

COMMENTARY

“Political” Lobbying on Proposed Standards: A Challenge to the IASB

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INTRODUCTION

Now that the International Accounting Standards Board (IASB) has emerged from the restructuring of the International Accounting Standards Committee's (IASC) board, it seeks to establish high-quality International Financial Reporting Standards (IFRSs) and to engineer convergence at that level with eight leading national standard setters via a formal process of liaison.

One obstacle lying in the IASB's path is the set of “political” pressures that may be triggered by any board initiative to prescribe specific accounting treatments, eliminate alternative treatments, impose additional disclosure requirements, or tighten the allowed interpretations. I define “political” to mean self-interested considerations or pleadings by preparers and others that may be detrimental to the interests of investors and other users, a phenomenon that has been associated with the term “economic consequences” (see Zeff 1978). The IASB's initiatives will prescribe acceptable standards with greater specificity and provide less room for flexibility. Because the European Commission (EC) has given notice that, no later than 2005, all listed European Union (EU) companies must adopt “endorsed” IFRSs in their consolidated statements, EU companies will see the stakes as being much higher than they were with the standards issued by the old IASC board. Much depends, of course, on how effectively the several countries' regulators enforce compliance with IFRSs.

This article relates numerous attempts by industry and other affected parties, both in the U.S. and other countries, to move aggressively to prevent an accounting standard setter from imposing an objectionable requirement. They exemplify the lengths to which the powerful critics of proposed standards will go to defend their self-interests.

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RECENT DEVELOPMENTS

The “political” pressures may emerge in very different degrees and strength of feeling across the eight countries whose standard setters are to act in liaison with the IASB.¹ Such pressures could impede the effort to achieve convergence at a high level of quality. Lobbying may originate in other countries as well. Already, at the IASB’s inaugural meeting with its Standards Advisory Council (SAC) in July 2001, it was reported that a major Swiss company, later revealed to be Novartis, had written to Sir David Tweedie, chairman of the IASB, that it will consider switching from IFRSs to U.S. GAAP if the IASB does not change its standard that requires the amortization of goodwill over 20 years. It was said that Novartis was concerned that it will be placed at a strategic disadvantage if the IASB does not adopt a standard on goodwill that converges with the FASB’s Statement of Financial Accounting Standards (SFAS) No. 142. As a Swiss company, Novartis will not be required to continue using IFRSs in its primary financial statements under the EC’s 2005 initiative unless the Swiss government passes a law to that effect.

Some European companies have other reasons for considering a switch to U.S. GAAP. One researcher has found that the chief financial officers (CFOs) of a number of major Swiss companies are attracted to U.S. GAAP because preparers in the U.S. are well organized and constitute a powerful lobby—a source of comfort to CFOs.² As noted below, such bodies as Financial Executives International (FEI, formerly the Financial Executives Institute) and The Business Roundtable have forcefully presented industry’s views on proposed accounting standards to the FASB for many years. (The Business Roundtable is composed of the chief executive officers of some 150 of the largest U.S. corporations.)

Also at the SAC/IASB meeting in July, Phil Livingston, the full-time president and chief executive officer of FEI, told the IASB that it should leave stock option accounting off of its agenda. He described the exchange of views as “tense,” and, in a subsequent report to FEI members dated July 25, he recounted what he said as follows:

I gave a strong statement that we had been through 10 years of debate on this subject in the U.S., and were not interested in reopening the huge wounds that resulted from the battle with the FASB. I said that the issues here had been debated over and over again, and it was not possible to state a new argument for either side. Neither side has changed its view of this issue, and neither will. I suggested that they recognize the reality that stock option accounting is not going to change in the U.S. Therefore, they should get the issue off their plate and adopt a disclosure-based standard using whatever valuation method they deem theoretically correct. (Livingston 2001)

An article raising ominous consequences for the IASB, if it goes further on accounting for stock options than the FASB, was published in the *Wall Street Journal* (2001). I suspect that the idea for the article was “planted” by FEI in order to spread word of the IASB’s intention. FEI again took aim at the IASB when it learned of the Board’s tentative decision at its September meeting to measure employee stock options at fair value

¹ The eight countries are Australia, Canada, France, Germany, Japan, New Zealand, the United Kingdom, and the United States.

² This finding was communicated to the author by Giorgio Behr, the chairman of the Swiss accounting standards board, in an email message dated August 29, 2001.

and to recognize the corresponding expense in the income statement.³ In a press release issued on September 21, FEI denounced this tentative decision. The senior finance officers of three major U.S. companies, including Pfizer, Inc., whose chairman and chief executive officer serves on IASB's board of trustees, were quoted in the release as opposing the IASB's initiative on this subject. Phil Ameen, the comptroller of General Electric Company, threatened that the board's "[tentative decision], if sustained, will portend a quick erosion of corporate participation and support" for the IASB. He added, "Competing national accounting standards will become the global standards, with little competition from the IASB." The FEI release stated, "Expense recognition can only lead to greater international divergence and a significant step back for the future of global accounting standards" (for the FEI press release, see <http://www.fei.org>; also see Hinchman 2001; Livingston 2001).

Congress has entered the picture. On October 12, 2001 the chairman of the U.S. House of Representatives' Committee on Financial Services was reported by the *New York Times* "to be carrying water" for FEI when he recently wrote a letter to the SEC chairman to warn of the adverse consequences of the IASB's tentative proposal on accounting for employee stock options (Morgenson 2001). The House member sent similar letters to the FASB chairman and to the chairman of IASB's board of trustees (letters dated October 12 from Rep. Michael G. Oxley to Harvey L. Pitt, Edmund Jenkins, and Paul A. Volcker).

These are in the nature of threats, and talk is cheap. But the FASB and the U.K. Accounting Standards Board know from experience that such threats can materialize into action.

Another possible source of "political" intrusion in the work of the IASB might come from the EC's screening mechanism, which was established during the first half of 2001. Its objective is to determine whether IFRSs should receive legal endorsement for use by EU companies in their consolidated financial statements under the EC's 2005 initiative, mentioned above. The EC stimulated the creation of a new private-sector body, the European Financial Reporting Advisory Group (EFRAG), which in turn formed a Technical Expert Group (TEG) to advise the EC on the appropriateness of IFRSs for use in the EU. The 11-member TEG is composed of representatives from the accounting profession, stock exchanges, accounting standard setters, financial analysts, and financial statement preparers. A final decision on whether to endorse IFRSs will be made by an Accounting Regulatory Committee (ARC), chaired by the EC and composed of government representatives from all of the EU member states, which "will operate at the political level under established EU rules for decision-making by regulatory committees" (EU 2001). The ARC will act on proposals received from the EC. At this early stage, it is not known whether the effect of these two new committees will be to introduce "political" considerations into the deliberations of the IASB. Some envision the EC's screening mechanism as the first step toward establishing a European Accounting Standards Board, an option that the EC considered adopting in 1995 (*Insight* 1996).

³ See IASB's *Update* for September 2001, as supplemented by the report in Deloitte Touche Tohmatsu's IAS PLUS web site (<http://www.iasplus.com>). Walton (2001) reports that the German standard setter issued an exposure draft in June 2001, favoring fair value treatment and the recognition of the corresponding expense in the income statement, as of the *grant* date. A G4+1 paper (Crook 2000) is being used by the IASB as the basis for its deliberations. It calls for use of the *vesting* date, which occurs after most of the employees' services anticipated by the grant of stock options are rendered.

“Political” considerations affected the IASB’s predecessor. In 1992, a proposal before the IASC board was defeated by “political” opposition, before companies faced any real regulatory pressure to adopt International Accounting Standards (IASs). Hence, the seeds of discontent can be sown even in circumstances when adherence to IASs is voluntary.

IASC’S EMBARRASSING REVERSAL ON LIFO IN 1992

At its meeting in October 1992, the IASC board was poised to eliminate LIFO as an allowed alternative treatment, as part of the board’s Comparability/Improvements project, set forth in its Statement of Intent of July 1990, *Comparability of Financial Statements* (IASC 1990, 19). Since April 1992, it had been known that the International Organization of Securities Commissions (IOSCO) opposed eliminating LIFO, which had come as a shock to the board.⁴ Although the U.S. and Canadian accounting bodies had made it known that they favored retaining LIFO as an allowed alternative treatment, in the end they demonstrated solidarity with the Comparability/Improvements project and voted to eliminate LIFO.⁵ But, at the decisive board meeting, the delegations from Korea, Japan, Germany, and Italy, whose accountancy bodies’ comment letters also favored retention, all voted against the proposal, thus defeating it in a 10-4 vote (see Cairns 1998). A three-quarters vote was required for approval, 11-3 in this case. The four delegations voting against the elimination were evidently pressured not to eliminate LIFO as an option by companies in these countries—where LIFO was allowable for income tax purposes, and financial reporting was linked to tax rules. Thus, in the IASC boardroom, where the supporters of international harmonization expected to find their most articulate and committed exponents, “political” pressure succeeded in defeating one of the objectives of the IASC board’s Comparability/Improvements project. This “political” intervention occurred before the government regulators in any of the countries represented by the four dissenting delegations contemplated requiring companies to adopt IASs.

U.K. ACCOUNTANCY PROFESSION’S SUDDEN VOLTE-FACE ON DEFERRED TAX ACCOUNTING IN THE MID-1970s

Another example of the power of “political” pressures, again when no enforcement mechanism other than the external auditor existed, occurred in 1975–78 in the U.K. In August 1975, the governing Councils of the accountancy bodies sponsoring the U.K. Accounting Standards Committee (ASC) approved Statement of Standard Accounting Practice (SSAP) No. 11, *Accounting for Deferred Taxation*. The Standard embraced the “comprehensive tax allocation” approach, by which all timing differences were to be recognized and deferred, a method that the U.S. Accounting Principles Board had adopted in its Opinion No. 11, issued in 1967. The objective was to harmonize with the Americans.

But big industry began to voice strong “political” objections. The 1970s were an inflationary decade in the U.K., and the annualized inflation rate topped 25 percent in August 1975. Since 1972, companies had been deducting 100 percent first-year tax allowances on

⁴ For a news report on this episode, see *Insight* (1992). Also see Cairns (1999, 495–496). I gathered additional information on this matter from Arthur R. Wyatt, the IASC chairman at the time.

⁵ The American Institute of Certified Public Accountants and the Institute of Management Accountants, the bodies whose representatives composed the U.S. delegation on the IASC board, had no power to eliminate LIFO as an option in U.S. GAAP. Only the FASB had that authority, and the board would obey the norms of its elaborate due process, if it had attempted to make such a change.

many fixed assets, while displaying the usual depreciation allowances in their published accounts. Moreover, in 1974 the Government began granting stock appreciation relief for merchandise inventories for tax purposes, a variation on LIFO, which was not acceptable under U.K. GAAP. In view of the steep inflation, the notional income tax expense and the corresponding balance in companies' deferred tax accounts under comprehensive tax allocation would have been enormous. When Tony Benn, the secretary of state for industry in the Labour Government, openly advocated a gradual nationalization of industry, some companies nervously feared the Government might interpret the large deferred tax balances as amounts owed to the Government that might serve as the pretext for a takeover. The *Financial Times* reported, "The suggestion was that a future Government might call in all the deferred tax, or nationalise companies instead" (Lafferty 1978; see Appleyard 1978).

On June 14, 1976, the powerful Confederation of British Industry (CBI) wrote a letter to the ASC on behalf of 60 large companies (letter from Campbell Adamson to Sir Ronald Leach). The CBI articulated three complaints: (1) "the deferred taxation [balance] will inevitably continue to grow and grow in the vast majority of cases where companies continue trading in normal circumstances"; (2) the balance would be costly to calculate; and (3) SSAP No. 11 "is inequitable as regards current shareholders." The CBI predicted "that a growing number of companies will choose not to comply with the Standard" and thus will take a qualified auditor's report. The CBI therefore urged the ASC to reconsider SSAP No. 11.

Within the ASC, the need to develop a current cost accounting standard became a factor in the treatment of deferred taxation. The ASC was contemplating a standard that would show depreciation expense and cost of sales at current cost, which would be incongruous with an income tax expense based on historical cost profit. In October 1976, the ASC announced that it was reviewing SSAP No. 11 and asked the professional bodies' Councils to defer its date of implementation, which they did. In May 1977, the ASC issued ED (Exposure Draft) No. 19, which proposed partial deferred taxation to be applicable only to short-term timing differences and not to those that might persist well into the future. This outcome is exactly what industry wanted, and in October 1978 the Councils announced that they were replacing SSAP No. 11 with SSAP No. 15, which endorsed partial deferred taxation as the only appropriate accounting treatment.

Clearing banks were also upset with SSAP No. 11. They were just becoming active in long-term leasing, and the Standard would have forced them to take a large charge against their shareholders' equity at a time when U.S. banks were preparing to invade their market. The U.K. government was also unhappy with SSAP No. 11, as it would have required companies to display a much larger notional income tax expense in their published accounts than the amount actually due, as if they had not been accorded substantial tax relief for the rising cost of fixed assets and merchandise. The cumulative effect of "political" pressures from all three sides—big industry, the clearing banks, and government—played a major role in persuading the ASC and the governing Councils of the accountancy profession to reverse themselves.⁶ To be fair, the need to issue a current cost accounting standard also helped turned the tide. Yet, on balance, this attempt by the ASC and the Councils to achieve a harmonization with the Americans was undermined by "political" pressure.

⁶ See also Hope and Briggs (1982). The discussion in this section draws heavily on Zeff (1988, 21–22).

In the 1990s, the U.K.'s Accounting Standards Board also faced "political" pressures and a great deal of contentiousness on such subjects as (1) accounting for securitizations (Financial Reporting Standard No. 5),⁷ (2) the Government's Private Finance Initiative (1998 amendment to FRS No. 5),⁸ and (3) provisions for future operating losses in acquisition accounting (FRS No. 7).⁹

AUSTRALIAN SENATE VETOES PART OF AN ACCOUNTING STANDARD

Recently, the Australian Parliament administered a jarring rebuff to the national standard setter. In February 2000, two opposition political parties represented in the Australian Senate sponsored a "disallowance motion," which voided an optional treatment approved by the Australian Accounting Standards Board (AASB) as part of AASB No. 1015, dealing with reconstructions within an economic entity.¹⁰ The Standard had been approved by a 5-4 vote; the dissenters all disapproved of the optional treatment. The optional treatment permitted companies to record acquisitions of assets falling within internal reconstructions at book value instead of at fair value. The Senators regarded the book value method as "inconsistent with the provisions in the legislation dealing with standards that demanded comparability and consistency between reporting periods and between entities" (Ravlic 2000, 16), and therefore not in the best interests of the investment community. While the optional treatment had its detractors, including the Australian Securities and Investments Commission, this was the first time that the Senate invoked its authority to disallow an accounting practice approved by the AASB. This experience illustrates how partisan politics can affect accounting standards. The laws that underpin the current accounting standard-setting regimes in both Australia and New Zealand authorize Parliament to overturn their Standards. It could happen again.

During the 1990s, the AASB was subjected to "political" pressure on a number of issues, notably in the wake of Statement of Accounting Concepts (SAC) No. 4, *Definition and Recognition of the Elements of Financial Statements*, issued in March 1992. This mandatory concepts statement implied in an appendix that virtually all leases should be brought into the balance sheet. The standard-setting establishment came under virtual assault from all sides until it decided, in an embarrassing reversal in 1993, that the concepts statements would no longer be mandatory.¹¹

IMPORTANCE OF "POLITICAL" PRESSURE IN THE UNITED STATES

The impact of "political" pressure is even greater in settings where a strong enforcement mechanism exists, as in the United States. The Securities and Exchange Commission (SEC), a powerful federal government agency, possesses authority to prescribe the financial reporting used by the approximately 14,000 publicly traded companies in the U.S. Beginning in the late 1930s, the SEC looked to the public accounting profession and, since 1973, to the independent FASB as the authoritative source of most of what constitutes U.S. GAAP. Once the FASB issues a Standard, except in rare instances

⁷ See, e.g., Barclays Bank's unusual, four-page advertising insert in the February 1, 1992 issue of *The Economist*, contesting the ASB's position on accounting for securitizations, and *Accountancy* (1992).

⁸ See, e.g., *The Accountant* (1998a, 1998b, 1998c) and *Accountancy* (1998).

⁹ See, e.g., *Accountancy* (1993, 1994).

¹⁰ This section is based on Ravlic (2000). Also see Collett et al. (2001, 174). For more on the "political" dimension of standard setting in Australia, see Stoddart (2000).

¹¹ See, e.g., Burrows (1996, 196-199) and Miller (1995, 7, 9).

when the SEC regards the Standard as an unacceptable norm, the SEC requires all publicly traded companies to adopt it forthwith. If such companies fail to do so, or if they implement the Standard in a way that is unacceptable to the SEC’s accounting staff, then the SEC requires them to revise and reissue their defective financial statements. Otherwise, these companies are rebuked by the SEC, which would immediately issue an order to stop the trading of their securities in the U.S. securities market. In the case of companies proposing to make an initial public offering, the SEC intervenes to interdict that offering unless the companies comply with the Standard in an acceptable manner. The SEC, therefore, is a potent force in securing compliance with accounting standards in the U.S. Consequently, if companies find a proposed FASB Standard to be objectionable, then they will lobby the FASB to prevent its issuance in order to avoid the inevitable intervention by the SEC.

Even though the SEC does not allow U.S. companies to use IASB Standards, when the IASB adds a topic to its agenda, this act places pressure on the eight collaborating national standard setters, of which the FASB is one, to converge toward what the IASB finally decides. Thus, the FASB may occasionally find itself operating in the wake of the IASB. For this reason, U.S. companies are expected to keep a close eye on the IASB’s agenda decisions, just as FEI did with respect to accounting for employee stock options.

Because of rigorous enforcement in the U.S., it is likely that a controversial, proposed IASB standard would generate much stronger negative reaction in the U.S. than in the other seven countries collaborating with the IASB. The confrontational climate in the U.S., epitomized by the high incidence of litigation and the traditionally intense lobbying of legislators at both the federal and state levels, virtually assures this result. In particular, the FEI, The Business Roundtable, and various U.S. industry-specific trade associations have organized powerful lobbies to confront the FASB and its predecessors on proposed standards that their members found to be objectionable.¹²

In the 1990s, the FASB was successfully lobbied to reconsider, or reverse itself on, three important proposed Standards: accounting for marketable securities, stock-based compensation (i.e., stock options), and intangibles. In all three instances, the commercial bank and company sectors used their contacts and connections in the federal government, including bank regulatory agencies, Secretaries of Government Departments, and members of Congress, to provide “political” leverage in their efforts to convince the FASB to reconsider its thinking on these contentious subjects. In a fourth instance, on derivative securities, the lobbying effort did not succeed in persuading the FASB to roll back its position.¹³

Marketable Securities

In the first of the three successful lobbying sorties (1990–93), the American Bankers Association (ABA)—abetted by letters sent by the chairman of the Federal Reserve Board, the chairman of the Federal Deposit Insurance Corporation, the Secretary of the Treasury, and two United States Senators—pressured the FASB either directly or indirectly.

¹² See, e.g., Van Riper (1994), Gorton (1991), Miller et al. (1998, Chapter 5), Zeff (1972, 178–180, 200–202, 212–216, and 219–221), and Zeff (1993, 130–142). The FEI was also active in opposing a proposed concepts statement (see Miller 1990).

¹³ This article does not treat the successive attempts by the FEI in 1985, The Business Roundtable in 1988, and the FEI again in 1996 to dilute the effectiveness of the FASB. See Van Riper (1994, Chapters 8 and 9) and Miller et al. (1998, 177–194).

Even though the FASB had strong SEC support, the ABA pushed the FASB to retreat from a position that it was considering, namely, that all marketable securities be shown at fair value and that the year-to-year change in fair value be taken into earnings.¹⁴ The banking industry feared the earnings volatility that would result from taking the changes in fair value of such holdings directly to earnings. Instead, in its September 1992 Exposure Draft and in Statement of Financial Accounting Standards (SFAS) No. 115, issued in May 1993, the FASB created the portfolio of “available for sale” securities, whose year-to-year change in fair value is taken to shareholders’ equity instead of to earnings. SFAS No. 115 was approved by a vote of 5-2,¹⁵ and the two dissenters argued for including in earnings all unrealized changes in the fair value of debt and equity securities.

Stock Options

In the second successful lobbying campaign, carried out during 1992–95, industry reacted fiercely to the FASB’s Exposure Draft that would have required companies conferring stock options upon employees to estimate the fair value of the options and record a corresponding expense in their income statements. Trade associations and companies in the entrepreneurial sector, in particular, pressured prominent members of the House and Senate to introduce a series of bills aimed at frustrating any attempt by the FASB to move ahead with its proposal. At one point, the Senate passed a “sense of the Senate” resolution urging the FASB not to proceed with its initiative on accounting for employee stock options, citing its “grave economic consequences particularly for business in new-growth sectors which rely heavily on employee entrepreneurship.”¹⁶ Congressional pressure became so intense and unrelenting that the SEC chairman feared that the FASB’s approval of its stock option accounting proposal would “jeopardize private sector control of accounting standards-setting” (*CPA Journal* 2001, 28). In the end, under the gun from key members of Congress, the FASB could do no more than issue SFAS No. 123, by a 5-2 vote, requiring footnote disclosure of the estimated dilutive effect of stock options on reported earnings (for an account of this episode, see Zeff [1997]). Both dissenters argued that the compensation associated with employee stock options should be recognized in the body of the financial statements, not in the footnotes.

Business Combinations and Intangibles

The third of the successful lobbying actions, during 1996–2001, dealt with accounting for business combinations and intangibles, chiefly goodwill. The SEC had urged the FASB to add this issue to its agenda. In its Exposure Draft issued in September 1999, the FASB called for elimination of the pooling-of-interests method of accounting for business combinations and for the mandatory amortization of goodwill over a maximum of 20 years. This provision on goodwill would have brought the FASB’s standard on the subject into line with that of the IASC.

¹⁴ The board’s first tentative position on “mark-to-market” accounting, as fair value accounting was then called, was that the unrealized holding gains and losses on securities not classified as current assets or trading securities should not be taken to earnings (*FASB Action Alert*, November 13, 1991, p. 3). Two meetings later, the board reversed itself, and it tentatively decided that all unrealized holding gains and losses should be taken to earnings (*FASB Action Alert*, December 4, 1991). Also see Kirk (1991), Berton (1992), Worthy (1992), and *The Economist* (1992).

¹⁵ Since January 1991, all FASB Statements must be approved by at least a two-thirds majority, 5-2 when seven members are voting.

¹⁶ *Congressional Record—Senate*, May 3, 1994, S 5032.

Industry, led by the FEI, objected especially to the mandatory amortization of goodwill, and it appealed to members of Congress for relief. In March and May 2000, a Senate committee and House subcommittee held one-day hearings that were "dominated by the views of those opposed to the FASB position on accounting for business combinations."¹⁷ The chairman of the Senate committee expressed concern over the mandatory amortization of goodwill, and he proposed a periodic impairment test as a better solution. He reiterated this view at a Roundtable Discussion on Accounting for Goodwill, which his committee held in June to discuss the issue further. Then, in October, a House member introduced a bill to create a commission to study afresh the entire subject of accounting for business combinations and goodwill, an obvious delaying tactic. During 2000–01, two sets of letters signed by Senators were sent to the FASB chairman.

Eventually, in February 2001, the FASB rushed out a second Exposure Draft that called for a periodic impairment test for goodwill and disallowed amortization, a position that the board concluded it could support in principle. After making further amendments, the board unanimously approved SFAS Nos. 141 and 142, which outlawed the pooling-of-interests method and specified a periodic impairment test for goodwill. Again, the persistent lobbying of the FASB by way of Congress succeeded in persuading the board to reconsider. Ironically, SFAS No. 142 on goodwill brought the FASB's standard into conflict with the comparable IASC standard.

Industry also fought the FASB's fair value proposal on accounting for derivative securities, and blocking bills were again introduced in the House and Senate. In October 1997, a House subcommittee held a one-day hearing as a reaction to the FASB's Exposure Draft. In February 1998, the subcommittee chairman introduced a bill euphemistically called the Financial Accounting Fairness Act of 1998 (H.R. 3165). If enacted, then this bill would instruct the SEC to review each FASB Standard to ascertain whether it "will promote efficiency, competition, and capital formation" in addition to protecting investor interests, and it would require the SEC to consult with federal banking agencies on any FASB Standards affecting the banking sector. In March and October 1997, a Senate subcommittee held two days of hearings under the title "Derivatives Disclosure and Accounting." In November 1997, one of the subcommittee's members introduced a bill, dubbed the Accurate Accounting Standards Certification Act of 1997 (S. 1560), to prevent any FASB Standard from being applied to banking institutions unless the appropriate federal banking agency certified its acceptability to Congress.

Clearly, members of Congress had been approached by those opposed to the FASB's Exposure Draft. Earlier, in August 1997, the chairman of the Federal Reserve Board urged the FASB to soften its proposal considerably and not require public companies to take the changes in the fair value of their derivatives contracts to earnings (see MacDonald 1997b; MacDonald and Frank 1997). All of these interventions, deliberately aimed at crippling the board's initiative on accounting for derivatives, did not, in the end, prevent it from moving ahead with its intended norms in SFAS No. 133.

A Further FASB Initiative to which Industry Objected

SFAS No. 130, issued in June 1997, deals with the display of "comprehensive income." Industry strongly objected to this initiative, although it seems that the dialogue fell within the bounds of the give-and-take that the FASB expects to occur during the

¹⁷ See Beresford (2001, 80). In an appendix to his article, Beresford lists the Congressional hearings held on FASB projects from 1976 to the present. Much of this section is based on the Beresford article.

comment process, and that “political” pressure was not applied. The financial analyst community had urged the FASB to develop a standard on the reporting of comprehensive income (see Knutson 1993, 63). Comprehensive income, defined as the change in net assets excluding transactions with owners, embraces net income as we currently know it plus *other comprehensive income* (OCI). Items carried directly to shareholders’ equity—such as unrealized gains and losses on “available for sale” securities and certain derivative financial instruments, and foreign currency translation adjustments arising under the current rate method—are grouped in OCI. The board’s July 1996 Exposure Draft required that OCI be displayed either in a new section at the bottom of the income statement or in a separate statement of financial performance. The FEI’s committee on corporate reporting disagreed strongly with the board’s draft.¹⁸ The committee did not want the items included in OCI to be reflected in a comprehensive earnings per share. By a vote of 5 to 2, the board reluctantly acceded to a third and much less prominent place for displaying OCI—the statement of changes in equity. Close observers stated that SFAS No. 130 was issued “in the face of substantial opposition by the preparer community” (Miller et al. 1998, 113; see also MacDonald 1997a).

CONCLUSION

The specter of “political” challenges such as those recounted in this article should give pause to members of the IASB and the eight national standard setters with which it is collaborating when they propose to develop a Standard on a sensitive and controversial topic. Notwithstanding this specter, all who are interested in sound and useful financial reporting hope that the Board will not retreat from sensitive and controversial issues in need of high-quality reporting standards.

¹⁸ For a summary of the committee’s views, see *Financial Executive* (1996).

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