# Now That Due Process Is Successfully embedded as the Route to Standard Setting, the IASB’s Legitimacy Is Assured

The establishment of transparent “due process” standards supported IASB’s goal of seeking greater public and regulatory input (Nobes and Parker, 2016). IASB has continued to consolidate its position as a global standard-setter despite the criticism after the financial crisis of 2007-2009 (Botzem, 2014). The due process envisions IASB’s pursuit of legitimacy through open public consultative standards. However, the embedment of due process in standard-setting does not guarantee IASB’S legitimacy.

The due process does not envision the diversified nature of legitimacy construction. Richardson and Eberlein (2011) argue that the standards must be technically correct, fair, and reflective of the affected parties. Suchman (1995) agrees that IASB could construct its legitimacy, but the process is more theoretical than practical. The primary assertion of Suchman (1995) is that pragmatic legitimacy can be achieved, but it could be limited to the self-interests of IASB that conflict with the framework of the due process. IASB does not have an automatic assurance of comprehensibility and taken-for-granted legitimacies as argued by Suchman (1995). The construction has to meet the needs of the parties involved, for example, investors, small-and-medium enterprises or national governments particularly in times of crisis as observed by Botzem (2014).

IASB is anchored on result-based and output types of legitimacy, which may not be sufficient amidst the emergence of transnational standard setting (Richardson and Eberlein, 2011). The argument reflects the significant effort that would take IASB to manage its legitimacy as a global standard setter amidst pre-existing legitimate bodies such as ISO (International Organization for Standardization) or SEC (Securities and Exchange Commission). Although Suchman (1995) suggested standard-setting body could create new audiences and develop supporting rationales, Richardson and Eberlein (2011) argues that the due process is susceptible to criticism due to the political contestation of transnational standard-setting mechanisms. The legitimacy of IASB could be lost if it cannot develop competing claims of legitimacy against the transnational standards. Correspondingly, Botzem (2014) admit the recognition of IASB is only guaranteed if it can frame consultancy well and reinterpret stakeholder opinions but the process is prone to change amidst dynamic transnational standards.

The due process does not solve the democratic legitimacy deficit considering it only sets transparent procedures for all parties. Richardson and Eberlein (2011, p.211) reveal a challenging task for IASB by describing its constitution as a private regulatory body rather than any government or state institution. Botzem (2014) agrees with the deficit in the organisation by revealing the inability by IASB to align with legal and constitutional contexts provided by a nation. Although changing the structure is possible, the process might take years to set up (Insight IASB, 2015). Consequently, it becomes difficult to recognise and implement due process from a body with unusual structure, for example, the conceptualisation of IFRS Foundation as a private and not-for-profit organisation.

Assuring IASB of cognitive legitimacy is impossible considering the flawed element of decision-making in the due process. Botzem (2014, p.950) argued that “from a democratic perspective, the selective mode of decision-making, however, remains worrying.” The body might not affirm its expert-based self-regulation without advancing and implementing stakeholder inclusion in setting up standards. Richardson and Eberlein (2011) support the assertion on the possible loss of legitimacy by questioning the application of private rules that elicit controversy and uncertainty. IASB legitimacy is prone to loss because the decision-making at the international level is not void of trans-government collaboration. Wingard, Bosman and Amisi (2016) affirmed the undemocratic nature of IASB due process steps by showing exclusion of members outside the G-20.

The assertions by Wingard, Bosman and Amisi (2016) show the due process steps have apparent weaknesses. Hence, the framework cannot guarantee IASB desirability, recognition and appropriate as transitional values, beliefs and definitions. Wingard, Bosman and Amisi (2016) presented an insightful account of weaknesses of due process by noting the unclear amendment of IAS 39 following the role of fair value measurements in global financial crisis. The analysis noted the exclusion of African and South American standard setters in the establishment of IFRS as well as the undue influence of powerful stakeholders. Consequently, Walton (2015) agrees that IASB cannot prove its legitimacy when actual participation in the development of standards involves domination for G-20, G-8, and European Commission among other well-resourced stakeholders. Additionally, the body cannot defend its authoritative position for failing to establish clear due process standards for SMEs as per Ram and Newberry (2013). Lack of transparency in *IFRS for SMEs* does not reflect the consultative principle that underlines organisational legitimacy of IASB.

The alignment of due process standards with different jurisdictions is controversial. Ram and Newberry (2013) suggest that IASB cannot justify its legitimacy with competing for political and technical standards. The jurisdictions present recognition challenges guided by their diverse needs. For example, jurisdictions such as China and US are among eight regions that prioritise on using national standards while Saudi Arabia and Uzbekistan limit IFRS standards to financial institutions and exclude listed companies (Insight IASB, 2015). Prada (2015) admitted that IASB does not have authority to tell what jurisdiction what to do in the execution of the global accounting standards. The revelation affirms a comprehensive legitimacy is not guaranteed if IASB cannot popularise its standards to the extent of becoming acceptable in all global regions.

Although IASB has diversified its donor base, Larson and Kenny (2011) note that powerful individuals and stakeholders could have an influence on the standard-setting process. The due process standards cannot guarantee legitimacy if they are not representative of the values or beliefs of all parties as suggested by Suchman (1995). Walton (2015) agrees that funding is a critical issue amidst other complexities and differential reporting concerns. Pragmatic individuals may lead the institution as per the view of Richardson and Eberlein (2011), but Wingard, Bosman and Amisi (2016) observe challenges due to the unequal participation in funding standard-setting activities. The unequal funding may render IASB invalid.

In conclusion, setting due process as the route for standard setting cannot guarantee IASB legitimacy. Jurisdiction differences and expectations, concerns of funding activities, and the inclusion of all countries remain controversial. The due process has apparent weaknesses including the constitution, management, and undemocratic decision-making structures. IASB has to confront the tedious task of proving its authority as a transnational standard setter against competing interests of domestic standards.

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