


## REPRESENTATION AND DEMOCRATIC PROCESS IN THE PRODUCTION OF ACCOUNTING STANDARDS BY THE IASB: A DISCURSIVE ANALYSIS

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### ABSTRACT

In a globalized world in which democratic representation and values are praised, especially in the West, institutions that do not profess and practice them are criticized for lack of legitimacy. The International Accounting Standards Board (IASB), as a social institution, influences and is influenced by the social environment. However, criticism has been made of the institution regarding its legitimacy, especially as it is a regulatory entity of a private nature. Such criticisms call into question values such as independence, public interest, due process, accountability, diversity, representativeness. The objective of this work is to analyze, based on some documents published by the IASB, the values that this institution professes, seeking to confer the perception of legitimacy before the public. The theoretical premise adopted is that of social constructivism and the institutional theory of accounting, which advocate that meanings and symbols are social constructions and that, therefore, institutions play an important role in the creation, maintenance or modification of symbolic universes, as well as in their legitimation. Discourse Analysis (DA) will be used as an instrument capable of revealing the values advocated by the IASB. In the end, it can be seen that the IASB has professed values such as representativeness, diversity, transparency, due process, public interest, independence, accountability, seeking to legitimize itself before the public. In this sense, this article contributes to show that the IASB's discourse is in tune with social values dear to the Western world.

**Keywords:** Regulation. Democratic Process. Legitimacy. IASB. IFRS.

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## INTRODUCTION

The implementation of international standards has generated, in recent years, a series of researches. Studies on: the positive and negative points of IFRS (*International Financial Reporting Standards*) for investors (BALL, 2006; DAMANT, 2006; JOOS; LEUNG, 2013); the impacts of adoption (ARMSTRONG et al., 2010; DEVALLE et al., 2010; KAYA; PILLHOFER, 2013; BALL, 2016) promoting an effect in other countries (RAMANNA; SLETTEN, 2014); the economic consequences on mandatory disclosure (DASKE et al., 2008), among others.

A more recent approach seeks to investigate the legitimacy of the standardization of accounting standards. Chua and Taylor (2008) indicate that IFRS have institutionalized legitimacy aiming at global governance. Georgiou and Jack (2011) identified the institutionalization of accounting practices measured at fair value after standardization. Durocher et al. (2019) investigated the perception of users' legitimacy in the face of international standards.

Private regulation, as exercised by the *International Accounting Standards Board* (IASB), is criticized for allegedly lacking representation and a democratic process. According to Brummer (2011), when a regulatory institution has strict membership criteria and a centralized decision-making process, its legitimacy is questioned. For the author, the institution, in these circumstances, is subject to the criticism of capture by ideological interests and to the skepticism of non-participants, resulting in norms that are not very persuasive to the authorities and the public.

For example, Allen and Ramanna (2013) investigated the influence of members of the SEC (*Securities and Exchange Commission*) and the FASB (*Financial Accounting Standards Board*) in the production of standards. The authors identified that members who are aligned with financial activities are more likely to formulate standards that decrease the reliability and increase the usefulness of accounting information. In order to mitigate this kind of criticism, the IASB has adapted its internal structure and its discourse, adapting them to democratic values.

This article aims to investigate how the IASB uses discourse to legitimize itself as an institution that elaborates international accounting standards (IFRS) based on the analysis of some documents disclosed by it, using Discourse Analysis (DA). This study, in particular, has the following question: do the values that the IASB transmits in its communications fit predominant social values, such as democratic ones? As a limitation, the present study

does not advance on the extent to which the practice of the IASB corresponds to the promises made discursively.

Initially, the theory of social construction by Berger and Luckmann (2014) is explained, presenting fundamental concepts for the understanding of what will follow. In summary, it seeks to demonstrate how symbolic universes conform social reality and that they are not neutral, thus having an ideological basis.

Furthermore, it is emphasized that social institutions are responsible for preserving or transforming values and, therefore, for influencing the interpretation of social phenomena. They thus exercise control of the symbolic universes, which can be manipulated. The idea of legitimation is then introduced, through which these values are explained and justified. It is shown that legitimation can be given by expertise and control, the latter being important for the proposed analysis. After that, it deals with the theme of regulation and the predominant values that are considered necessary for the perception of legitimacy of the regulatory institution as prolegomena of the following section.

Then, the sociological methodology used is explained, seeking to align the present work with the sociocultural tradition in the aspect of social construction and the institutional approach to accounting, in conjunction with Discourse Analysis (DA).

Finally, in the last part, the discourse of the IASB is analyzed, concluding that it has been systematically adopting a discourse appropriate to democratic values, as a way of legitimizing itself socially.

## **LITERATURE OVERVIEW**

### **THE PROCESS OF SOCIAL CONSTRUCTION OF REALITY**

Berger and Luckmann (2014) suggest that habit is an action that is frequently repeated and that, as such, it becomes a pattern of behavior, and can be seen again in the future with economy of effort. When these habits are made social norms through mutual consent, they are seen as mandatory and, therefore, are institutionalized.

Actions acquire a specific meaning and the individual responsible for practicing them gains a social role, so that the pattern of behavior becomes objective. So, these typifications of situations recognizable by individuals serve as a common basis of understanding, in addition to giving predictability to actions and, ultimately, to social relations. Therefore, institutionalization is fundamental in the stability and perpetuation of society.

Symbolic universes lend themselves not only to explaining social reality by defining meaning to events, but mainly to legitimize social practices, that is, institutions. Therefore, symbolic universes can be understood as an ideological system. Legitimation is precisely the process of explanation and justification of the symbolic universe. Through it, "the institutional order is justified by giving normative dignity to its practical imperatives" (Berger & Luckmann, 2014, p. 124).

Legitimation is important, in this sense, because the socially produced knowledge needs to be transmitted, through language, to other generations, and, in this way, the stock of knowledge is received by the new generations as an objective reality. Thus, "every transmission of institutional meanings obviously implies procedures of control and legitimation" (Berger & Luckmann, 2014, p. 96). However, although the new generations perceive social reality as objective, by interacting in this same reality, they contribute to producing it continuously (Berger & Luckmann, 2014). Because of this interference of people in objective reality, thus producing new common meanings, the construction of social reality is characterized by intersubjectivity and continuous transformation.

Therefore, symbolic universes, which are part of the knowledge produced through interactions, vary in time and space. Therefore Berger and Luckmann (2014, p. 15) They say that "being historical products of human activity, all socially constructed universes are modified, and the transformation is carried out by the concrete actions of human beings, because concrete individuals and groups of individuals serve as definers of reality". Symbolic universes can still become increasingly complex with social development, and the division of labor is a contributing factor.

In fact, the division of labor accelerates the expansion of the process of institutionalization of habits and, therefore, of the construction of social reality, making it increasingly complex (Berger & Luckmann, 2014). With the division of labor, specialized knowledge and a body of experts responsible for legitimizing this socially produced knowledge emerge, and they arrogate to themselves authorized to give the last word on the knowledge of their domain, so that individuals adhere to and accept this knowledge as an objective reality (Berger & Luckmann, 2014). Such experts, embodied in a body of professionals, formally organize themselves to produce, control and legitimize specialized knowledge. That is, in the final analysis, they are controllers of the symbolic universes.

Rocha (2018) draws attention to the theory of value, that is, to how the production of social values is explained. He states that a value is a composite of interests that integrates

the way of life of a social group and that, because it is essential, it is sought to be preserved, especially because its educational character guides the actions of individuals.

Values are part of the symbolic universe of a culture (Rocha, 2018) and, as such, they allow the organization of social experiences on a common basis. As the author explains, education plays an important role in the consolidation of this common value base, in order to avoid social deviations. However, the formal educational system is only one of the forms of social control, consisting of the primary socialization that the individual goes through. Other institutions are also responsible for this control, some of which have a very specific domain of action, such as those composed of professionals from a certain area of knowledge.

Rocha (2018) it underlines the double function of symbolic universes: the descriptive and the prescriptive. One value, as the author explains, is the coalescence between the descriptive and the prescriptive function. Thus, a value only really deserves to be called as such if what is proclaimed is effectively adopted by the social group in question. Thus, it can be said that there is an emotional link between the practice and the prescription, which culminates in the sacralization of social value, that is, in its stability within society.

The idea of social control is fundamental to understanding how symbolic universes are preserved, since "to say that a segment of human activity has been institutionalized is already to say that this segment of human activity has been subjected to social control" (Berger & Luckmann, 2014, p. 78)

Like Berger and Luckmann (2014), Rocha (2021b) states that meanings are not produced individually, but intersubjectively. This, of course, is based on the assumption of the possibility of communication. The sharing of common meanings allows for understanding, because people understand that they are talking about the same thing. Rocha (2021b) points out that symbolic control occurs through the manipulation of the symbolic universes themselves, which in turn shape social reality. Symbolic control is a means of constructing and reconstructing social reality, so that "whoever holds the power to act on the symbolic universe, conveying its contents or adding to them, holds the power to present their version of the right, the good, the just, and so on" (Rocha, 2021b, p. 219).

The social impact of symbolic control should not be minimized. Rocha (2021) goes on to explain that, although symbolic control is not a direct control over people's actions, it ultimately allows individuals to be inculcated which actions are considered normal, which is an indirect form of induction to action.

This author also includes as the main controllers of meanings educators, opinion makers and promoters of utopia, who invest themselves with what he calls ministerial authority (*autoricts*). It includes, among the opinion makers, intellectuals and specialists. The latter have highly specialized knowledge and, therefore, are creators of meanings (Rocha, 2021b). The control of meanings can also take place through what Rocha calls complex actors. They can be organizations in which several interests are accommodated, through mediators, substantiating the interest of the organization.

From this explanation it is clear that symbolic universes, as understood by Berger and Luckmann (2014), have an ideological basis. There are several concepts of ideology, but, among the possible ones, it is important to highlight its most comprehensive form and not that of common sense that relates it to the immediate and changing interests of the political agenda of the day. For Rocha (2021a), in a broad sense, ideology encompasses both a set of ideas and forms of consciousness, and can be described as a dogmatic interpretation of reality. In light of this, he ponders that:

The structure of ideology privileges certain interests whose origin is not made explicit and whose nature is concealed by the naturalization of the ideological proposal, that is, by the assumption that what is described within the ideology is the pure and simple truth. (Rocha, 2021a, p. 129).

Ideology, then, in the sense that has been exposed, is so fundamental that it is perceived by individuals as part of the very structure of the reality that surrounds them and, therefore, they are not put in check, since they condition their own perception, in such a way that "the person tends to perceive what he believes he should perceive" (Rocha, 2021a).

That's why Lippmann (2008) he maintains that one does not see in the first place in order to then define the situation experienced, first one defines the situation experienced in order to then see oneself. This is because, as Lippmann explains, individuals are involved in a culture that provides them with a way to understand the world around them. That is, people have a set of preconceptions that determine their perception and that helps them to understand the world according to these cultural referents. Such is the strength of it that:

The dogmatic character of ideology makes its criterion of truth dependent on the principle of authority, since basic dogmas cannot be modified. So, the corporation responsible for guarding dogmas and ensuring the purity of their interpretation has undisputed authority to say what the truth is. (ROCHA, 2021a, p. 131).



Thus, social institutions play an important role in the preservation or modification of values, by the authority socially ascended, being, therefore, guiding the criteria of what is just, correct, good, beautiful and so on. And, in this sense:

Ideology engenders explanatory paradigms, in Kuhn's sense, which can condition the description/explanation of the world in such a way that everyone starts to refer to constructions as if they were objective constructions that would not exist if the basic ideology were revoked. (ROCHA, 2021a, p. 133).

Similarly, Dirk (2008, p.43) starts from the idea that social control through discourse presupposes an ideological structure and stresses that "this [ideological] structure, formed by fundamental cognitions, socially shared and related to the interests of a group and its members, is acquired, confirmed or altered, mainly, through communication and discourse".

In this way, the control of discourse is a form of social control and, therefore, of the exercise of power. Who controls the discourse establishes who can manifest and what can be manifested and in what situations, within their domain of power (Dijk, 2008). Groups that hold control of discourse in some social sphere have such influence that their power determines "the agenda of public discussion, influence the relevance of topics, control the amount and type of information" (Dijk, 2008, p. 43).

Scott (2010), dealing with power, points out that among the possible forms of its exercise is persuasive influence and that,

it depends on the rhetorical use of arguments, appeals, and reasons that will lead them, by virtue of their socialization, to believe that it is appropriate to act in a certain way, and not in another. The two main forms of persuasive influence are signification and legitimation, which operate, respectively, through common cognitive meanings and shared value commitments. These make certain behaviors seem necessary or emotionally appropriate to other actors. (ROCHA, 2021a. p. 163).

Expertise and control, for Scott (2010) they are the fundamental forms of signification and legitimation, and both have a discursive basis. For this author, "legitimation exists whenever there is a belief that a pattern of domination is just, correct, justified or, in some way, valid" (Scott, p.164-165).

Under these conditions, the internalization, by people, of predominant cultural values adopted by those who occupy a position of domination will cause a process of identification, thus allowing the exercise of power by persuasive influence through control. It is in this sense that Richardson (1987) indicates that the process of legitimation involves the recognition of the identity of values between the agent and with whom he interacts.

Similarly, power through expertise, constructed discursively, is based on the belief in the superiority of specialized knowledge, which is why its recommendations are valued and usually used as a basis for action.

## DESIRABLE VALUES FOR REGULATORY ACTIVITY

Brummer (2011) differentiates between private and public legislatures to refer to the degree of participation of the private sector in the process of drafting standard norms (*standard-setting process*). Schwartz and Scott (1995 as cited in Brummer, 2011) define a private legislature as one in which the professionals themselves create, interpret and enforce the rules established by themselves based on their professional experience. He cites the IASB as a typical example. The distinction that Brummer seeks to imprint could otherwise be referred to as private regulation and public regulation. Brummer (2011) contrasts the regulation of the financial market (public regulation) with private regulation, emphasizing, as a common point, the complexity in the elaboration of specific rules for market sectors. However, he points out that private regulation has more specialty and expertise, due to the direct professional contact of its participants in the market niche in which they operate. It would follow that the standards established by these professionals would be the result of better-informed decisions compared to those of the regulators of the public legislature.

On the other hand, citing the experiences of Bratton and Cunningham at the IASB, Brummer (2011) comments that members of private regulation may end up promoting their own interests to the detriment of the public interest. Moreover, in contrast to public regulators, private regulators lack more information about the social impact of their decisions, so the social costs of private regulation would outweigh the benefits. This observation is consistent with the comment of Potter (2005), for whom accounting regulation has not been concerned with the broad social effects that it entails, so that accounting is seen in a limited perspective.

Second Richardson and Eberlein (2011), in the case of intergovernmental bodies, where rule-making transcends nation-states, the democratic legitimacy of these rules derives from delegation, whereby sovereign states appoint their representatives vested with authority. Even so, this author points out the crumbling of the legitimacy of this format, as this delegation process, despite being theoretically anchored in the will of the people, is far removed from effective popular participation, often lacking control and transparency.



Richardson and Eberlein (2011) warn that transnational governance by private individuals, by contrast, would be even more problematic, as it does not originate in any state institution legitimized by the democratic process. It is important to mention that such a mechanism differs from the delegation of the sovereign State to private entities, within its domains, so that they can exercise the regulation of some activity. In this case, this attribution is based on the Constitution and subject to judicial control (Richardson & Eberlein, 2011).

Thus, for the authors, a characteristic of transnational private regulation is that it is not subject to any mechanism for correcting governance and its decisions. It could be argued that, in the case of IFRS, the rules do not have the force of law and that they depend on their voluntary adherence by the States, a circumstance in which legitimacy would be guaranteed. However, this is not as simple as it seems. The national authorities responsible for implementing these standards have little room to modify them, since the standards are considered "take it or leave it" if one wants to give credibility to adherence to IFRS (Richardson & Eberlein, 2011).

Moreover, as the IASB has undeniably gained global authority over regulation in accounting standards, failure by States to adhere to IFRS means being left on the margins of the international financial system. Many international organizations, such as the World Bank and the IMF, condition adherence to these standards as a condition for participation in their programs. In fact, Arnold (2009) states that IFRS is widely accepted and there is pressure to eliminate barriers that prevent the harmonization of accounting standards at the national level, with a view to creating a global market in accounting services and professional labor. Globalized markets, therefore, follow the determinations of the IASB.

Such factors contribute to the public's distrust, the lack of credibility and legitimacy of this type of regulation, due to the influence of private and commercial interests to the detriment of the public interest. For this reason, several regulatory institutions, including the IASB, seek to align their discourse and organizational structure with democratic values, seeking to legitimize their practices before society. Thus, they create a link between their actions and widely accepted social values such as independence, due process, accountability, diversity, representativeness, public interest, among others.

In summary, there is a concern about the regulation carried out by institutions that are not accountable to the public and are not subject to an electoral response. Therefore, there is a need to establish accountability mechanisms (*Accountability*) and appropriate

procedures. Baldwin, Cave and Lodge (2012) list the main procedural points that are well regarded in the regulation. The authors highlight, in the first place, the need to implement procedural mechanisms that make visible the actions of the regulatory entity that are difficult to be observed and measured. It is, as can be seen, a prerequisite for the possibility of liability.

The fairness of the procedure is also highlighted as an important source of legitimacy. In this sense, decisions must be motivated and the decision criteria made public, including data and evidence used in the reasons for deciding. Another procedure of good regulation is the disclosure of information to the public, which translates into transparency. In this way, the possibility of corruption and allegations of capture by private and commercial interests is reduced. Public hearings also contribute to increasing the circulation of information and public interest in regulatory decisions.

These measures for good regulation can be synthesized in these values that are intertwined: independence, due process, accountability, diversity, representativeness, public interest. The IASB, through its discourse, has shown harmony with these values, as will be seen.

## **METHODOLOGICAL PROCEDURES**

### **ACCOUNTING AS A SOCIAL INSTITUTION AND DISCOURSE ANALYSIS**

This article is methodologically aligned with the sociocultural tradition, particularly in the strand of social constructionism (or constructivism). Sociocultural tradition attaches particular importance to interaction, the process through which roles, social norms and values are established (Littlejohn & Foss, 2010). The main exponents of the social construction strand are Berger and Luckmann, authors of the seminal book "The Social Construction of Reality". Taking into account the premise of sociocultural tradition, these authors emphasize how social interactions create, through language, meanings and symbolic universes and how these are preserved and transmitted.

Thus, it is understood that the social world, with its groups, organizations and cultures, is a collective creation and that such creation is established through social interactions, through communication between subjects. The social context gains special relevance, since interactions always occur in a given culture. It is in it that meanings and symbols are created, preserved and modified. In this way, being the conventional social

reality, changing the context, the evaluative universes change and, consequently, the perceptions and interpretations of reality.

Because of this, this perspective, instead of simply describing social reality, seeks rather to examine and document the processes through which reality is formed through interactions (Giddens, 2012). Towards Richardson, (1987), the social construction approach maintains that the link between values and actions are established discursively and values result from a consensus established through social interactions, with special relevance to certain social actors in the maintenance of these values due to their recognized expertise. It follows that the relationship between values and actions is conventional and, therefore, subject to the historical and cultural context.

In line with this methodology is the institutional approach to accounting. Towards Dias Filho and Batista Machado (2012, p. 33), the institutional and social methodology aims to "explain accounting phenomena based on patterns of behavior, norms, beliefs and procedures that organizations resort to to gain legitimacy in the environment in which they operate". They also explain that institutional theory emphasizes that if organizations seek to gain legitimacy, they must be guided by institutionalized beliefs and Mayer and Rowan (1992 as cited in Dias Filho & Batista Machado, 2012, p. 34) state, in turn, that "institutionalization is a process through which social values (practices, beliefs, obligations) assume the condition of rule in the thought and action of individuals, whether they are agglutinated in an organization or dispersed in society in general".

As can be seen, the institutional approach is not incompatible with that of social construction. This is because it is broad enough to allow a multidisciplinary perspective capable of questioning not only accounting practice, but also the political and economic forces that lie in the international context of accounting practice (Arnold, 2009). Thus, the effects of accounting practice transcend the organizations that use them, reaching society as a whole, which is why accounting is seen as a socially constructed practice (Potter, 2005).

Discourse Analysis (DA), in turn, is an instrument capable of revealing which beliefs and ideologies are professed by social actors, through the examination of texts produced by them, but going beyond the mere interpretative analysis of content (Caregnato & Mutti, 2006). This is because, as the authors have pointed out, this methodology relates the language used to the socio-historical context in question, especially because "the analyst,

when using DA, will read the text focusing on the discursive position of the subject, socially legitimized by the union of the social, history and ideology, producing meanings".

Thus, methodologically, the perspective of social constructivism, the institutional approach to accounting and Discourse Analysis (DA) are used in the present study.

## THE PROCESS OF LEGITIMIZING THE IASB

The International Accounting Standards Board (IASB) prepares the International Financial Reporting Standards (IFRS) that are incorporated in several jurisdictions. These norms, by themselves, are not mandatory, because they depend on their formal introduction in the legal systems of sovereign countries that decide to adopt them. In a globalized world, in which financial markets are interconnected, the IASB's efforts play an important role in the harmonization of accounting standards. This allows countries to speak a common accounting language, thus facilitating the financial statements to have a high degree of comparability.

However, as mentioned, as a private institution, the IASB is subject to numerous criticisms, which undermines its legitimacy and credibility. The institution has tried to respond to these criticisms in the documents it produces, which seek to inform the public about structural changes that reflect social values, notably democratic ones, which are now considered non-negotiable in the Western world. The adaptation of the IASB's discourse is palmar and translates into the vocabulary used in these documents. The analysis of the rhetorical resources used by the IASB reveals its need to establish processes of social legitimation.

It is important to distinguish two possible perspectives of analysis. The IASB, like any social institution, is influenced and influences the social environment. In this article, we focus on how the IASB uses discourse as a way to socially legitimize itself as an institution responsible for the elaboration of international accounting standards.

The theory of legitimation studies the relationship between actions and the meanings of these actions (values), so that social actors, in the search for acceptance, aim to establish a link between their actions and the predominant social values in a given social and historical context. In this case, the IASB is influenced more by the environment than it is influenced, since its discourse seeks to adapt to cherished values, especially democratic values, as will be seen.

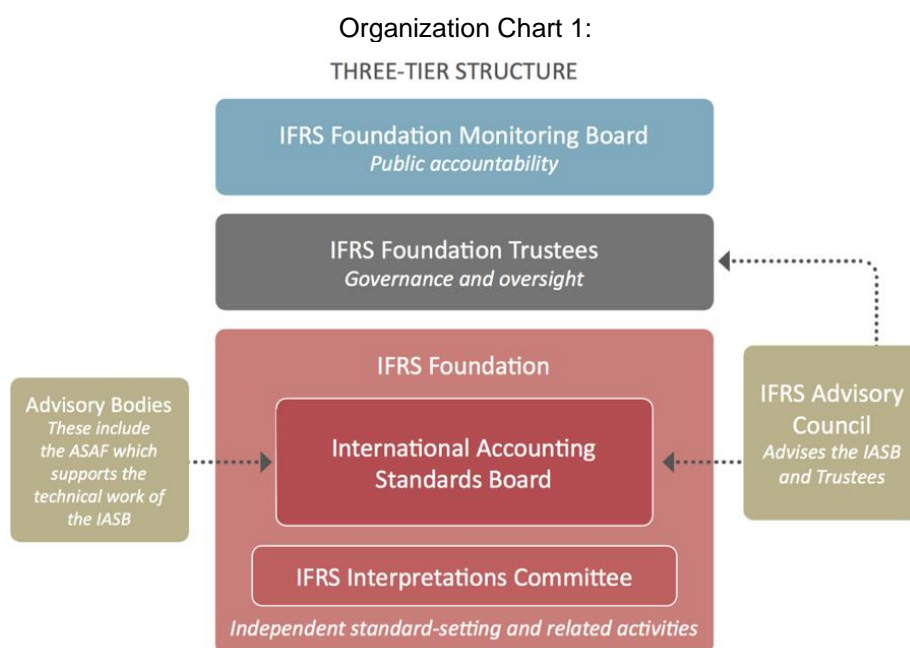
A different situation is its activity of producing accounting standards. These norms are the result of the confluence of various interests and, therefore, of values, from which it can be concluded that the resulting norms also have an ideological basis, and one cannot speak of neutrality. In the role of regulator, the IASB plays an active role in the institution, conservation and transformation of values that directly affect the activity, but whose impact is also felt in society as a whole.

In fact, as he clarifies Potter (2005), accounting standards, as an application of a technique, are used by organizations to quantify financial activities, processes and events, establishing ways in which people's actions and perceptions are transformed. Thus, the IASB, as a regulator, plays a more transformative role, as it dictates the "correct way" to identify and measure the accounting phenomenon, impacting the perception of its users.

## EXPOSITION OF THE DISCOURSE

### **The Constitution of the IFRS Foundation**

The first document that deserves to be highlighted is the Constitution of the IFRS Foundation (IFRS Foundation, 2018). In this document, it is clear that the institution's objective is the elaboration, in accordance with the public interest, of high-quality accounting normative standards. It is in the Constitution that the internal structure is outlined, which basically consists of three bodies: the Supervisory Board (*Monitoring Board*), the Trustees (*Trustees*) and the International Accounting Standards Board or simply the IASB. It can be observed that the way in which the structure is organized aims to promote democratic values. Check out the organizational chart:



Source: Hoogervorst & Prada (n.d.)

The Supervisory Board, with 22 members, is the body responsible for conferring public accountability to the institutional structure and is composed of capital market authorities from different countries, with the Brazilian Securities and Exchange Commission (CVM) becoming a permanent member in 2014, for example. The Supervisory Board was only created in 2009, after the 2008 financial crisis. He is also responsible for liaising between the Trustees and the public authorities, as well as approving the appointments of the Trustees according to the established criteria.

The governance of the IFRS Foundation is exercised by the Trustees and this body is responsible for appointing the members of the IASB, as well as for enforcing that the Constitution and due process are respected, and the Trustees undertake to act in accordance with the public interest. It is, therefore, the governance body par excellence that answers to the Supervisory Board, having no technical function.

The Trustees manage the process of choosing their members and nominate the nominees to the Oversight Board for approval. In this process, Trustees should consult with accounting and auditing professionals, the securities market and other public interest bodies, regulators, investors, users and academics. The nominees must have attributes that are consistent with the people and institutions consulted and, to ensure the representativeness of the body's composition, the choices must reflect the variety of global capital markets, geographic diversity and multiple professional experiences. Geographically, the following criteria must be followed:



- six appointed trustees from the Asia-Oceania region;
- six appointed trustees from Europe;
- six appointed trustees from the Americas;
- an appointed administrator from Africa; and
- three appointed curators from any area, subject to the maintenance of the general geographical balance.

Trustees may also make their meetings open to the public. However, at their discretion, they may choose to hold certain discussions privately, usually those dealing with the selection process, appointment, and other issues concerning the institution's staff and funding. In addition, they must publish an annual report on the activities of the IFRS Foundation, including audited financial statements. The Trustees appoint IASB members, review procedures, and organize consultations.

The Trustees must devise rules and procedures to ensure that the Board is not only independent but also *perceived* as independent. Thus, when appointed, full-time members of the Board must sever all employment relationships with current employers and must not hold any occupation that gives rise to economic incentives that might call into question their independence of judgment in accounting standards-making activities.

The members of the IASB are appointed by the Trustees and make up a total of 14 members, who must act in accordance with the public interest. The body is eminently technical and, therefore, responsible for the elaboration of the international accounting standard. Your nomination is based on professional competence and relevant recent professional experience. Its members should reflect the best possible combination of technical expertise and diversity of international business experience and market experience, which includes auditors, users, academics and market regulators.

On the other hand, the Board, in consultation with the Trustees, shall establish and liaise with national regulatory bodies and other official bodies with an interest in the establishment of accounting standards in order to assist in the development of IFRS Standards and promote the convergence of national accounting standards in accordance with IFRS. It is also up to him to decide on public hearings to discuss the proposed standards, although there is no obligation for these hearings to be held for all projects.

In order for the Council to contribute to the development of a high-quality normative standard, its composition must also reflect the diversity of international experience and, to this end, *the following criteria* must normally be followed:

- four members from the Asia-Oceania region;
- four members from Europe;
- four members from the Americas;
- a member from Africa; and
- one nominated member from any area, subject to the maintenance of the general geographical balance.

### **The Due Process Manual**

In addition to the Constitution, another important document is the Due Process Manual (*Due Process Handbook*) (IFRS Foundation, 2020). Due process (*due process*) can be characterized, basically, as a set of rules and principles historically recognized as necessary for the achievement of justice.

The Due Process Manual is an extensive document that describes procedural rules to be followed by the IASB, with a view to increasing the transparency and fairness of the process, conferring legitimacy. It is not the scope of this work to detail this document, but to describe its general lines and guiding principles, seeking to extract the values that inspire it.

At first, the document refers to the Constitution, reaffirming the institution's commitment to the norms being produced with independence and transparency, taking into account the diversity of views of stakeholders at all stages. The principles that guide the procedure are transparency, broad and *fair consultation*, considering those affected by the rules, as well as accountability, through which the *ratio* of decisions is explained.

With regard to transparency, it should be noted that the meetings of the Board and the Board of Interpretations (*Interpretations Committee*) – the latter being an auxiliary body of the former in the interpretation of the IFRS standard – are open to the public and recorded and, as far as possible, transmitted over the internet and made available on the IFRS Foundation website. However, the Council may meet privately to discuss administrative and non-technical matters, although it is recognised that there is a grey area over what are technical and non-technical matters. On the other hand, it is pointed out that the institution will make efforts so that the principle of wide dissemination of technical matters is not mitigated. In addition, a summary of the decisions of each Council meeting is published in the *IASB Update* document, while the decisions of the Interpretation Council are published in the *IFRIC Update*. Such summaries are available on the IFRS Foundation website.

As regards broad and equitable consultation, the Council and the Council on Interpretations assume that broad consultation with stakeholders increases the quality of standards and that such consultations can be carried out in a variety of ways. Among them, through invitations for comments, individual meetings or fieldwork. Some consultations are mandatory and, for those that are not mandatory, the absence of consultation must be justified. Public hearings, however, are not mandatory. As minimum due process safeguards, prior to any normative issuance or interpretation, the Council or the Council on Interpretations shall, *inter alia*:

- to debate any proposal in a public meeting;
- disclose for public comment the draft of any proposed new standard, change to standards or proposed interpretation - with minimum periods for comments;
- to assess in a timely manner letters of comments received on the proposals;
- evaluate whether the proposals should be disclosed again; and
- decide at a public meeting of the Council on the ratification of the interpretation.

Regarding accountability, the Board should make efforts to evaluate and explain its views on the likely costs of implementing proposed new prescriptions and the associated costs and benefits of each new IFRS standard. Knowledge of these effects is obtained through the formal presentation of proposals and through fieldwork, as well as through analysis and consultation with relevant parties. The likely effects are assessed in light of the financial reporting transparency objectives and in comparison with the current financial reporting criteria. In addition, the following considerations contained in the table should be observed:

Table 1: Considerations to be observed by the IASB in evaluating costs and benefits in the implementation of standards.

1	How the proposed changes may affect the reporting of activities in the financial statements of those applying IFRS standards.
2	How these proposed changes may affect the comparability of financial information between different reporting periods for an individual entity and between different entities in a given reporting period.
3	As the proposed changes are likely to affect a user of financial statements ability to assess an entity's future cash flows.
4	How proposed changes to financial reporting can affect economic decision-making.
5	The likely effect on compliance costs for preparers, both on the initial application and on an ongoing basis.
6	The likely effects on the costs of analysis for users of financial statements (including any costs of extracting data, identifying how the data was measured, and adjusting data for the purposes of including it, for example, in a valuation model), as well as the costs incurred by users of financial statements when information is not available and the comparative advantage that preparers have in developing information, when compared to the costs that users would incur to develop substitute information.

Source: Adapted by the authors of the Due Process Manual (IFRS Foundation, 2020).

### The text "Working in the public interest: the IFRS Foundation and the IASB"

Also noteworthy is the document *Working in the Public Interest: The IFRS Foundation and the IASB* (*Working in the Public Interest: The IFRS Foundation and the IASB*) (Hoogervorst & Prada, [n.d.]), published on the IFRS Foundation website.

It is an informative and non-technical document, with the general public as its target audience. In it, many criticisms that are made of the institution are explicitly answered. Through it, the IASB seeks to demonstrate how its activities are based on the public interest, despite its private nature. It is indicated that the public interest is embodied in its Constitution and in its mission statement, although it makes it clear that the rules issued are addressed to investors and creditors in the financial market.

However, it considers that they have great value for the general public, as they seek to promote confidence, economic growth and long-term stability of the financial market, in addition to promoting confidence in developing markets.

The document states that, despite its private characteristic, the IASB is not a self-regulating entity, as public entities play an important role in the IFRS Foundation. Regarding accountability, the text stresses that the IASB has a transparent and well-developed due process system

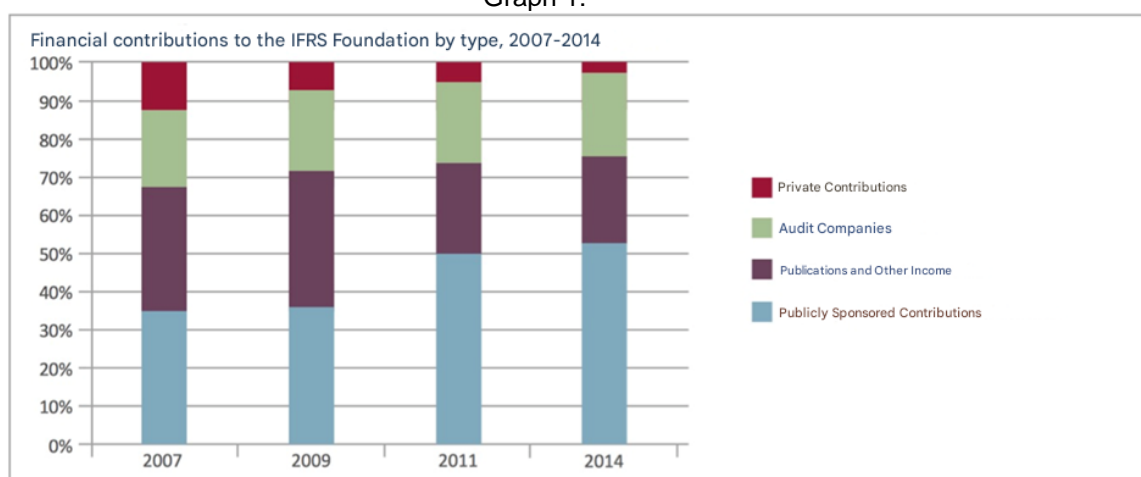
The text points out that, although neutrality as a way of portraying economic reality is the ambition of IFRS standards, there are many controversies about what economic reality is and how it can be better reflected in accounting measurements. In a way, it is recognized that there is an ideological basis of the interests reflected in the norms.

With regard to governance, transparency and public consultations are emphasized, as well as the structure of the IFRS Foundation, which is essentially tripartite, as seen. The representativeness of the bodies in geographical terms and the diversity of experiences of their members are praised.

The independence alluded to by the institution, it is explained, refers to the absence of influence of undue commercial interests, and a series of measures have been taken to prevent this from occurring, highlighting the prohibition of full-time members of the IASB from carrying out any activity that may generate a conflict of interest, the way in which Board members are appointed by the Trustees, and the governance structure with the Supervisory Board, implemented in 2009.

An extremely important topic revealed in the text concerns who funds the IFRS Foundation. The profile of the funders is an important indication of the interests that can influence the types of rules, especially due to the pressure that can be exerted, leading to the loss of independence by the institution and the predominance of private interests. The document makes it clear that an important part of the contributions comes from auditing firms, although it points out that the institution has been seeking to increase the sponsorship of public entities. In fact, the graph below indicates that, in 2014, most of the resources came from public entities:

Graph 1:



Source: Adapted from Hoogervorst and Prada ([n.d.]) and freely translated by the author.

The institution seeks to respond to this criticism by stating that there is no vulnerability to pressure due to donations from auditing firms, going so far as to state that the private interests of auditing firms go hand in hand with the public interest in producing clear and auditable normative standards. It is recognized, on the other hand, that

accounting is not an exact science, and it is emphasized that accounting standards are less political in nature than other economic standards.

Due process is also an important value and attention is drawn to the aforementioned Due Process Manual, which establishes three basic principles already seen. In addition, it is informed about the publicity given to the documents produced by the institution.

In general, the document sets out the values and guiding principles provided for in the Constitution and in the Manual of Procedures, but in a more informal tone, aiming, in a condensed way, to respond to criticisms and convince the reader of the values espoused by the IASB.

## **ANALYSIS AND DISCUSSION OF RESULTS**

The IASB, as is clear in its discourse, seeks to legitimize itself socially through persuasive influence through control when it seeks to convince the public that it is a representative and democratic institution, as it aims to align itself with the prevailing social values. On the other hand, he uses the persuasive influence of expertise when he exercises the regulatory activity itself, because he seeks to convince others of his specialty. Although it operates in a specific domain, the consequences of this regulation are wide-ranging. As can be seen, the use of legitimacy by control and expertise are not mutually exclusive. It is a matter of emphasizing each of them according to the interest sought. There is an effort to demonstrate that their actions are in line with cherished values, especially democratic ones. The institution systematically propagates acting in the name of the public interest.

The legitimizing discourse is noted, in the first place, of its organizational and governance structure, with the Supervisory Board deserving attention. This body has the participation of national authorities from several countries and, because of this presence, the IASB argues that it does not properly exercise self-regulation. This body was created relatively recently, in 2009, and its existence conveys the perception that the activities of the IASB are properly controlled and inspected by national authorities, as a kind of external control.

The Trustees, a non-technical body, also play an important role in choosing their own members and the members of the IASB and in demanding that the Constitution be respected. Both Trustees and IASB members are chosen through extensive consultation with various sectors and there are criteria that aim to promote representativeness and



diversity, both in terms of geography and professional experiences. The Trustees should also develop rules and procedures so that the Board is *perceived* as independent, not just independent.

Meetings, as a rule, are open to the public and published and made available on the institution's website, although there may be restrictions on non-technical topics, which may compromise the perception of legitimacy. The summary of the decisions of each meeting of the Council is made public. Public hearings are not mandatory for all projects. These are mechanisms that contribute to transparency.

On the other hand, consultations with stakeholders must be carried out – and when not carried out, justified – and this is a way of assessing the social impact of the standards that are intended to be approved. The Council must always explain the points of view adopted and this is an important form of control of decisions. In addition, financing increasingly relies on the contribution of public entities, which is relevant for the promotion of independence, although recent data have not been obtained.

Thus, in general, values such as representativeness, diversity, transparency, due process, public interest, independence and accountability are reflected in the documents of the IFRS Foundation and the IASB.

## **FINAL CONSIDERATIONS**

This article aimed to examine, based on the analysis of documents, the values professed by the IASB, questioning, especially, whether these values are in line with current social values, namely democratic ones. It can be concluded that the IASB effectively professes democratic values and this is clearly reflected in its organizational structure and in its discourse. The IASB, therefore, seeks to be perceived as a legitimate institution in the eyes of the public, especially as it is a private entity. Several criticisms addressed to this institution are answered in the documents they produce.

However, the present work did not seek to analyze to what extent democratic values reflect the practice of the IASB. The analysis was limited to what the institution professes. As Rocha (2018) previously clarified, a value is only socially established when what is professed is what is practiced. Although the author was dealing with the subject at a broad social level, this argument applies to the organizational level. In this sense, the present study has a clear limitation, as it did not advance in the analysis of the IASB's commitment in relation to the promises made.

Thus, a critical analysis of the documents produced in the daily life of the institution or even a field study could bring greater clarification on this point. A study could examine whether the internal procedures adopted are really in line with the values professed. Criticisms could be made about the important portion of private contributions and those of auditing firms, which raises questions about the interests that may prevail in the elaboration of accounting standards. It is also noted that Africa is not representative in the geographical distribution of the members of the IASB bodies, which deserves explanation. A detailed analysis of the training of the curators would also bring clarification about potential biases in the profile of the accounting standards produced. Surveys such as these, if well founded, would highlight the IASB's level of commitment to its discourse.

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