtually requires loan-by-loan ‘closed’ portfolio analyses (following each specific loan throughout its life).”

4.5.1.2 Decoupling of the expected credit loss integrated effective interest rate

Many participants disagreed with the proposed inclusion of a credit risk integrated effective interest rate, citing operational, conceptual and cost concerns. Amongst these concerns, numerous preparers and the expert advisory panel members cited the incompatibility of the proposed integration of expected credit losses and the interest rate with existing business models. As illustrated by the following input, the concern over operational difficulty was raised by financial statement preparers.

“From a practical perspective, interest income is managed by systems on the basis of contractual interest rate, while expected loss is managed by a completely separate internal management system. Incorporating the latter into the former would require significant modifications to the systems used to manage interest income.”

Furthermore, the expert advisory panel predicted that the integrated effective interest rate proposed in the 2009 model would require a significant investment in merging the two systems. Aside from the presentation of operational and cost concerns, participants urged the IASB to decouple the expected credit loss integrated effective interest rate to aid the delivery of transparent and uncomplicated financial information.

4.5.1.3 Grouping of financial instruments

Participants argued that it is more suitable to recognise expected losses for groups/portfolios of financial instruments. Amongst the common reasons put forward to support the grouping of financial assets for expected credit loss recognition, one national standard setter emphasised that:

“...the estimate at inception of each individual financial asset would be that the full contractual payments would be received over the life of the asset”, whereas, “for a portfolio of assets the assessment would likely be different since it is expected, even at inception, that some of the contractual cash flows from the portfolio would not be received even though it may not be known which specific assets in the portfolio that will not perform.”

Supported by this reasoning, several participants argued that it is more suitable to group financial instruments for determining the allowance for expected credit losses. Additional arguments about the grouping of financial assets were put forward to address preparers’ operational concerns, with one entity, representing multiple banks, emphasising that expected losses are generally managed on a portfolio basis. Holding a similar stance, another representative of preparers stressed that “it is onerous to account for expected losses for an individual asset when the entity manages a large number of these”. Mirroring the guidelines of the subsequent proposal, the expert advisory panel members highlighted the credit risk management approach of most financial institutions, which groups the financial assets into good book/performing and bad book/non-performing loans. In addition, the expert advisory panel suggested two different expected credit loss provisioning approaches for the two groups with the suggestion of recognising the changes in credit loss expectations of good book assets over their lifetime, whilst recognising the changes in credit loss expectations of the bad book assets immediately. The IASB’s implementation of these suggestions is clearly evident in the 2011 supplement document.

4.5.2 The 2011 Supplementary Document – The 2013 Exposure Draft

4.5.2.1 Changing the classification of financial instruments

Unclear application guidelines and concerns regarding the alignment of the proposed classifications with existing business models have been the key arguments put forward by interest groups to amend the good book/bad book classification of the 2011 proposal. Multiple participants noted that the unclear application guidance of the proposed classification could lead to divergence in its interpretation, diminish the consistency of its application and compromise the comparability of information. In addition to the confusion surrounding the classification, some comment letters contained requests to clarify when the transfer of financial instruments between good book/bad book should occur. Moreover, some participants also highlighted that the proposed classification is vulnerable to manipulation, with one regulator stating that “given the current language of the proposal, that overly-optimistic (and possibly troubled) institutions may be inclined to include few or no financial assets in the ‘bad book’.”

Aside from the concerns raised due to unclear application guidelines, participants also emphasised the lack of alignment of the proposed classification with existing business models. As several preparers outlined, the requirement of differentiating between the two groups “would be difficult to apply for non-banking institutions that do not currently differentiate their assets in the same manner as described in the SD (supplementary document)” and, as a consequence, would result in “increased complexity and costs for non-banking institutions.”

4.5.2.2 Reducing the dual calculation to a single calculation

Many of the comment letter participants opposed the dual calculation requirement citing the need for additional resources and cost considerations associated with implementing new systems to conduct two expected credit loss calculations. In addition, some participants stated the likelihood of the dual calculation to produce a switch between the two approaches (time-proportional and foreseeable future) in the periods to follow would be misleading and may not provide useful financial information. These arguments are further explained in the following inputs provided by two financial statement preparers:

“Also, the proposed approach would result in the maintenance of two different financial reporting systems to support the calculation of expected losses over the foreseeable future period and time-proportional life-of-loan expected losses. Under the proposal, these two impairment models would be required to run concurrently. The development of all these new systems would require an enormous investment and significant amounts of time and resources to implement across the financial services industry.”

“The joint model (time-proportional with floor) combines two different concepts for the loan loss allowance. This results in the possibility that, within the same financial institution, the allowance is measured for some portfolios with the time-proportional approach and for other with the expected loss for the foreseeable future (floor). Additionally, this results in the risk of switching between those concepts over sub-sequent reporting periods. This would be misleading and would not result in useful information.”

4.5.2.3 Elimination of the foreseeable future floor

Amongst the comment letter participants, opposition for the foreseeable future floor was evident with a number of arguments citing conceptual weaknesses, operational issues and economic concerns. As argued by representatives of multiple interest groups including preparers and standard setters, the foreseeable future floor mechanism was likely to “lead to the recognition of a day-one credit loss which is not consistent with the economics of the lending activity”. Furthermore, comment letter participants have also argued that the proposed foreseeable future floor requirement “weakens the link to the IASB’s original ED (exposure draft) objective of aligning the impairment expense with economics of financial assets held at amortised cost”.

In addition to citing these conceptual weaknesses, participants opposed the requirement of a foreseeable future floor by highlighting its potential to cause an administrative burden for preparers and the costs of compliance as supporting arguments. Moreover, participants (including users who had participated in the outreach activities) stressed that the lack of a clear definition of ‘foreseeable future’ would result in different interpretations and lead to inconsistent application, which would compromise the comparability of financial information.

4.6 Discussion

Since the publication of the first exposure draft of the IFRS 9 impairment phase in 2009, the IASB introduced two subsequent proposals for recognising expected credit losses of financial instruments that were notably different from respective predecessors. It is evident from the binomial tests that the IASB had been influenced by the majority of participants who expressed explicit opinions regarding each of the six key changes that differentiate the proposals. Notably, the findings indicate that the IASB had been influenced by over 80% of the participants who held an explicit position across four of the six key changes. The remaining two changes relating to the amendment of classification and elimination of the foreseeable future floor had been respectively driven by a 54% (74 out of 136) and 67% (87 out of 130) majority of those who held an explicit position on the changes. These observations mirror the finding of Giner and Arce’s (2012, p. 677) investigation into the development of IFRS 2, which uncovered that “the IASB aligned itself with the preferences of the majority of comment letters”. By linking this observation with insights obtained from Larson (2007), the IASB’s conformity with the majority of participants can be regarded as a favourable step towards establishing its influence legitimacy.¹⁶

Despite the IASB’s positive shift towards influence legitimacy, it is arguable whether the international accounting standard setter had sufficient interest group involvement during the development of the IFRS 9 expected credit loss model. The reason for this uncertainty is the limited participation by financial statement users through comment letters, with only 5.44% (8 out of 147) and 1.11% (2 out of 180) of

¹⁶ As presented earlier in the Literature Review, influence legitimacy emerges “when a standard-setter includes constituents into its policy-making structures” and as a consequence, the standard setter “is supported because it is seen as being responsive to a constituent’s interests” (Larson, 2007, p. 231).

the comment letters representing user inputs received for the 2009 and 2011 proposals respectively. This observation of limited user participation had been anticipated since limited user involvement during standard setting had been noted in several studies including Jorissen et al. (2012), Kosi and Reither (2014), and Georgiou (2010). Based on insights obtained from Georgiou (2010) and Burlaud and Colasse (2011), the observed limited user participation can be attributed to a number of factors, including the cost of lobbying and the considerable technical competence needed in responding to the proposed IFRS 9 guidelines. Even though limited user participation has been observed in comment letter submissions, the IASB has managed to incorporate additional user inputs through its outreach activities. The efforts at involving additional users through the IASB's outreach activities may signal the IASB's attempt to enhance its legitimacy in the eyes of stakeholders. As Larson (2007, p. 230) claims, the IASB "may want to stimulate its stakeholders to participate more in the IFRS due process if it desires to increase its legitimacy".

In contrast to the limited participation of financial statement users, financial statement preparers have been the leading comment letter participant group, representing 53.10% (78 out of 147) and 64.44% (116 out of 180) of the responses received for the 2009 and 2011 proposals respectively. This high level of participation by financial statement preparers is consistent with the findings of several studies, including Jorissen et al. (2012), Chircop and Kiosse (2015), and Giner and Arce (2012). Moreover, given the enormity of the IFRS 9 expected credit loss model's predicted impact on financial statements, the high level of participation by preparers had been anticipated, since Jorissen et al. (2012) argue that preparers react significantly when proposals have a considerable effect on an entity's accounting numbers (Jorissen et al., 2012). A possible explanation for this observation can be presented through the lens of Watts and Zimmerman's (1978, p. 113) positive theory of standard setting, which argues that "individuals act to maximize their own utility" and as a result, "management lobbies on accounting standards based on its own self-interest".

These different comment letter participation rates amongst the interest groups were acknowledged and incorporated into answering the first research question of this study, which examines whether any interest group(s) exerted significant influence on the IASB in comparison to others. Prior to conducting the Fisher's exact test for assessing statistical significance, preparers from financial institutions were observed to be the most influential group by having produced more than 50% of the comment letters with influence found for each of the six themes differentiating the proposals.

However, execution of the Fisher's exact test by factoring in each interest group's proportional representation within the total comment letters submitted for the respective proposal produced statistically backed evidence regarding the presence/absence of significant influence. Based on this statistical evidence, five out of the six changes were made without significant influence by any interest group, despite the finding that the main influence was exerted by preparers of financial institutions. This observation of no significant influence by interest groups complements Giner and Arce's (2012) finding with respect to the development of IFRS 2 *Share-based Payment*.

The Fisher's exact significance value derived for the remaining theme (i.e., *open portfolios*) uncovered the presence of significant influence by interest groups. This distinct theme had been primarily influenced by preparers who held a 62.75% (32 out of 51) majority of influence and outperformed other interest groups by exceeding the expected frequency of influence by 10.1.¹⁷ This identification of significant influence amongst interest groups in one of the six key changes is similar to the findings of Cortese et al.'s (2010) investigation into the development of IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which uncovered significant influence by preparers. However, it should be noted that the current study has identified significant influence in only one of the six key changes, whilst it emerged that five other changes were not driven by the significant influence of any interest group(s).

Notably, Cortese et al.'s (2010) investigation concluded that the development of IFRS 6 was captured by constituents representing financial statement preparers. Explaining their observations through the theoretical lens of regulatory capture, Cortese et al. (2010, p. 77) argued that the IASB "was captured by the very constituents it was supposed to regulate". Despite the theory of regulatory capture being applied in Cortese et al. (2010), research evidence obtained from this study cannot be framed using the theory of regulatory capture due to the findings of no significant influence across five of the six key differences amongst the proposals.

Similarly, the observation of significant influence in one key difference (*open portfolios*) between the 2009 and 2011 proposals hinders the application of public interest theory to explain the development of the IFRS 9 expected credit loss model by the IASB. To further clarify, the absence of significant influence across five out of the six key differences suggests the applicability of public interest theory to a considerable extent. However, the significant influence observed in one key difference (*open portfolios*) overshadows the depiction of the IASB as an 'infallible entity', resilient amongst political influences (Abela and Mora, 2012, p. 150). As IFRS 9 is yet to be mandatorily adopted, there is insufficient evidence for determining whether the change in question (*open portfolios*), which has been put forward by many financial statement preparers, is a political influence (i.e., favourable for preparers and detrimental for financial statement users). Without sufficient evidence to establish the IASB as an infallible entity, public interest theory cannot be deemed ideal to frame the development of the IFRS 9 expected credit loss model (Abela and Mora, 2012).

Unlike capture theory and public interest theory that depict two extreme realities of regulation, legitimacy theory emerges as a more suitable theoretical framework for explaining the observed levels of influence amongst interest groups during the expected credit loss model development process. By considering the IASB's alignment with a majority of comment letter participants' positions and the observed absence of significant influence across five of the six key changes, the IFRS 9 expected credit loss model development can be identified as a fair and unbiased standard setting process to a considerable extent. According to Bamber and McMeeking (2016), fairness and objectivity are two desirable elements for establishing the procedural legitimacy of the IASB's due process. Hence, it can

¹⁷ As financial institutions exceeded their expected value of influence by 10.1, standard setters who had been the second leading group in terms of exerting influence managed to exceed their expected value by a mere 0.5.

be argued that the IASB has strived to ensure that its development of the expected credit loss model was conducted within the society's expectation of the IASB's role as an independent standard setter. This argument complements legitimacy theory which suggests that organisations continually "seek to ensure that they operate within the bounds and norms of their respective societies" (Brown and Deegan, 1998, p. 22).

Being restricted to assessing significant influence amongst interest groups, the first research question did not reveal insights into the reasons that drove the IASB to change its expected credit loss model proposals. Addressing this limitation, the second research question was introduced to analyse the arguments put forward by interest groups who did influence the IASB, to obtain rich insights into why the international accounting standard setter amended its three proposals.

Based on the analysis of arguments put forward by those who influenced the IASB, it is evident that interest groups' inputs played an important role in shaping the proposed expected credit loss models into more operational proposals than the preceding ones. These operational simplifications have resulted from a number of inputs including the request for a proposal that was feasible for open portfolios, the decoupling of the integrated effective interest rate, the elimination of the dual calculation requirement and from inputs seeking a proposal applicable to groups of financial assets.

Moreover, participants have argued for less complex reporting requirements. As an example, it was noted that the integration of credit risk and interest yield proposed in the 2009 model might result in difficulties for users in distinguishing information relevant to credit risk and interest income. Addressing this issue, interest groups influenced the IASB in proposing a model that decouples expected credit losses from the interest yield, thus producing two easily distinguishable sets of financial information for financial statement users.

Increased information comparability is another argument put forward by those who influenced the IASB. As an example, the foreseeable future approach proposed in the 2011 model granted preparers the flexibility to determine the foreseeable future period for forecasting expected losses. This could have led to an inconsistent application of the accounting guidelines within and amongst entities, and in turn could have compromised the comparability of financial information. Similarly, comparability can be reduced as a result of the proposed dual calculation, which required entities to select the higher of the time proportional value and the foreseeable future floor value in determining the expected credit losses for each reporting period. Implementation of such a proposal could lead entities to report different values of expected credit losses derived through two distinct calculation approaches. However, the inputs put forward by interest groups influenced the IASB to eliminate both the foreseeable future floor and the dual calculation requirements, thus enhancing the comparability of financial information for users.

The preceding discussion has demonstrated how interest group influence served as a valuable source of professional labour with specialist knowledge which considerably assisted the IASB in its development of the IFRS 9 expected credit loss model. Considering the limited technical expertise on financial instruments amongst IASB staff (Camfferman and Zeff, 2015), and the insufficient funding concerns

that overshadowed the standard setter (Chasan, 2011), the successful sourcing of specialist knowledge with no attached monetary burden can be regarded as a timely advantage for the resource constrained IASB. In addition to this advantage, the IASB's incorporation of due process participants' specialised knowledge in its proposals serves as a valuable contribution to its procedural legitimacy.

By assisting the IASB to source specialist knowledge and enhance its procedural legitimacy, interest groups managed to influence the IASB to produce an expected credit loss model which is more aligned with interest groups' preferences. This mutually beneficial relationship between the IASB and interest groups represents the principles of Pfeffer and Salancik's (1978) resource dependence theory. As the IASB's standard setting has become externally influenced by interest groups, "it must attend to the demands of those in its environment that provide resources necessary and important for its continued survival" (Pfeffer, 1982 in Frooman 1999, p. 200).

The extant accounting literature has rarely incorporated resource dependence theory in explaining the international accounting standard setter's conformity to constituents' requests. For example, Cortese and Irvine (2010) utilised resource dependence theory to question whether the IASB can deliver democratic, unbiased standard setting when it is largely financed by those who are required to comply with the standards it sets. Whilst the existing literature typically assesses the IASB's resource dependence from a monetary/financial perspective, the current study has uncovered that the dependence of the IASB on non-monetary resources, including specialist knowledge and legitimacy, led the standard setter to be influenced by the preferences of interest groups.

Given the large number of comment letters submitted by financial statement preparers, it can be concluded that a considerable amount of specialist knowledge incorporated into the development of the expected credit loss model had been sourced from the inputs of financial statement preparers. Amongst these preparers, representatives from financial institutions have played a key role in utilising their experience and expertise in assisting the IASB to develop an expected credit loss model that is aligned with existing business practices. Similarly, the expert advisory panel consisting of financial statement preparers and accounting practitioners directed the IASB towards influencing a proposal suitable for business models that uses open portfolios, separate credit risk management and accounting systems, and manages credit risk by grouping financial instruments. Whilst these changes are beneficial for financial statement preparers and accounting practitioners, the inputs put forward by these interest groups served the resource constrained standard setter as a valuable source of professional labour and as a means of achieving the crucial resource of procedural legitimacy.

5.0 CONCLUSION, LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

5.1 Conclusion

This study examined interest group influence on the IASB's development of IFRS 9, which was published in July 2014 as the replacement of IAS 39 (IFRS Foundation, 2016). The IFRS 9 project went through three development phases consisting of classification and measurement, impairment and hedge accounting. Of these three phases, impairment has been widely recognised as the crucial phase due to its introduction of an expected credit loss model (as opposed to the incurred credit loss model under IAS 39) for accounting for impairment of financial instruments. Considering the enormity of this accounting change on loan loss provisioning and equity, the first research question of this study identified whether any interest group has exerted significant influence on the IASB during the due process of the expected credit loss model development. The second research question of this study obtained rich insights into the arguments put forward by due process participants who succeeded in influencing the IASB to introduce six key changes amongst the 2009 exposure draft, 2011 supplementary document and the 2013 exposure draft proposals.

By conducting a content analysis of 327 comment letters submitted for three (2009, 2011, and 2013) proposals of the IFRS 9 impairment phase, this study assessed each comment letter against the key changes identified between the respective proposals. Following this initial analysis, binomial tests were performed to investigate the IASB's alignment with comment letter participants' preferences. The binomial tests identified that the IASB had aligned itself with the explicit positions of a majority of comment letter participants. Binomial testing was followed by the calculation of both frequencies and statistical significance amongst comment letter participants who influenced the IASB to introduce the changes in the proposed accounting guidelines.

Answering the first research question, Fishers' exact test assessed the statistical significance of influence amongst interest groups. Despite the preparers representing financial institutions submitting the most comment letters that exerted influence across all key changes, Fisher's exact test (which factored in different interest groups' proportional representation in total comment letter submissions) revealed that there had been no significant influence by any interest group on the IASB in initiating five out of the six identified major changes amongst the 2009, 2011 and 2013 proposals. Significant influence was only identified in the responses that drove the IASB to introduce a proposal operational for open portfolios through the 2011 supplementary document. In driving this change, preparers from financial institutions held a majority representation.

Analyses of the IASB expert advisory panel summary document and two IASB outreach summary documents, combined with the comment letters that had produced influence, suggest that interest groups have successfully argued for changing the proposals citing operational difficulties (such as difficulties in applying the 2009 proposal to open portfolios), concerns about the complexity of proposed guidelines (which was an issue raised by those who responded to the 2009 proposal) and the negative impact of

financial information comparability (which was raised by those who responded to the dual calculation requirement proposed in 2011). Acknowledging these arguments, the IASB amended its subsequent proposals to be more operational and less complex, and to produce more comparable financial information than the preceding guidelines.

The results of this study were analysed from different theoretical lenses to identify the most suitable theoretical explanation(s). Amongst the relevant theories identified in the literature review, the positive accounting theory of standard setting was identified as a possible theory for explaining the high comment letter participation rates of preparers from financial institutions. However, positive accounting theory of standard setting could not be identified as the most suitable theory since it cannot be confidently stated that the high participation rates of financial institutions were driven by a self-interested motive.

In addition, the absence of significant interest group influence across five of the six key changes amongst the proposals precluded capture theory from explaining the IASB's expected credit loss model development. Similarly, the presence of significant influence in one key theme of change between the 2009 and 2011 proposals (i.e., *open portfolios*) resulted in the exclusion of public interest theory, since the infallible entity assumption of the theory could not be used to frame the expected credit loss model development. Although capture theory and public interest theory which depict two extreme realities in regulation could not be utilised in explaining the above findings, legitimacy theory provides a more fitting theoretical framework for explaining the levels of influence observed (in answering the first research question). Having noted the IASB's alignment with a majority of respondents' preferences and the absence of significant influence amongst five of the six key changes, it can be argued that the IASB has attempted to meet societal expectations of its role as an independent standard setter.

In comparison, results obtained for the second research question which investigated the arguments that succeeded in influencing the IASB could be framed using resource dependence theory. Given the complexities of IAS 39 and the 2009 expected credit loss model proposal of IFRS 9, the IASB has sourced the expertise of due process participants (especially from preparers representing financial institutions) to reduce the complexities of its subsequent proposals. In addition to professional expertise, the IASB has also sourced legitimacy from the participants, an important resource that contributes towards the IASB's survival capability (Heidhues and Patel, 2012). Consequently, in providing important non-monetary resources to the IASB, interest groups have influenced the standard setter to develop an expected credit loss model that is aligned with their preferences.

5.2 Contributions

The expected credit loss model is an important accounting change brought about by IFRS 9 from the preceding incurred credit loss approach required by IAS 39. The accounting changes resulting from this new model are significant, with banks anticipated to recognise a substantial increase in credit loss provisions under the new guidelines. However, the extant literature lacks scholarly contributions that provide insights into interest group influence during the development of the expected credit loss model.

The current study addresses this void in the literature as one of the first research projects to investigate interest group influence during the development of the IFRS 9 expected credit loss model, from the publication of its first exposure draft in 2009 to the publication of its final proposal in 2013.

In addition to addressing the literature gap, this study delivers two valuable practical implications for the IASB. Firstly, the noted absence of significant interest group influence across five out of the six key changes amongst the three proposals is of value to the IASB to strengthen its reputation as an independent standard setting body, which is committed to developing international accounting standards by considering a wide range of inputs from various stakeholders. Secondly, this study has demonstrated that the IASB has successfully utilised its due process as a source of attracting professional labour/expertise to help develop an expected credit loss model beneficial for multiple stakeholders, by making the subsequent proposals more operational, less complex and productive of more comparable financial information than the preceding proposals. In doing so, this study provides useful feedback to the IASB on the effectiveness of its due process of standard setting.

5.3 Limitations and avenues for future research

The current study is subject to a number of limitations that suggest several directions for future research. Firstly, this study has only focused on observable interest group behaviour through comment letters, the expert advisory panel meeting summary document and IASB outreach activity documents. Due to this narrow focus, any influence exerted through alternative avenues, such as private meetings and through funding arrangements between interest groups and the IASB, has not been captured in this study. Having previously identified Sutton's (1984, as cited in Orens et al., 2011) depiction of private meetings as an effective method of lobbying (please see the Literature Review), future studies are encouraged to explore these alternative avenues of influence to deliver a more in-depth analysis of interest group influence on the IASB during the development of the IFRS 9 expected credit loss model.

Secondly, due to resource and time constraints, this research project has only investigated interest group influence associated with six major changes evident amongst the 2009, 2011 and 2013 proposals. Hence, minor changes amongst these three proposals and the final standard have been excluded from the analysis of the current study. As a consequence, minor re-deliberations between the 2013 proposal and the finalised standard, including the clarification provided for significant credit risk increase assessments, added guidance provided for defining defaults, and the changes in discount options, amongst others, have not been taken into consideration. These unexplored changes are worthy of scholarly attention and therefore can be identified as a valuable avenue for future research.

Lastly, researchers are encouraged to investigate the effectiveness of replacing IAS 39 with IFRS 9 after the mandatory adoption of IFRS 9 in January 2018. Such an investigation will provide the IASB with valuable insights into whether the limitations of IAS 39 have been addressed through the introduction of IFRS 9.

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APPENDIXES

Appendix 1: Coding instructions – Analysis of inputs received for the 2009 Exposure Draft

Comment Letter Number	Open Portfolios	Decoupling of the Effective Interest Rate	Grouping of Financial Instruments

Mark each corresponding cell (in the above table) as ‘+1’, if there is/are:

- 1) Concerns, disagreement, or requests for changes regarding the application of the 2009 model in open portfolios
- 2) Concerns, disagreement, or requests for changes regarding the use of an integrated (credit risk adjusted/included) effective interest rate
- 3) Concerns, disagreement, or requests for changes regarding the application of the 2009 model in groups/portfolios of assets

Mark each corresponding cell as ‘-1’, if there is:

- 1) Agreement regarding the application of the proposal in open portfolios with no concerns or disagreement
- 2) Agreement regarding the use of an integrated effective interest rate with no concerns or disagreement
- 3) Agreement regarding the application of the proposal in groups/portfolios of assets with no concerns or disagreement

Mark each corresponding cell as ‘0’, if there is/are:

- 1) No opinion or input, no explicit position, or there are ambiguous arguments (e.g. agreement and disagreement) regarding the application of the 2009 model in open portfolios
- 2) No opinion or input, no explicit position, or there are ambiguous arguments (e.g. agreement and disagreement) regarding the use of an integrated effective interest rate
- 3) No opinion or input, no explicit position, or there are ambiguous arguments (e.g. agreement and disagreement) regarding the application of the 2009 model in portfolios/groups of assets

Appendix 2: Coding instructions – Analysis of inputs received for the 2011 Supplementary Document

Comment Letter Number	Classification	Dual Calculation	Foreseeable Future Floor Calculation

Mark each corresponding cell as ‘+1’, if there is/are:

- 1) Requests or concerns regarding a clearer differentiation between the two books (bad/good books) or concerns regarding reclassifying/transferring classified financial instruments to the other book or disagreement regarding the classification/ differentiation between the two books
- 2) Disagreement or concerns regarding the inclusion of a dual calculation/’higher of’ calculation for the good book
- 3) Disagreement or concerns regarding the foreseeable future floor calculation

Mark each corresponding cell as ‘-1’, if there is:

- 1) Agreement regarding the classification/differentiation between the two books/groups with no concerns and no requests for clarification
- 2) Agreement regarding the inclusion of a dual calculation/’higher of’ calculation for the good book with no concerns
- 3) Agreement regarding the foreseeable future floor calculation with no concerns

Mark each corresponding cell as ‘0’, if there is/are:

- 1) No opinion or input, no explicit position, or ambiguous arguments (e.g. agreement and disagreement) regarding the classification/differentiation between the two books/groups
- 2) No opinion or input, no explicit position, or ambiguous arguments (e.g. agreement and disagreement) regarding the inclusion of a dual calculation/’higher of’ calculation for the good book
- 3) No opinion or input, no explicit position, no comments, or ambiguous arguments (e.g. agreement and disagreement) regarding the foreseeable future floor calculation