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# Negative tone in lobbying the International Accounting Standards Board

## Abstract

With the aid of computerized sentiment analysis, this paper analyzes the role of constituents' comment letters in the process of setting international financial reporting standards for financial instruments. Whilst explicit agreement in comment letters is associated with the board's decision to proceed with their proposed course of action, we find no consistent evidence that explicitly stated disagreement has an impact on the resulting accounting standard. Using context specific dictionaries, we find that increased levels of negative tone in comment letters increases the probability of the board subsequently abandoning a proposed course of action. Capturing dissent through negative tone facilitates large-scale analysis and we show that the financial industry has been less successful in its lobbying efforts through comment letters than other constituents.

Keywords: IASB, IFRS, international accounting, financial instruments, lobbying

Data availability: *Data is available from the sources identified in the paper*

JEL Classification: M41, M48.

## 1. Introduction

In this paper, we study the influence of constituents in international accounting standard setting. Specifically, we examine the influence of negativity in comment letters sent to the International Accounting Standards Board (IASB) to try to evaluate the responsiveness of the IASB to lobbying at this stage in the standard setting process.

The relationship between a standard setter's decision-making and the views of its constituents has been of interest since the seminal work of Zeff (1978) which shows the standard setting process to be a largely political exercise rather than purely technical. This view is supported by a large body of accounting research on the lobbying of standard setters around the World.<sup>1</sup> Despite this extensive body of work, there have been renewed calls for research to develop a greater understanding of lobbying and international accounting standard setting, as not enough is known about this process (Kothari, Ramanna, & Skinner, 2010). For example, the IASB issued standards for financial instruments that were widely opposed by the business community (Larson & Street, 2004) and which policy makers came to blame for causing contagion in the financial crisis leading to power struggles between the IASB and political bodies e.g. the European Union (Bengtsson, 2011). These political struggles in accounting standard setting motivates the purpose of our study, namely to shed light on how the IASB responds to its constituents' dissent within its due process.

Ramanna (2015, p. 6) states: "*it is imperative that from time-to-time we engage in a systematic evaluation of the political process*". We aim to answer this call by analyzing the IASB's development of standards for financial instruments. We recognize that the IASB has its own ideological preferences that are at times at odds with those of its constituents.

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<sup>1</sup>For example Ang, Sidhu, & Gallery, 2000; L. D. Brown & Feroz, 1992; Chee Chiu Kwok & Sharp, 2005; Coombes & Stokes, 1985; Francis, 1987; Georgiou, 2010; Giner & Arce, 2012; Hansen, 2011; Hill, Shelton, & Stevens, 2002; Hope & Gray, 1982; Jorissen, Lybaert, Orens, & Van Der Tas, 2012; Kenny & Larson, 1993; Larson, 1997, 2007; Orens, Jorissen, Lybaert, & Van Der Tas, 2011; Puro, 1984; Saemann, 1999; Stenka & Taylor, 2010; Sutton, 1984; Watts & Zimmerman, 1978.

Relevant to our setting is the survey results in Büthe & Mattli (2011, p. 228) showing that the majority of respondents opposed the IASB moving to full fair value accounting yet believed this would occur regardless. Ideology theory of regulation helps us frame our study in a way that allows us to consider lobbying success in the process with underlying principles, such as the standard setter having a preference for fair value accounting that remains unchanged.

Achieving a broad-based acceptance of its standards by constituents is crucial for the survival of the IASB as an internationally recognized standard setter. As a result, the IASB's due process includes outlining its proposed changes via Exposure Drafts (EDs) and inviting public comment on the particulars of a proposal. However, if constituents are dissatisfied with proposals, instead of outright disagreement, lobbyists often use arguments and explanations in their responses to try to convince the standard setter to reject its proposals (Giner & Arce, 2012). For example, below is the response from the Australian Bankers Association (ABA), on whether financial instruments should be irrevocably designated at fair value through profit and loss, as part of the IASB's amendments to IAS 32 and IAS 39 in 2002:

*“The ABA appreciates the flexibility it enables and the reduction in documentation for fair value hedges that would eventuate. However, we consider it likely to lead to inconsistency in accounting treatments applied between like financial institutions. The comparability and usability of financial accounts could be compromised.”* (Australian Banker’s Association, 2002.)

It is clear from the example above, that the ABA are not in favor of the proposal of the IASB, but instead of outright disagreement, they use a more nuanced argument that does not contain

an explicit rejection of the proposal. Rather, the ABA relies on a crafted statement that is meant to influence and convince the IASB not to pursue the proposed change.<sup>2</sup>

Motivated by the complexity and controversy surrounding private standard setting and the form that the comment letters tend to take; our research question asks whether there is room to influence the IASB through comment letter submissions during the development of standards for financial instruments. We examine whether the use of arguments can be captured through negative tone and whether this is a better predictor of lobbying success than outright disagreement.

To do so, we use computerized sentiment analysis to capture dissent in constituents' responses to the IASB's proposals. We build on the findings in Giner & Arce (2012) that lobbyists use arguments on points of disagreement and develop a dynamic modification to the Harvard IV-4 Psychosocial Dictionary's negative word list to capture negative tone in arguments to the IASB. We use logistic regression to estimate the relationship between our measures of negativity, explicit opinion, and the IASB's subsequent decision to implement a proposed change. Even when controlling for factors that may have an impact on the decision of the IASB, such as increased political pressure in the wake of the financial crisis and changes relating to more contentious issues, our analysis shows that higher negativity in the responses from constituents significantly increases the probability that the IASB will reject its proposed course of action.

We also estimate the marginal effects of negativity and explicit opinion at average and theoretically significant values to address concerns that non-linear models are often misinterpreted (Ai & Norton, 2003; Brambor, Clark, & Golder, 2005; Hoetker, 2007). The

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<sup>2</sup> It is worth noting that we selected this example due to its brevity. From our descriptive statistics, the average length of a response is 154 words, with the shortest response being 1 word and the longest being 2867 words.

results show that regardless of the presence of explicit opinions, the use of negativity remains a significant determinant of IASB discarding its proposed standards and amendments.

As the development of accounting standards is an ongoing process, it is at risk of being captured by special interest groups. While the extent to which this happens will vary depending on the accounting issue under consideration, we use our negativity measure to capture dissent and analyze whether lobbying success, i.e. an increase in the likelihood of the IASB rejecting its proposals, is dependent on a special interest group. We find that the relation between negative tone and the likelihood of IASB rejecting its proposal is significantly lower for comment letters from the financial industry. Further analysis shows that this is driven by results in the period after the onset of the global financial crisis. Moreover, when classifying dissent more strictly, we find that regulators have more lobbying success than other parties. This is potentially due to the cyclical nature of regulation (Bertomeu & Magee, 2011) and the EU policy making bodies demanding control over the process as a result of the financial crisis (Bengtsson, 2011).

We contribute to extant literature in the following ways. We show that successful lobbyists use negative tone to convey their unhappiness with particular standards and amendments, instead of explicitly stating disagreement. Thus, we provide evidence that there is room for influence in this latter stage of the standard setting process and that this influence can be captured by sentiment analysis. This leads to a methodological contribution as it facilitates large-scale analysis of other predictors of influence or potential capture in the process. We therefore extend our analysis to examine the difference in influence by interest group and contribute to our understanding of the international accounting standard setting process. Our results show that for financial instruments the IASB was less responsive to the dissent from the financial industry, especially after the onset of the financial crisis, but that regulators were more influential. Consistent with Zeff (1978), standard setting by the IASB is

therefore not a neutral and technical process, and how capture was exhibited after the financial crisis shows that it is very much a political one.

The remainder of the paper is structured as follows. Section 2 highlights the institutional background of the development of the IASB and its standard setting process. Section 3 discusses theoretical and empirical contributions of prior literature and develops the hypotheses that we test. Sample construction and research design are presented in section 4. Section 5 presents our empirical findings and discussion of the main results and section 6 presents the interest group analysis. Section 7 summarizes and concludes.

## **2. Institutional Setting**

The IASB was established in 2001 as a result of the restructuring of the International Accounting Standards Committee (IASC). As part of the restructuring, the IASB inherited IAS 32 and IAS 39 for accounting for financial instruments, of which IAS 39 is the most controversial legacy of the IASC (Camfferman & Zeff, 2007, p.362). This was highlighted by then chairman, Sir David Tweedie, when early in his tenure he expressed dissatisfaction with this standard in Street (2002), p.86:

*“For example, financial instruments (IAS 39) is the most terrible standard. Any standard that requires 200 questions and answers before it has actually come into effect represents a major problem.”*

Since this time, the IASB has been committed to improving the standards for financial instruments.

The implementation of IFRS has been both challenging and, at times, controversial. This is particularly true in the development and implementation of standards for financial instruments. There was widespread opposition to the IASC's 1997 Financial Instruments Discussion Paper (Chatham, Larson, & Vietze, 2010) and prior to the EU adoption of IFRS in

2005, the complexity of IAS 39: Financial Instruments: Recognition and Measurement was cited as one of the biggest and most widespread concerns amongst firms about IFRS adoption (Jermakowicz & Gornik-Tomaszewski, 2006; Larson & Street, 2004). Moreover, the responsiveness of the IASB to significant external pressures around these standards was brought to the fore in 2008. During the financial crisis, the IASB gave in to demands from EU leaders and finance ministers to allow banks to reclassify financial instruments retrospectively from the fair value category to the amortized cost category under IAS 39, a change that happened outside of the formal due process.

This in part highlights our motivation for studying the formal lobbying process of the IASB as it is not without controversy and is therefore a rich setting to examine the role of tone in lobbying. We focus on the room for influence by special-interest lobbying in the formal due process.

### **3. Prior Research and Hypotheses**

#### *3.1 Lobbying and Standard Setting*

It is widely recognized that accounting standard setters have to engage with their constituents in the development of a particular piece of regulation. For example, Zeff (1978) attributes the demise of the Accounting Principles Board (APB) to its failure to deal with third party influence and Zeff (2005) argues that lobbying of accounting standard setters on controversial issues is unlikely to diminish.

The lobbying literature relies on two main theoretical perspectives; Positive Accounting Theory (Watts & Zimmerman, 1978) and Sutton's (1984) economic theory of lobbying (e.g., Ang et al., 2000; Dechow, Hutton, & Sloan, 1996; Hill et al., 2002; Koh, 2011; Mellado & Parte, 2017; Puro, 1984; Schalow, 1995; Zimmerman & Messner, 2015). Whilst focusing on

ex ante lobbying decisions by constituents, as opposed to the response by the standard setter, these theories assume that the occurrence of lobbying efforts is a result of its efficacy.

Prior literature that focuses on lobbying success, and undertakes content analysis of comment letters, is inconclusive as to the extent standard setters take account of comment letters. Some studies show that comment letters have a limited impact and that standards are issued without consensus being reached (e.g., Brown, 1981; Mian & Smith, 1990). Other studies contest these results and conclude that standard setters' decisions, across a range of settings, are affected by comment letter submissions. For example, in the US, Brown & Feroz (1992) and Saemann (1999) conclude that comment letters from corporate respondents were instrumental in changing the FASB's proposals. Similarly, Hope & Gray (1982) and Jupe (2000) find that comment letters from the business community influenced UK standard setters. In Australia, Coombes & Stokes (1985) concludes that final standards reflected the majority positions expressed in comment letters, and in an international setting the predecessor to the IASB, the IASC, was found to change its position in light of constituent opposition (Chee Chiu Kwok & Sharp, 2005; Kenny & Larson, 1993).

In the context of the IASB, Hansen (2011) examines five exposure drafts for different accounting standards and finds that the agreement between comment letters and subsequent changes depended on the quality of the comment letter, as long as the lobbyist was not a business association or consultant. Further, Bamber & McMeeking (2016) examines proposals within comment letters responding to the IASB's 2004 exposure draft on disclosure in relation to financial instruments and shows that the IASB's discussions of comment letters is biased against comment letters from the UK and positive towards those from the US. Comments from accounting firms were also less influential than average participants with

fewer suggestions included into the issued standard IFRS 7.<sup>3</sup> Further, in examining lobbying around the share-based payments project prior to the issuance of IFRS 2, Giner & Arce (2012) studies 539 comment letters sent to the IASB. It finds that only one of three issues opposed by the majority of respondents changed from the exposure draft to the final standard, namely the reference date. It is therefore ambiguous as to what can be concluded by the IASB's standard setting process in light of these results. There seems to be room for influence, yet the determinants of success are not fully understood. Next, we look at ideology theory of regulation and means of capturing the content of comment letters for meaningful analysis of lobbying success.

### *3.2 Ideology Theory of Regulation*

The extent to which the IASB's due process provides scope for external influence is something of an open question. Bütthe & Mattli (2011) argues that once a principle is developed, it is near impossible for lobbyists to change it. In addition, Perry & Nölke (2006) notes that the development of the fair value paradigm reflects a contemporaneous shift in the international political economy stemming from greater growth in profits in the financial industry compared to other sectors. Further, the standard setters' own agenda and preferences may also shape standard development (Weetman, 2001). Ignoring these factors can cause confusion as to the interpretation of lobbying studies, as signs of influence can be wrongly interpreted as reaching consensus or, indeed, as the process being captured. In this vein, Kothari et al., (2010) argues that there is a lack of a well-developed framework to predict the influence of the political process on accounting standards. Using the ideology theory of

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<sup>3</sup> These comment letters are included in this analysis as the exposure draft is one out of fourteen considered in this study.

regulation, they show there is potential for both ideological preferences of regulators and special interest lobbying to affect the outcome of standards.<sup>4</sup>

Kalt & Zupan (1984) makes a case that a theory of regulation with a broad conception of political behavior is required. The argument being that public interest theory is more of a normative wish than an effective explanation of regulation, but that capture theory fails to recognize the potential importance of ideology. Like public interest theory, ideology theory stresses that regulation is a response to market failure, but predicts that lobbying will influence regulators, making regulation a joint outcome of political ideology and special interest lobbying (Kothari et al, 2010). Applying ideology theory to standard setting, the ideology of the standard setter can be viewed as their “*ingrained mindset that favors rules with certain characteristics*” (Gipper, Lombardi, & Skinner, 2013, p. 10). In our setting, the ideological component to the development of financial instruments can be argued to be the fair value preference that was evident throughout the IASB’s proposals.

As highlighted above, the move to fair value was controversial amongst preparers of pending IFRS adopters (Jermakowicz & Gornik-Tomaszewski, 2006). Büthe & Mattli (2011) surveyed hundreds of CFOs and senior financial managers and found that over 92 percent of respondents believed the IASB would move to full fair value accounting yet over 76 percent disagreed that they should (p. 228, figure A.1.1 and p.229 figure A.1.2). This suggests that they believed the IASB would not change its position according to its constituents’ preferences, and they were right. On 3<sup>rd</sup> October 2018, Hans Hoogervorst, chairman of the IASB, defended the continued emphasis on fair values in IFRS 9 in an article in the Financial Times:

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<sup>4</sup> For a discussion of how major theories of regulation that have emerged from the literature in political economy can be applied to the process of accounting standard setting, see Kothari et al. (2010).

*“Fears that fair value accounting lead to improper early profit recognition are also overblown. IFRS 9 prohibits companies from doing that when quoted prices in active markets are not available and the quality of earnings is highly uncertain. Moreover, fair value accounting is often quicker at identifying losses than cost accounting. That is why banks lobbied so actively against it during the crisis.” (Financial Times, 2018)<sup>5</sup>*

It is clear that this ideological component was established early on, yet the radical move to allow reclassification of financial instruments to the amortized cost category during the financial crisis was achieved outside the formal due process of the IASB. Even so, comment letter submissions have been plentiful throughout the development of financial instruments accounting during the first ten years of the existence of the IASB. It remains an open question therefore as to whether there is room for influence through the formal channels in the development of these standards and we state our first hypothesis in the null below.

**Hypothesis 1.** The IASB does not take account of dissenting opinions from special interest groups.

### *3.3 Psychological Reactance and Comment Letter Tone*

Exposure drafts pose clear questions regarding the proposed changes to standards. Most often, the questions are phrased “Do you agree?” or “Is this appropriate?” and, hence, give the lobbyist the opportunity to express their explicit agreement or disagreement. However, prior research has discovered that comment letters are often ambiguous in nature (e.g., Francis, 1987; Hansen, 2011; Holthausen & Leftwich, 1983). As noted in Sutton (1984), it is unlikely that lobbyists would voluntarily incur the cost of submitting comment letters unless they expect to gain some benefit. Therefore, the text contained in responses that do not explicitly state an opinion must still be intended to influence the outcome.

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<sup>5</sup>Hoogervorst, H. 2018. “Do not blame accounting rules for the financial crisis Current standards are designed to reflect economic reality as closely as possible” [Financial Times October 3 2018] <https://www.ft.com/content/bd084b5c-c623-11e8-86b4-bfd556565bb2>

Whilst most academic research has largely focused on the characteristics of the lobbyists, some research, such as Kwok & Sharp (2005), Hansen (2011) and Jupe (2000), pays closer attention to the effect of text or letter characteristics in their analyses. Jupe (2000) shows that the UK Accounting Standards Board (ASB) changed its proposals on FRS 1 according to the wishes expressed in comment letters from large companies that used self-referential arguments in their discussion of the proposal. Kwok & Sharp (2005) focuses on keywords within comment letters that referred to different facets of power and Hansen (2011) shows that lobbying success related to the quality of information in the response, as well as lobbyists' credibility and their potential to affect the viability of the IASB.<sup>6</sup> Taken together, these results highlight the importance for lobbyists to frame their position in a suitable way to be influential.

The linguistics and communication literature provide some explanation to appropriate forms of persuasion. The theory of psychological reactance predicts that people are likely to resist persuasion as it involves a threat to their autonomy and ability to believe or act in a particular way. Studies in this field show that there is a relation between forceful language and reactance (Quick & Considine, 2008). A familiar application of this theory is reverse psychology, where the one subjected to persuasion is expected to resist the threat to their autonomy by acting in the opposite way to what is being suggested. Therefore, to achieve the desired change in opinion or behavior, one would pretend to try to induce the opposite reaction.

In examining comment letters, we observe that aversion to a proposal is often presented to suggest agreement. The example below demonstrates this approach and is a response to the IASB's July 2009 exposure draft that proposed "to prohibit reclassification of financial assets

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<sup>6</sup> The proxy for comment letter quality, used in Hansen (2011) was derived from principal component factor analysis of the percentage of questions answered, the number of pages of the letter, the number of references to the IASB's constitution, framework, or other IAS/IFRS, and number of references to accounting standards or frameworks from national standard setters.

and financial liabilities between the amortised cost and fair value categories.”<sup>7</sup> The invitation to comment section included the question:

*“Do you agree that reclassification should be prohibited? If not, in what circumstances do you believe reclassification is appropriate and why do such reclassifications provide understandable and useful information to users of financial statements? How would you account for such reclassifications, and why?”*

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) responded:

*“The CAC basically supports the proposal in the exposure draft to prohibit reclassification. However, business models sometimes change fundamentally, for example, management changes associated with M&A. Under these circumstances, reclassification should be exceptionally permitted subject to (1) detailed disclosure of reasons for reclassification and its influence, and (2) no retrospective application.”*

(SAAJ, 2009)

Consistent with the theory of psychological reactance, the findings in (Kwok & Sharp, 2005) shows the IASC ultimately disregarded arguments based on threats. As a result, avoiding outright disagreement in a response may reduce or eliminate reactance on the part of the IASB and allow for a more persuasive argument.<sup>8</sup>

In sections 3.1 and 3.2, we discussed whether constituents are likely to be influential through comment letter submissions in the formal due process. We conclude that this warrants analysis and that the influence we might observe has not changed IASB’s ideological conviction that fair values are the most suitable for financial instruments. Looking at textual tone, in addition to explicitly stated opinions in comment letters, can identify more

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<sup>7</sup> The question is taken from the invitation to comment section of IASB’s exposure draft: “Financial Instruments: Classification and Measurement” which was issued in July 2009

<sup>8</sup> For the reclassification issue in the example above, the IASB subsequently decided to allow reclassification in the event of a change of business model.

subtle ways of expressing dissent and whether this is influential. Stated formally, in the null, our second hypothesis is as follows:

**Hypothesis 2.** Lobbying success is unaffected by negative tone in comment letters.

#### **4. Research Design and Sample**

Manual content analysis can introduce subjectivity into text analysis (Krippendorff, 2004). In addition, it is a costly process where large sample analysis is required and makes replication unlikely. As a result, computerized content analysis, which is objective and replicable, has been increasingly used since 2000 (Fisher, Garnsey, Goel, & Tam, 2010). Recent literature in both accounting and finance is employing these methods to quantify the vast amount of information contained within financial texts which can have an impact on decision-making. The methods and linguistic features under consideration vary and include measures of readability (Li, 2008; Loughran & McDonald, 2014), machine learning (Antweiler et al., 2004; Li, 2010) and the use of word lists (Loughran & McDonald, 2011; Rogers, Van Buskirk, & Zechman, 2011; Tetlock, 2007; Tetlock, Saar-Tsechansky, & Macskassy, 2008).

##### *4.1 Sample Selection*

Our sample is derived from the comment letters that the IASB makes available on its website, [www.ifs.org](http://www.ifs.org), as part of its commitment to a transparent standard setting process. We focus on the four standards that deal explicitly with accounting for financial instruments: IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and their superseding replacements IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*. At the time of the data collection, 3064 comment letters had been generated in response to 24 documents, issued by the IASB, relating to the development of these standards since 2001. Of these 3064, 1815 comment letters responded

to the 16 exposure drafts that related to completed projects, i.e. for which there is an identifiable outcome.

There can be ambiguity when identifying the outcomes of proposed changes, as parts of a proposal may be adopted while other parts are not (Francis, 1987; Holthausen & Leftwich, 1983). Following Hansen (2011), we aim to reduce this ambiguity by analyzing responses to the invitation to comment section of the exposure drafts. This section of the exposure drafts contains questions regarding the specifics of proposed changes on which the IASB invites constituents to comment.

To remove ambiguity further, several specific exposure drafts, and the comment letters on these drafts, were excluded. For “*Derecognition: Proposed Amendments to IAS 39 and IFRS 7*”, as issued in April 2009, the whole proposal was withdrawn. This also occurred for “*Offsetting Financial Assets and Financial Liabilities*”, as issued in January 2011. As such, the observations cannot be reliably compared to the outcome of separate issues within the exposure draft, leaving 1695 comment letters for analysis.

As the study focuses on lobbyists' ability to prevent proposals from becoming standards, only the 70 questions that refer to proposed amendments to which lobbyists have an opportunity to communicate their opposition or concerns are included in the analysis. These questions take the form “*Do you agree?*” or “*Is this appropriate?*” for example, and relate to the proposed amendment, not an alternative. The majority of the questions (86 out of 107) takes this form. Table 1, panel A outlines the distribution of the sample across comment periods. The sample contains 5078 question-observations and are well dispersed between the periods before and after the commencement of the financial crisis as 47% relate to the pre-crisis period and 53% to the post-crisis period. Table 1, Panel B outlines the interest group distribution of the comment letter authors. In terms of lobbyist characteristics, the biggest

lobby group is the financial sector, excluding accountants, and comprises 34.27% of our sample.

[TABLE 1 ABOUT HERE]

#### *4.2 Outcome - the IASB's Decision*

The proposed amendments referred to in each question are compared to the subsequently issued amendments to the standards. If the proposal to which the question relates is not incorporated in the subsequent amendment, i.e. there has been a change from the proposal to the finalized standard; a binary variable, *REJECT* is coded 1 and otherwise 0. Four researchers, including three senior chartered accountants, independently classified the outcome. The classifications were compared, and in instances of disagreement; 14 out of 70 questions, the outcomes were discussed until consensus was reached. A change was identified for 28 questions (40%), which is similar to Hansen (2011) that identified a change for 46% of the issues in a multi-issue setting.

#### *4.3 Explicit Opinions*

To capture unambiguously stated opinions in the responses, if available, two indicator variables, *AGREE* and *DISAGREE*, are defined and obtained as follows. As the questions included in the analysis take the form: “*Do you agree?*” or “*Is this appropriate?*”, the first word in the answer being “*yes*” is identified as agreement and “*no*” as disagreement. Further, unless negated, occurrences of “*agree*” anywhere within the answer, are identified as agreement and, if negated, as disagreement. Occurrences of “*disagree*” or “*oppos*” (the stem is used to allow for different grammatical variations, e.g. oppose, opposition etc.) are, unless negated, taken to indicate disagreement. If the response contains any form of explicit agreement, as defined above, an indicator variable, *AGREE*, takes the value 1, otherwise 0. *DISAGREE* takes the value 1 for any occurrences of explicit disagreement and otherwise 0.

#### *4.4 Negativity: A Continuous Measure of Opposition*

To construct our continuous measure of tone, we use computerized content analysis relying on pre-defined word lists that categorize words according to their generally accepted meaning/sentiment. Due to the political nature of the communication, the level of positivity may be misleading as a measure of consent. In addition, discontent may be wrapped in positivity by negating the positive words. Tetlock (2007) and Loughran & McDonald (2011 & 2013) note that positive word lists are of limited use for this reason. Measuring negativity circumvents the noise from using positive word lists and allows the analysis to capture even that part of the sample that avoids explicit opposition yet makes its discontent with the proposal known to the standard setter.

The negative word list is taken from the Harvard IV-4 Psychosocial Dictionary (Harvard IV).<sup>9</sup> Harvard IV contains words that are considered negative in a general sense and misclassifies some words in our context. Examples are words such as “*liability*”, “*loss*” and “*impairment*”, all classified as negative, yet in this context, merely refer to the topic of the exposure drafts. Classifying these words as negative, as per the word lists, would overstate the negative tone in the analysis.

To reduce the noise in the measurement, the primary negativity measure is obtained by programmatic modification of the classifications to better suit the text to which it is applied. Words that occur frequently in an exposure draft are, when used in a corresponding comment letter, likely to be a reference to its occurrence in the exposure draft. To edit the classification scheme accordingly, if a word is classified as negative in Harvard IV, but occurs with a

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<sup>9</sup> The version used in the analysis comes from Bill McDonald's word list page where the Harvard IV has been extended to include relevant inflections. The list is available at: [http://www3.nd.edu/~mcdonald/Data/Harvard%20IV\\_Negative%20Word%20List\\_Inf.txt](http://www3.nd.edu/~mcdonald/Data/Harvard%20IV_Negative%20Word%20List_Inf.txt)

frequency of more than 0.5% of the words in the exposure draft, it is removed from the negativity count in comment letters, so as not to unduly increase the negativity score.<sup>10</sup>

Whilst there are still occasions of misclassification, the programmatic modification appears to improve the classification scheme. For instance, the word “*cost*” is excluded from the negative word count in comment letters corresponding to five exposure drafts. In all known examples, it refers to “*amortized cost*”, i.e. the topic of proposed changes and carries no negative sentiment. An example is EFRAG's response to the 2004 *Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The Fair Value Option*:

*“EFRAG supports the pragmatic approach as regards the transitional requirements i.e. no retrospective application when an entity changes the measurement from at fair value through profit and loss to **amortised cost**.”* [Emphasis added]

Conversely, in the letter from the Australian “*Group of 100*”, in response to the 2003 *Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk*, the word “*cost*” is included in the negative word count. In this case, it carries a negative sentiment, as increased costs are portrayed as an unfavorable economic consequence of the proposed change:

*“Core deposits are a significant fixture of the Australian banking system. The inability to apply fair value hedging in respect of core deposits is likely to result in the use of cash flow hedging for core deposits. This will lead to the duplication of systems where these entities use portfolio hedging in respect of other activities, **increases in***

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<sup>10</sup> Whilst this cut-off point seems arbitrary, we check what words it alters and set it at a level that seems to re-classify the words that would otherwise unduly carry negative sentiment. Whilst the test for our reported result use this modified word-list that appear better suited to the context, we repeat all tests using the Harvard IV and Fin-Neg (Loughran and McDonald (2011) without modification and our results are qualitatively the same.

*transaction costs and potentially to changes in product design and pricing and funding arrangements.*” [Emphasis added]

“Risk” is the most frequently blocked word and is removed from the negativity count in comment letters corresponding to any of the 12 exposure drafts in which this word occurred with a frequency of more than 0.5%. In total, it is removed 1181 times. The words “loss” and “board” are removed from the negativity count every time they appear in a comment letter as they are frequent in all exposure drafts. In total, 63 unique words are removed from the negativity count. In addition, any negative words that occur in a question are blocked from the negativity count in the corresponding answers. This process reclassifies a further 401 words from negative to neutral of which the word “question” is reclassified as neutral 120 times.

We follow Loughran & McDonald (2011) by adding negated positive words to the negative word count if “no”, “not”, “none”, “neither”, “never”, “nobody” occurs within three words preceding the positive word.<sup>11</sup> Contrary to Loughran & McDonald (2011) that does not take account of negations preceding negative words as they do not expect phrases such as “not terrible earnings” in financial reports, our sample of comment letters contains phrases such as “We have no objections to the proposal” and, therefore, negated negative words are accounted for by excluding the word from the negative word count.

As per Fagan & Gençay (2011), so-called stop words are removed from the analysis as they can distort the overall negativity score.<sup>12</sup> Finally, the term weighting scheme in equation 1, suitable to samples comprising documents of different length, is applied to the negativity

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<sup>11</sup> The positive words come from the Harvard IV-4 Psychosocial dictionary available at <http://www.webuse.umd.edu:9090/tags/>

<sup>12</sup> The list of generic stop words has been downloaded from <https://sraf.nd.edu/textual-analysis/resources/#StopWords> When including stop words, the results of the analysis are qualitatively the same.

assessment as it is recognized that terms carry different levels of sentiment depending on their frequency (Loughran & McDonald, 2011).

$$w_{i,j} \begin{cases} \frac{(1+\log(tf_{i,j}))}{(1+\log(a_j))} \log \frac{N}{df_i}, & \text{if } tf_{i,j} \geq 1 \\ 0, & \text{otherwise} \end{cases} \quad (1)$$

The weighted value,  $w$ , for each word,  $i$ , in each letter,  $j$ , is determined by the frequency,  $tf$ , of the term within the letter divided by the total number of words in the letter,  $a$ . This is further adjusted by the total number of letters in the sample,  $N$ , divided by the document frequency, i.e. the number of letters in which the word occurred,  $df$ . The resulting measure generates a continuous negativity score, *NEGATIVITY*, between 0 and 1, with 1 being the most negative and 0 the least negative.

If lobbyists can prevent proposals from making it into accounting standards, it is expected that mean levels of negativity and disagreement will be higher for those proposals that were not adopted, i.e. rejected proposals, relative proposals that were implemented.

#### 4.5 Model specification

To identify whether there is the potential for lobbying to influence the standard setter's decision as whether to implement proposed changes, we use a logistic regression model with a dependent variable, *REJECT*, equal to 1 for rejected proposed changes and 0 for implemented proposed changes. The regression models the dependent variable as a function of negativity, *NEGATIVITY*, and two indicator variables for explicit opinion, *AGREE* and *DISAGREE*, as well as the control variables defined below. The model therefore assesses whether there is an association between the likelihood of a proposal being rejected and the explanatory variables. To test whether the effect of negativity is conditional on explicit opinions, the model includes interaction terms for negativity and the variations of explicit opinion.

$$\ln \frac{\Pr(REJECT=1)}{\Pr(REJECT=0)} = \alpha + \beta_1 AGREE_{i,t} + \beta_2 DISAGREE_{i,t} + \beta_3 NEGATIVITY + \beta_4 AGREE \times NEGATIVITY_{i,t} + \beta_5 DISAGREE \times NEGATIVITY_{i,t} + Controls + \varepsilon_{i,t} \quad (2)$$

### ***Controls for political pressure***

The model *Equation 2* includes four control variables that potentially have an independent effect on any decision made by the IASB. Macroeconomic factors are known to affect the political pressure on regulators (Bertomeu & Magee, 2011). Therefore, an indicator variable, *POST*, takes the value 1 for the exposure draft being issued after the commencement of the financial crisis, as defined by the bankruptcy filing of Lehman Brothers on 15 September 2008, and 0 otherwise. This variable controls for the increased political pressure on the IASB that followed the allegations of its standards' role in the financial crisis (Bengtsson, 2011). Much of the criticism of the IASB post-2008 relates closely to financial instruments and as such, the decision to reject certain proposals may be a result of political pressure that falls outside of the comment letter lobbying.

Further, it is possible that the salience of the topic under consideration, and the volume of comment letters received, makes the organization more hesitant to go ahead with implementing proposed changes. For example, Bertomeu & Magee (2015) shows that increases in required disclosure proceed more slowly when increased disclosure costs imply greater political resistance from reporting firms. Therefore, the log of the volume of comment letters corresponding to the exposure draft, *VOLLG*, is included in the model. In addition, the length of the responses may signal that the proposed change is particularly complicated or controversial, which may lead the IASB to reject the proposed change or defer its implementation. Consequently, *LENGTH*, the number of lines in the answer to the question and *WORDS*, the number of words in the letter, are also included as control variables. These variables have also been used to proxy for the quality of the response (See, Hansen, 2011). A binary variable *ISS* takes 1 if the accounting issue in question is relating to classification and

measurement, as these may be perceived as particularly salient and controversial (Jermakowicz & Gornik-Tomaszewski, 2006), and 0 otherwise.

### ***Dissenting opinions***

To test our hypotheses further and to assess the differences in lobbying success amongst lobbyists we parse our sample on *AGREE* to exclude those observations that express explicit agreement and retain a subsample of dissenting observations. The underpinnings for this partition is that lobbying is costly and will only take place if the potential benefits outweigh the cost, with the benefits being conditional on the probability of being influential (Sutton, 1984). As such, lobbyists' responses that do not contain agreement are likely trying to convince the standard setter to alter its proposals. Prior research finds that a common strategy is to use arguments only on points of disagreement (Giner & Arce, 2012). We use this subsample to examine the effect of negativity and explicit disagreement and control for previously documented factors of lobbying success. We also create a more restrictive subsample where we require *AGREE* to be 0 and for *NEGATIVITY* to be above its median of .0668 to be classified as dissenting. This sample allows for a cleaner test of lobbying success. We initially use the sample to test whether our reliance on negative tone captures dissent in an appropriate way by examining the explanatory power of documented factors from prior research. We then use this sample to test whether specific interest groups are more/less influential in the process.

### ***Additional predictors of lobbying success***

In the dissenting subsamples, we also control for a host of variables representing the ability to provide information to the IASB, the credibility of the lobbyist, and their impact on the viability of the IASB, all which are important for lobbying success (Hansen, 2011). Specifically, to control for the quality of the response, we include *PERCQ* which is the percentage of questions posed in the exposure draft that were answered in the letter, *CONCL*,

an indicator variable that takes 1 if the letter mentions the IASB's conceptual framework and 0 otherwise. *CONT*, that takes the value 1 if the lobbyist is a named financial supporter in the IASCF/IFRS Foundation's annual report in the year of the comment period and 0 otherwise. *MARK* is the market capitalization of listed companies in the country as a percentage of market capitalization of listed companies in the world, in the year of the observation. *BOARDC*, takes the value 1 if there is at least one member on the IASB from the constituent's home country during the consultation period for the relevant comment letter, and 0 otherwise.

In addition, a key feature in reporting systems that target equity investors, as opposed to banks and other creditors, is more extensive disclosure requirements (La Porta, Lopez-De-Silanes, & Shleifer, 2006; Nobes, 1998). We therefore group the comment letter authors' home country into high equity importance and low equity importance. We construct the measure in a similar way to Leuz, Nanda, & Wysocki (2003) and use the mean rank of two variables used in La-Porta, Lopez-de-Silanes, Shleifer, & Vishny (1997). The first variable is constructed as a ratio of the aggregate stock market capitalization to gross national product for the entire time period 2002-2011, scaled by a measure of ownership concentration in the country, developed by (La-Porta et al., 1997). The second variable is the number of listed domestic firms per capita. The mean rank is constructed so that higher scores indicate greater importance of equity. *EI\_RANK\_I* takes the value 1 if the rank is above the median and 0 otherwise. There is missing data on ownership concentration for eleven countries: Czech Republic, China, Mauritius, Tanzania, Luxembourg, Romania, Cyprus, UAE, Russia, Poland, and Rwanda. This corresponds to 160 observations, i.e. 3.1% of the observations. These countries are likely to place lower importance on equity, and, as a result, to the extent that deleting these observations creates bias in the results, we believe this would likely understate

the differences in the importance of equity amongst the lobbyists and reduce the magnitude and significance of the results.

We include two controls for the accounting tradition in the lobbyist's home country. First, *ANGLO* takes 1 if the accounting system in the lobbyists' home country is rooted in Anglo-Saxon traditions. Accounting traditions of the IASB's constituents vary primarily because of the differences in sources of external finance available to firms in different countries (Nobes, 1998). Mandated standards prior to the introduction of IFRS, as well as the reporting incentives of managers therefore vary across markets (Ball, Kothari, & Robin, 2000; Burgstahler, Hail, & Leuz, 2006; Leuz et al., 2003). IFRS are arguably grounded in the Anglo-Saxon accounting tradition with shareholders as the prime user of financial reports.<sup>13</sup> Botzem & Quack (2009) point out that Anglo-American logic amongst private standard setters shows their preference for capital-market oriented standards that above all serve the needs of large multinational corporations. Further, respondents from US companies, as compared to German, French and UK companies, in Bütte & Mattli (2011) report that they are more confident that their efforts will be influential in the IASB standard setting process. Therefore, it is possible that lobbyists from countries with an accounting ideology and/or domestic institutions, more closely related to that of the IASB will be more engaged in the process and be more successful in their lobbying efforts.

Last, we control for the extent of differences between IFRS and local accounting standards prior to IFRS adoption. We base our measure on the scores of absence and divergence developed in Ding, Hope, Jeanjean, & Stolowy (2007). Absence is defined as "the extent to which the rules regarding certain accounting issues are missing and Divergence as the extent to which the rules regarding the same accounting issue differ" (Ding et al., 2007,

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<sup>13</sup> The existence of Anglo-Saxon accounting has been debated in the literature with some claiming that it is a tenuous concept (Alexander & Archer, 2000) and others arguing that there is strong support for the existence and importance of the concept for international accounting (Nobes, 2003).

p.3). We therefore take the average of the absence and divergence score and *IAS\_DIFF* takes 1 if the average is above the median, and 0 otherwise.

## 5. Results

### 5.1 Descriptive Statistics

Table 2 presents univariate comparisons of observations relating to proposals that were rejected and implemented. The last column reports the p-values of the test of differences based on t-test for the means and Wilcoxon rank-sum test for the medians. Explicit agreement is more common for proposals that were implemented, whilst explicit disagreement is more common in responses to proposals that were not subsequently implemented. Similarly, the mean level of negativity is higher for proposals that were not implemented. Whilst exploratory in nature, these initial findings suggest that the IASB takes account of the comment letter lobbying.

[TABLE 2 ABOUT HERE]

For *POSTC*, the mean is significantly higher for observations relating to proposed changes that were not implemented than for those that were. The IASB abandoned more proposed changes after the start of the financial crisis, perhaps as a result of the increased criticism of IFRS, particularly in relation to accounting for financial instruments, which occurred around the financial crisis (Bengtsson, 2011). Similarly, the mean for *VOLLG* is significantly greater when proposed changes were not implemented, which suggests that the IASB is more hesitant to implement its proposals when political pressure, or interest, is greater. However, *VOLLG* and *POSTC* are highly correlated, suggesting that they may both be capturing the post-crisis criticism or increased interest in the standard setting process of the IASB after the financial crisis.

Amongst the explanatory variables, *NEGATIVITY* and *DISAGREE* are positively correlated, whilst both are negatively correlated with explicit agreement. This confirms that

lobbyists who disagree tend to use more negative language than lobbyists who agree and provides some validation that our negativity scores capture discontent with proposed changes. To the extent that multicollinearity may cause bias in our results, the precision of the estimates may be lower and their standard error greater leading us to fail to reject the null that our opinion variables have no impact on the IASB's decision to reject its proposals. We include each variable of interest separately, interacted, and with and without the inclusion of controls in our main tests to address this.<sup>14</sup>

### 5.2 Multivariate Analysis

The coefficients measure the impact of the variables on the natural logarithm of the relative probability of blocking a proposal, compared with it being implemented. The multivariate estimates for the logistic regression are presented in Table 3. Given the logit transformation of the outcome dependent variable, it can be misleading to interpret the parameter estimates (Jones & Hensher, 2004). Moreover, as we include interactions terms to test whether negativity has a different explanatory power when combined with explicit opinions, we are conscious that the sign and significance of the marginal effects cannot be deduced by the coefficients alone (Ai & Norton, 2003; Brambor et al., 2005; Hoetker, 2007). Therefore, following (Brambor et al., 2005) a second stage analysis is added to graphically show the marginal impact of the constitutive parts of the interaction variables at meaningful values of the covariates. The results are presented in Figure 1.

[TABLE 3 ABOUT HERE]

As Table 3 shows, the coefficient for negativity, *NEGATIVITY*, is positive and significant. The positive and significant coefficient and marginal effect is consistent with a proposal being met with higher aggregate levels of negativity being more likely to be

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<sup>14</sup> In untabulated descriptive statistics, there is a significant positive correlation between LENGTH (number of lines in the observation) and NEGATIVITY and DISAGREE. This is consistent with the findings of Giner & Arce (2012) that more arguments are used to substantiate points of disagreement than agreement. Similarly, we also observe that agreeing comments often simply state: "Yes" or "We agree."

rejected.<sup>15</sup> Figure 1, Panel A shows the predicted probabilities of a proposed change being rejected at various levels of negativity, holding all other variables constant at their means. In the left diagram, *NEGATIVITY* is considered over its full range 0-1. In the right diagram, we consider values from 0-0.3 where 99% of all observations fall. Both diagrams show an increase in the prediction with higher levels of negativity. The 95% confidence interval bars show that higher values of negativity are significantly greater than lower values. Figure 1, Panel A shows that when negativity increases from its mean value of 0.04 by a standard deviation of 0.06, the prediction of IASB's likelihood of rejecting its proposal increases from just over 40% to just under 45%.

[INSERT FIGURE 1 ABOUT HERE]

Figure 1, Panel B shows the predictions over the same values of negativity in the absence or presence of disagreement (right) and agreement (left). The predictions in the presence of disagreement (*DISAGREE*=1) are not significantly different from the absence of disagreement (*DISAGREE*=0). Conversely, agreement is significantly different and its presence (*AGREE*=1) leads to a prediction roughly 10 percentage points lower than in the absence of agreement (*AGREE*=0) for values of *NEGATIVITY* below 0.2. This is significant at the 5% level. At higher levels of *NEGATIVITY*, the effect of *AGREE* becomes less precise.

As hypothesized by Grossman & Helpman (2001), lobbyists must transmit their view in a way that aligns with the ideology of the regulator that they are trying to influence. As the exposure drafts are produced according to the conceptual framework and ideology of the IASB, explicit disagreement may be seen as a signal of incongruence between the views of

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<sup>15</sup> For robustness, we repeat our main analysis using four measures of negativity used in prior research. Specifically, we test *HARVARD\_NEG*, the ratio of negative words to total words based on the Harvard IV-4 Psychosocial Dictionary, *HARVARD\_NEG\_W*, applying the weighting scheme in Equation 1 to the *HARVARD\_NEG* measure, *FIN\_NEG*, the ratio of negative words to total words based on the financial word list developed in Loughran & McDonald (2011), and *FIN\_NEG\_W* with the weighting scheme applied to the *FIN\_NEG* measure. Results are qualitatively similar, but the level of negativity is higher without the context-specific adjustment described in section 4.4.

the lobbyist and the IASB. Whilst, explicit disagreement is not significant in explaining the IASB's decision, we find that negativity does and, as such, we reject the null of hypothesis 1 and conclude that the IASB takes account of dissenting opinions in comment letters. This is consistent with ideology theory as it shows that there is room for influence but that this depends on seeming agreement or persuasion.

### *Dissenting subsamples*

In our dissenting subsample, i.e. where  $AGREE=0$ , we investigate whether negativity or disagreement is more effective in convincing the IASB to reject its proposed changes in observations absent of agreement. Table 4 presents the results of the logistic regressions. The coefficient for disagreement (*DISAGREE*) is not significant in any model, regardless of the inclusion of negativity or control variables. Neither does it have a significant marginal effect on the propensity of the IASB to reject the proposed change when other values are held constant at their means. Conversely, the coefficient and marginal effect of *NEGATIVITY* are positive and significant in all models.

[INSERT TABLE 4 ABOUT HERE]

The predictive margins in Figure 2 provides a fuller picture of its impact. The picture is consistent with the full sample analysis, with higher levels of negativity leading to a significantly higher likelihood of the proposed change being rejected. The diagram on the right shows that the predictions in the presence and absence of disagreement are not significantly different. We therefore reject the null hypothesis 2 and conclude that the tone in comment letters affects lobbying success. This result is in line with the explanation offered by psychological reactance and with previous findings that lobbyists present a supporting argument when disagreeing with the standard setter (Giner & Arce, 2012). Our measure of negativity within these arguments successfully captures the effect on the IASB of these arguments, unlike outright disagreement.

[INSERT FIGURE 2 ABOUT HERE]

Next, we use the more strictly classified sample of dissent where we require that observations do not include explicit agreement and that *NEGATIVITY* is above the median, 0.0688. Jorissen et al. (2012) finds that preparers, accountants, and standard setters lobby more about measurement issues, while users, stock exchanges, and regulators lobby more regarding disclosure issues. If motivations to lobby vary with the type of accounting issue in question, it is possible that lobbying success does too. Therefore, in addition to looking at all accounting issues under consideration, we split the sample according to whether the issue covers classification and measurement or mainly disclosure and test whether prior documented predictors of lobbying success hold in our sample. We find that the number of lines in the response to a particular question, *LENGTH*, which can be viewed as representing disagreement, as points of disagreement tend to be backed up with arguments (Giner & Arce, 2012), quality of the response (Hansen, 2011) or simply the complexity of the issue, has opposite directions for classification and measurement issues to other issues. Whilst, we consider this an important control, it is unclear how to interpret it. For disclosure and other issues, we find that lobbying success is significantly (at the 10% level) related to the importance of equity in the lobbyist's home country. The marginal effect of *EI\_RANK\_I* is 0.125 (z-score = 1.74), suggesting that dissenting lobbyists from countries with high equity importance are on average 12.5 percentage points more successful in convincing the IASB to abandon its proposed changes than lobbyist's from countries with low equity importance. Disclosures are particularly important in countries where equity is more important (La Porta et al., 2006; Nobes, 1998) and so lobbyists from these countries may be particularly engaged in the process and provide more convincing arguments.

Classification and measurement issues reveal other strong associations between lobbying success and lobbyist characteristics. Like Hansen (2011), we find that comment letter quality,

as measured by the questions answered in the comment letter as a percentage of the total number of questions posed in the exposure draft, *QPERC*, a serving board member from the lobbyist’s country, *BOARDC*, and whether the lobbyist is a known financial contributor to the IASB, *CONT*, are all positively and significantly related to lobbying success. Further, we find that *ANGLO*, i.e. whether the lobbyist’s home country has a tradition of Anglo-Saxon accounting, is negatively and significantly linked to lobbying success. Bamber & McMeeking (2016) finds the IASB tends to react less favorably to UK respondents. To test whether this is the effect we observe, we replace *ANGLO* with a dummy variable for the lobbyist being from the UK and find a marginal effect of -0.24 ( $z = -1.89$ ) showing that UK lobbyists are less likely to succeed in influencing the IASB, in line with the findings of Bamber & McMeeking (2016). We do not find significant effects for *ANGLO* when we include additional indicators for the UK and/or and for the US.<sup>16</sup> We conclude that many of the factors that have been found to determine lobbying success in the IASB’s process in prior literature are also present in our analysis when using negative tone to capture dissent.

[INSERT TABLE 5 ABOUT HERE]

## 6. Interest group analysis

We use our measure of negativity to examine the process further. As the computerized measure allows us to examine a large-scale sample, we look at the impact of various interest groups. We test the following model in our two subsamples of dissent.

$$\ln \frac{\Pr(\text{REJECT}=1)}{\Pr(\text{REJECT}=0)} = \alpha + \beta_1 \text{NEGATIVITY} + \beta_2 \text{IG}_{i,t} + \beta_3 \text{IGxNEGATIVITY}_{i,t} + \text{Controls} + \varepsilon_{i,t} \quad (3)$$

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<sup>16</sup>We include US as it has been argued to have a special role in international standard setting: “The United States is at once one of the IASB’s most powerful constituents and most reluctant endorsers, a contradiction that reflects its unique role in IFRS international politics” (Ramanna, 2013; p. 6)

*IG* is a dummy variable which changes between the six interest groups defined above, i.e. business community (BUS), financial industry (FIN), academics (ACA), professional accountants/auditors (ACC), regulators (REG) and national standard setters (STN). Table 6, panel A presents the results. Controls are included but not reported. As before, the coefficient for *NEGATIVITY* is positive and significant in all instances. However, the coefficient for the interaction between *NEGATIVITY* and the interest group (*NEGATIVITY* $\times$ *IG*) is negative and significant at 10% when *IG* takes 1 if the lobbyist is from the financial industry. This is consistent with the negative tone of this group being less influential in convincing the IASB to reject its proposed changes.

[INSERT TABLE 6 ABOUT HERE]

To investigate further, we explore the impact of the interest group in the more strictly classified sample of dissenting observations, i.e. where *AGREE*=0 and *NEGATIVITY* is above the median. Table 6, panel B presents the results. The coefficient for *IG* is negative and significant when it represents the financial industry and the marginal effect shows that the IASB is ten percentage points less likely to reject its proposals when dissenting responses are submitted by the financial industry. We also find results consistent with regulators being particularly successful in their efforts to overturn IASB's proposed changes. Bertomeu & Magee (2011) argues that political power in accounting regulation shifts with macro-economic conditions and Bengtsson (2011) shows that the IASB was endorsed by the EU as a private standard setter but that the financial crisis brought about a change in the attention and political involvement of EU regulatory bodies. In unreported results, we find that dissenting regulators have been more influential than other groups both before and after the financial crisis. However, our results for lower influence of the financial industry is driven by the period after the financial crisis. This result is partially consistent with Bengtsson's (2011)

analysis showing a rebalancing of power from private to public bodies in the wake of the financial crisis.

## **7. Conclusion**

This paper investigates whether the IASB takes account of formal lobbying in its development of standards for financial instruments. Our work is grounded in ideology theory for our hypotheses and tests and as such, we recognise that influence at this stage is not necessarily evidence of capture, as the main paradigm guiding the ideology of the standard setter may prevail even if lobbyists are successful. Consistent with ideology theory of regulation, our main tests show that there is influence afforded to lobbyists at the comment letter stage of the process, supporting that special interest lobbying does play a part in the formation of accounting regulation.

To overcome the methodological challenges stemming from the ambiguous nature of comment letters, and to avoid the potential for subjectivity that may result from manual content analysis, we use computerized sentiment analysis to undertake a large-scale empirical investigation of constituents' responses to issue-specific questions within exposure drafts issued by the IASB. We build on the work by Giner & Arce (2012) that finds that lobbyists use lengthy arguments on points of disagreement. The theory of psychological reactance predicts that persuasion is resisted and, when applied to our setting, a standard setter may have a stronger reaction when faced with explicit disagreement. Lobbyists seem aware of this, as evident by their low use of forceful language (Kwok & Sharp, 2005) and explicit disagreement. We therefore capture dissent by estimating a continuous negativity score for all comment letters submitted to the IASB. We show that, consistent with ideology theory and psychological reactance, lobbying success on points of disagreement, is explained by tone in the letter, not explicit disagreement. These findings are robust across several specifications of negativity.

We next use our measure of dissent to examine predictors of previously documented factors of lobbying success and lobbying from specific interest groups. Our results show that the effect of negativity from regulators has a greater impact on the decisions of the IASB than other interest groups, and negativity has a significantly lower impact when it comes from the financial industry. We attribute this finding to the shift in power and influence in accounting standard setting as a result of the financial crisis (Bengtsson, 2011).

Finally, while we have examined lobbying on accounting for financial instruments, our approach and methodology is flexible and presents a robust and useful framework for examining lobbying on other standards, and future research that does so will allow for a richer and more nuanced picture of the IASB's standard setting process.

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## Appendix: Variable Definitions

<i>Variable</i>	<i>Definition</i>
<i>AGREE</i>	1 if there is an occurrence of explicit agreement, 0 otherwise
<i>ANGLO</i>	1 if the lobbyist is from a country with Anglo-Saxon accounting tradition, 0 otherwise
<i>BOARD_C</i>	1 if there was a serving board member from the comment letter author's home country during the consultation period, 0 otherwise
<i>CONCL</i>	1 if the letter makes reference to the IASB's conceptual framework
<i>CONT</i>	1 if the lobbyist is a known financial contributor to the IASB as reported in the annual report, 0 otherwise
<i>DISAGREE</i>	1 if there is an occurrence of explicit disagreement
<i>EI_RANK_I</i>	1 if the home country of the lobbyist ranks above the median for the mean rank of the ratio of the aggregate stock market capitalization to gross national product for the entire time period 2002-2011, scaled by ownership concentration obtained from La Porta et al., (2006) and the number of listed domestic firms per capita.
<i>HIDL</i>	1 if the lobbyist is an association lobbying on behalf of members, 0 otherwise
<i>IAS_DIFF</i>	1 if the average of the absence and divergence scores from Ding et al (2007) is above the median, 0 otherwise.
<i>IG</i>	Takes 1 if the lobbyist is categorized as the interest group in question, 0 otherwise. <i>IG = BUS</i> : Business community. <i>IG = FIN</i> : Financial Industry. <i>IG = ACC</i> : Accountants and Auditors. <i>IG = ACC</i> : Academic. <i>IG = REG</i> : Regulator. <i>IG = STN</i> : Accounting Standard Setter.
<i>ISS</i>	1 if the accounting issue in question relates to classification and measurement, and 0 otherwise.
<i>LENGTH</i>	Number of lines in the observation
<i>MARK</i>	The market capitalization of listed companies in the country as a percentage of market capitalization of listed companies in the world, in the year of the observation
<i>NEGATIVITY</i>	The modified weighted ratio of negative to non-negative words
<i>POSTC</i>	1 if the observation relates to exposure drafts issued after the commencement of the financial crisis in 2008, 0 otherwise
<i>QPERC</i>	Percentage of questions posed in the exposure draft that were answered in the letter
<i>REJECT</i>	1 if the proposed change in the exposure draft did not make it into the resulting amendment to the standard, 0 otherwise.
<i>VOLLG</i>	The natural logarithm of the number of comment letters sent to the IASB in response to the exposure draft
<i>WORDS</i>	Number of words in the letter

**Table 1**  
Sample

**Panel A:** Sample Selection and exposure draft distribution

Year	Month	Completed Projects	Questions	Usable Questions	Comment Letters	Observations
2002	June	Disclosure, Presentation, Recognition and Measurement	14	12	207	976
2003	August	Fair Value Hedge Accounting	2	2	127	118
2004	April	The Fair Value Option	6	3	116	176
2004	July	Transition and Initial Recognition	3	1	37	22
2004	July	Cash Flow Hedge Accounting	3	1	58	33
2004	July	Disclosures	10	8	106	539
2004	November	Financial Guarantee Contracts	5	4	61	155
2006	June	Puttable at Fair Value	4	4	88	214
2007	September	Exposures Qualifying for Hedge Accounting	4	3	74	160
2008	October	Improving Disclosures	8	7	89	406
2008	December	Embedded Derivatives	5	5	55	137
2009	April	Derecognition	11	0	120	0
2009	July	Classification and Measurement	15	11	246	1,404
2010	May	Fair Value Option for Financial Liabilities	10	7	138	590
2011	January	Offsetting Financial Assets and Financial Liabilities	5	0	162	0
2011	August	Mandatory effective date of IFRS 9	2	2	131	148
Total			107	70	1815	5,078

**Table 1, continued**

**Panel B: Interest group distribution of comment letters**

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	observations	
	#	%
Academic	137	2.7
Accounting/Auditing	1,362	26.82
Business Community	839	16.52
Financial Industry	1,740	34.27
Regulator	262	5.16
Accounting standard setting body	673	13.25
Other	65	1.28
Total	5,078	98.72

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Table 1, panel A presents the exposure drafts, relating to financial instrument projects that have been completed, issued by the IASB for public comment, questions contained in the invitation to comment section, useable questions, the number of corresponding comment letters, and the resulting number of observations. Panel B shows the distribution of observations by seven stakeholder groups.

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**Table 2**  
Summary descriptive statistics

Variable	Implemented 2964 question observations			Rejected 2114 question observations			p-values for Tests of Differences	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median
<i>NEGATIVITY</i>	0.05	0.04	0.06	0.07	0.06	0.07	<0.01	<0.01
<i>DISAGREE</i>	0.16	0	0.37	0.2	0	0.4	<0.01	<0.01
<i>AGREE</i>	0.49	0	0.5	0.38	0	0.48	<0.01	<0.01
<i>WORDS</i>	2907.51	2076	3056.79	2673.11	2023.5	2537	<0.01	<0.01
<i>LENGTH</i>	12.99	6	20.81	12.92	7	18.48	<0.01	<0.01
<i>POSTC</i>	0.43	0	0.5	0.67	1	0.47	<0.01	<0.01
<i>VOLLG</i>	4.97	4.93	0.46	5.03	4.93	0.48	<0.01	<0.01
<i>CONCL</i>	0.03	0	0.18	0.04	0	0.19	0.84	0.84
<i>QPERC</i>	95.8	100	10.86	96.03	100	9.64	0.44	0.46
<i>BOARD_C</i>	1.48	1	1.6	1.39	1	1.54	0.04	<0.01
<i>HIDL</i>	0.25	0	0.43	0.23	0	0.42	0.08	0.08
<i>CONT</i>	0.18	0	0.39	0.18	0	0.38	0.62	0.62
<i>ANGLO</i>	0.49	0	0.5	0.48	0	0.5	0.59	0.59
<i>IAS_DIFF</i>	6.18	4	5.04	6.32	4	5.06	0.36	0.34
<i>MARK</i>	5.92	2.97	9.47	5.75	2.88	8.79	0.51	0.72
<i>EI_RANK_I</i>	0.65	1	0.48	0.66	1	0.47	0.48	0.48
<i>ISS</i>	0.63	1	0.48	0.62	1	0.48	0.54	0.54

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Table 2 reports the descriptive statistics for explanatory variables and control variables, where *NEGATIVITY* is the modified weighted ratio of negative to non-negative words. *AGREE* is 1 if there is an occurrence of explicit agreement, 0 otherwise. *DISAGREE* is 1 if there is an occurrence of explicit disagreement, 0 otherwise. *WORDS* is the number of words in the letter. *LENGTH* is the number of lines in the observation. *POSTC* is 1 if the observation relates to exposure drafts issued after the commencement of the financial crisis in 2008, 0 otherwise. *VOLLG* is the natural logarithm of the number of comment letters responding to the exposure draft. *CONCL* is 1 if the letter makes reference to the IASB's conceptual framework. *QPERC* is the percentage of questions posed in the exposure draft that were answered in the letter. *BOARD\_C* takes 1 if there was a serving board member from the comment letter author's home country during the consultation period, 0 otherwise. *HIDL* is 1 if the lobbyist is an association lobbying on behalf of members, 0 otherwise. *CONT* is 1 if the lobbyist is a known financial contributor to the IASB as reported in the annual report, 0 otherwise. *ANGLO* is 1 if the lobbyist is from a country with Anglo-Saxon accounting tradition, 0 otherwise. *VOLLG* is the natural logarithm of the number of comment letters sent to the IASB in response to the exposure draft. *IAS\_DIFF* is 1 if the average of the absence and divergence scores from Ding et al (2007) is above the median, 0 otherwise. *MARK* is the market capitalization of listed companies in the country as a percentage of market capitalization of listed companies in the world, in the year of the observation. *EI\_RANK\_I* is 1 if the home country of the lobbyist ranks above the median for the mean rank of the ratio of the aggregate stock market capitalization to gross national product for the entire time period 2002-2011, scaled by ownership concentration obtained from La Porta et al., (2006) and the number of listed domestic firms per capita. *ISS* is 1 if the accounting issue in question relates to classification and measurement, and 0 otherwise. Distributional descriptive statistics are displayed for observations relating to implemented proposed changes and observations relating to proposed changes that were rejected. The p-values of the test of differences are based on t-test for the means and Wilcoxon rank-sum test for the medians.

**Table 3**

The effect of explicit agreement, disagreement and negative tone on the likelihood of the IASB rejecting its proposal, logistic regression

<i>NEGATIVITY</i>	2.807*** (5.96)			2.060*** (4.36)	2.746*** (5.48)	2.766*** (3.48)
<i>DISAGREE</i>		0.297*** (3.71)		0.011 (0.12)	0.109 (1.21)	0.119 (0.83)
<i>AGREE</i>			-0.455*** (-7.86)	-0.383*** (-5.89)	-0.471*** (-7.24)	-0.472*** (-5.35)
<i>DISAGREExNEG</i>						-0.106 (-0.08)
<i>AGREExNEG</i>						0.021 (0.02)
<i>WORDS</i>					-0.000 (-1.46)	-0.000 (-1.46)
<i>LENGTH</i>					-0.000 (-0.31)	-0.000 (-0.32)
<i>POSTC</i>					1.092*** (22.13)	1.092*** (22.11)
<i>VOLLG</i>					-0.061 (-0.97)	-0.062 (-0.97)
<i>ISS</i>					-0.090 (-1.43)	-0.090 (-1.43)
<i>_cons</i>	-0.506*** (-12.36)	-0.392*** (-11.53)	-0.142*** (-3.77)	-0.298*** (-5.30)	-0.522* (-1.79)	-0.522* (-1.76)
<i>N</i>	5078	5078	5078	5078	5078	5078
<i>pseudo R-sq</i>	0.006	0.002	0.009	0.012	0.061	0.061

This table presents the output of the logistic regression (equation 2). Significance indicated by \*, \*\* and \*\*\* for the 10%, 5%, and 1% levels, z-score in parentheses. Variables defined in the appendix. Errors are clustered by comment letter.

**Table 4**

The effect of explicit disagreement and negative tone on the likelihood of the IASB rejecting its proposal in the subsample of dissenting opinions

<i>NEGATIVITY</i>	2.057*** (3.53)		2.043*** (3.40)	2.704*** (4.22)	2.906*** (3.84)	2.895*** (3.83)	2.934*** (3.12)
<i>DISAGREE</i>		0.069 (0.79)	0.012 (0.13)	0.116 (1.25)	0.114 (1.14)	0.074 (0.73)	0.082 (0.49)
<i>DISAGREExNEG</i>							-0.100 (-0.06)
<i>WORDS</i>				0.000 (1.33)	0.000 (0.68)	0.000 (0.89)	0.000 (0.89)
<i>LENGTH</i>				-0.004** (-2.00)	-0.004* (-1.87)	-0.004** (-1.96)	-0.004* (-1.96)
<i>POSTC</i>				1.147*** (14.48)	1.120*** (12.98)	1.148*** (13.07)	1.148*** (13.06)
<i>VOLLG</i>				-0.096 (-1.09)	-0.043 (-0.44)	-0.178 (-1.50)	-0.178 (-1.50)
<i>CONCL</i>					-0.305* (-1.67)	-0.337* (-1.84)	-0.336* (-1.83)
<i>QPERC</i>					0.004 (1.00)	0.004 (1.06)	0.004 (1.06)
<i>BOARD_C</i>					-0.011 (-0.29)	-0.015 (-0.42)	-0.015 (-0.42)
<i>HIDL</i>					-0.056 (-0.69)	-0.049 (-0.61)	-0.049 (-0.61)
<i>CONT</i>					0.294*** (3.23)	0.289*** (3.24)	0.289*** (3.24)
<i>ANGLO</i>					-0.070 (-0.39)	-0.039 (-0.22)	-0.039 (-0.22)
<i>IAS_DIFF</i>					-0.005 (-0.34)	-0.003 (-0.20)	-0.003 (-0.20)
<i>MARK</i>					-0.006 (-1.51)	-0.006 (-1.44)	-0.006 (-1.44)
<i>EI_RANK_I</i>					0.112 (1.27)	0.122 (1.39)	0.122 (1.39)
<i>ISS</i>						0.259*** (2.64)	0.259*** (2.65)
<i>_cons</i>	-0.295*** (-5.10)	-0.164*** (-3.48)	-0.297*** (-4.93)	-0.462 (-1.10)	-1.053* (-1.71)	-0.595 (-0.91)	-0.599 (-0.91)
<i>N</i>	2839	2839	2839	2839	2317	2317	2317
<i>pseudo R-sq</i>	0.004	0.000	0.004	0.057	0.060	0.062	0.062

This table presents the output of the logistic regression (equation 2) on the subsample, i.e. observations containing explicit agreement (*AGREE=1*) are excluded. Significance is indicated by \*, \*\* and \*\*\* for the 10%, 5%, and 1% levels, z-score in parentheses. Variables are defined in the appendix. Errors are clustered by comment letter.

**Table 5**

The effect of previously documented variables on the likelihood of the IASB rejecting its proposal in the more strictly defined subsample of dissenting opinions and split by type of accounting issue

	<i>All issues</i>		<i>Disclosure and other</i>		<i>Classification and Measurement</i>	
	coef.	m.e.	coef.	m.e.	coef.	m.e.
<i>WORDS</i>	0.000 (1.13)	0.000 (0.73)	-0.000 (-1.35)	-0.000 (-1.40)	0.000** (2.54)	0.000** (2.19)
<i>LENGTH</i>	-0.004 (-1.48)	-0.001 (-1.42)	0.025*** (3.78)	0.006*** (3.41)	-0.016*** (-3.32)	-0.004*** (-4.34)
<i>POSTC</i>	0.898*** (6.62)	0.219*** (6.14)	0.550** (1.98)	0.137* (1.93)	1.001*** (6.14)	0.043*** (5.76)
<i>VOLLG</i>	-0.262 (-1.46)	-0.042 (-1.00)	0.536 (1.56)	0.134 (1.52)	-0.922*** (-3.64)	-0.230*** (-3.71)
<i>CONCL</i>	-0.026 (-0.08)	-0.000 (-0.00)	0.712 (0.57)	0.177 (0.60)	0.062 (0.18)	0.015 (0.16)
<i>QPERC</i>	0.008 (1.57)	0.002 (1.40)	-0.005 (-0.46)	-0.001 (-0.44)	0.013** (2.11)	0.003* (1.93)
<i>BOARDC</i>	0.099 (1.52)	0.026 (1.62)	-0.047 (-0.38)	-0.012 (-0.40)	0.191** (2.48)	0.047** (2.29)
<i>HIDL</i>	-0.039 (-0.29)	-0.012 (-0.35)	-0.034 (-0.15)	-0.009 (-0.13)	-0.084 (-0.52)	-0.021 (-0.48)
<i>CONT</i>	0.170 (1.15)	0.043 (1.11)	-0.069 (-0.29)	-0.017 (-0.24)	0.341* (1.71)	0.085* (1.73)
<i>ANGLO</i>	-0.359 (-1.19)	-0.097 (-1.23)	0.565 (0.93)	0.141 (0.94)	-0.737** (-2.13)	-0.184* (-1.89)
<i>IAS_DIFF</i>	0.004 (0.16)	0.000 (0.08)	0.042 (0.90)	0.010 (0.88)	-0.005 (-0.15)	-0.001 (-0.15)
<i>MARK</i>	-0.007 (-0.90)	-0.002 (-0.94)	-0.022 (-1.56)	-0.005 (-1.56)	-0.001 (-0.10)	-0.000 (-0.09)
<i>EI_RANK_I</i>	0.295** (2.04)	0.07* (1.90)	0.503** (1.97)	0.125* (1.74)	0.167 (0.97)	0.000 (0.92)
<i>ISS</i>	0.174 (1.25)	.043 (1.22)				
<i>_cons</i>	-0.157 (-0.16)		-3.126* (-1.72)		3.022** (2.08)	
<i>N</i>	1187		378		809	
<i>pseudo R-sq</i>	0.036		0.089		0.063	

This table presents coefficients and marginal effects in the more restrictive classification of dissenting opinions where observations exclude explicit agreement, i.e. *AGREE*=0 and *NEGATIVITY* is above the median level of .0668. Columns 1 and 2 represent all issues, columns 3 and 4 present results for those observations relating to disclosure issues and others not falling in the category "classification and measurement" which are presented in columns 5 and 6. Marginal effects of covariates are estimated whilst holding all other variables constant at their means. For binary variables, this is the discrete change from 0 to 1 and for continuous variables it is the first derivative of the change in *REJECT* with respect to the covariate. z-statistic in parentheses. Errors are clustered by comment letter and significance at the 10%, 5% and 1% levels are indicated by \*, \*\*, and \*\*\*. Variables are defined in appendix.

**Table 6**

Interest group analysis

**Panel A:** Logistic regression on dissenting subsample

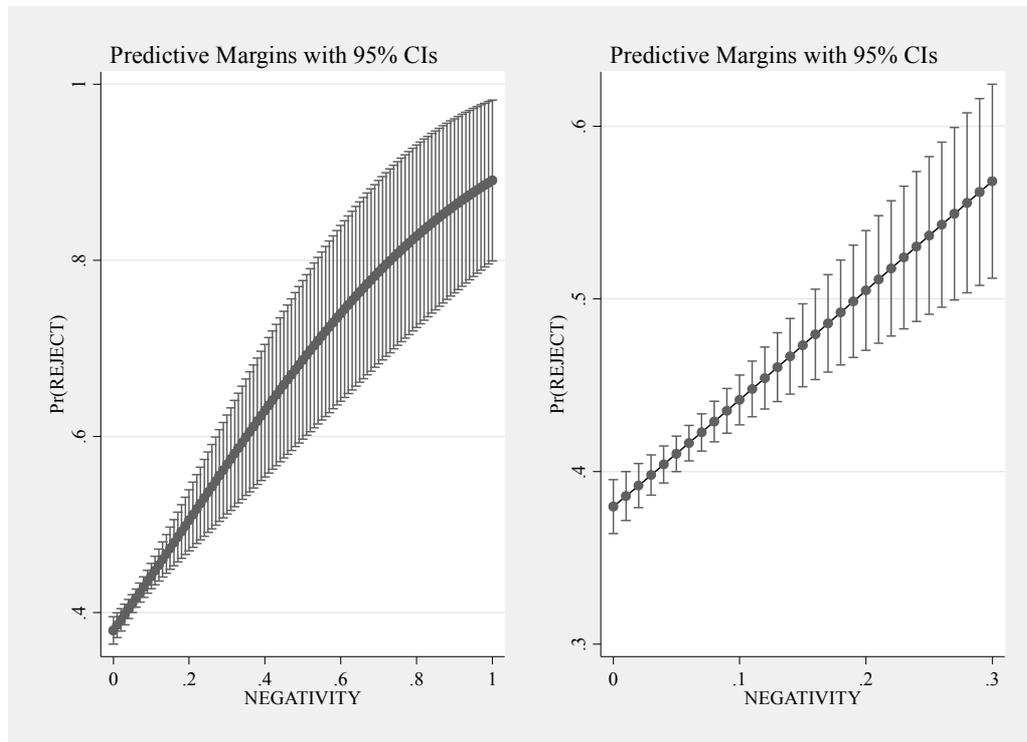
	<i>IG = BUS</i>	<i>IG = FIN</i>	<i>IG = ACA</i>	<i>IG = ACC</i>	<i>IG = REG</i>	<i>IG = STN</i>
<i>NEGATIVITY</i>	2.622*** (3.29)	3.947*** (4.18)	3.037*** (3.99)	2.700*** (3.34)	2.900*** (3.92)	2.700*** (3.34)
<i>IG</i>	-0.129 (-0.74)	0.010 (0.07)	0.378 (1.13)	-0.014 (-0.09)	0.076 (0.16)	-0.014 (-0.09)
<i>IGxNEGATIVITY</i>	1.832 (0.89)	-2.430* (-1.71)	-2.009 (-0.56)	1.527 (0.93)	4.794 (1.05)	1.527 (0.93)
<i>_cons</i>	-0.504 (-0.77)	-0.557 (-0.84)	-0.614 (-0.93)	-0.618 (-0.92)	-0.517 (-0.79)	-0.618 (-0.92)
<i>Controls included</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
<i>N</i>	2317	2317	2317	2317	2317	2317
<i>pseudo R-sq</i>	0.062	0.064	0.062	0.062	0.062	0.062

**Panel B:** Logistic regression on more restrictive dissenting subsample

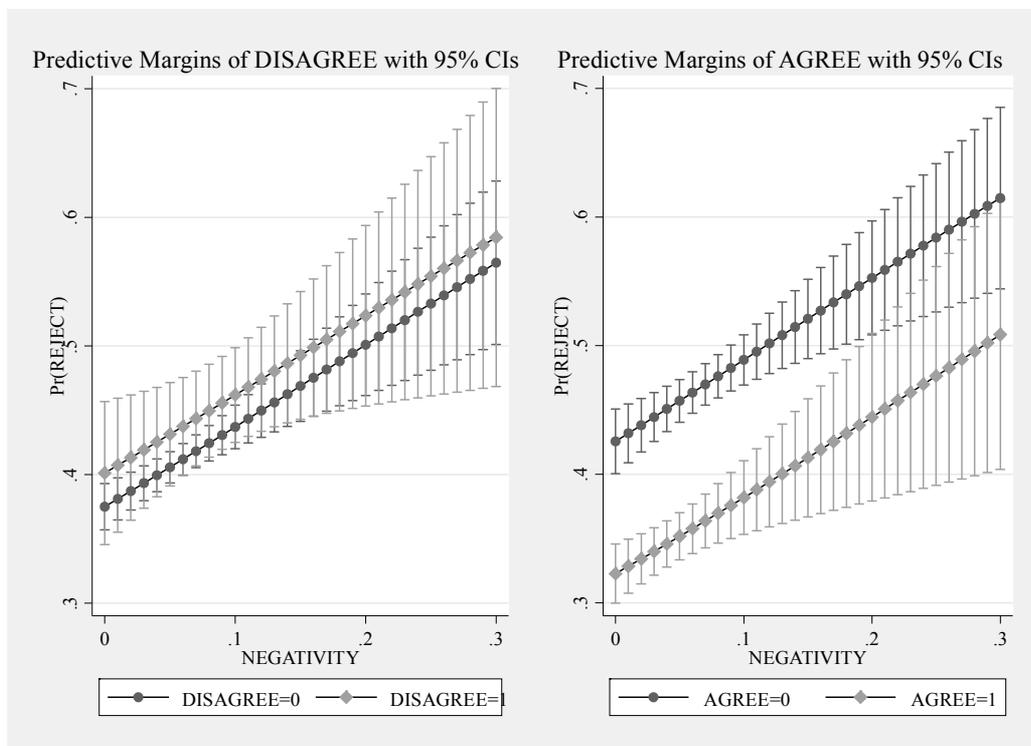
	<i>IG = BUS</i>		<i>IG = FIN</i>		<i>IG = ACA</i>		<i>IG = ACC</i>		<i>IG = REG</i>		<i>IG = STN</i>	
	coef.	me.	coef.	me.	coef.	me.	coef.	me.	coef.	me.	coef.	me.
<i>IG</i>	0.191 (1.05)	0.045 (1.05)	-0.419*** (-3.14)	-0.105*** (-3.14)	0.039 (0.10)	0.010 (0.10)	0.125 (0.84)	0.031 (0.84)	0.794* (1.86)	0.198* (1.86)	0.125 (0.84)	0.031 (0.84)
<i>Controls included</i>	<i>yes</i>		<i>yes</i>		<i>Yes</i>		<i>yes</i>		<i>yes</i>		<i>yes</i>	
<i>N</i>	1187		1187		1187		1187		1187		1187	
<i>pseudo R-sq</i>	0.037		0.041		0.036		0.036		0.038		0.036	
<i>_cons</i>	0.066 (0.07)		0.136 (0.14)		-0.165 (-0.17)		-0.242 (-0.25)		-0.064 (-0.07)		-0.242 (-0.25)	

This table presents the interest group analysis. Panel A shows the coefficients from the logistic regression (equation 3) including interactions between negativity and interest group indicators on the dissenting subsample. Panel B shows the coefficients of logistic rejection and marginal effect of interest group on the probability of a proposal being rejected for the more restrictively categorised dissenting observations, i.e. where *AGREE*=0 and *NEGATIVITY* is above the median. z-statistic in parentheses. Errors are clustered by comment letter and significance at the 10%, 5% and 1% levels is indicated by \*, \*\*, and \*\*\*. All other variables are defined in appendix.

**Figure 1**  
 Predictive margins of negativity on the likelihood of a proposal being rejected  
**Panel A:** Predictive margins of *NEGATIVITY*



**Panel B:** Predictive margins of *DISAGREE* and *AGREE* at common levels of *NEGATIVITY*



**Figure 2**  
Predictive margins of negativity on the likelihood of a proposal being rejected in the dissenting sample

