Negative Tone in Lobbying the International Accounting Standards Board

Abstract

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

1. Introduction

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

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

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

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[1]For examples: Ang et al., 2000; Brown and Feroz, 1992; Kwok and Sharp, 2005; Coombes and Stokes, 1985; Francis, 1987; Georgiou, 2010; Giner and Arce, 2012; Hansen, 2011; Hill et al., 2002; Hope and Gray, 1982; Jorissen et al., 2012; Kenny and Larson, 1993; Larson, 1997, 2007; Orens et al., 2011; Puro, 1984; Saemann, 1999; Stenka and Taylor, 2010; Sutton, 1984; Watts and Zimmerman, 1978.

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

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

> The ABA appreciates the flexibility it enables and the reduction in documentation for fair value hedges that would eventuate. However, we consider it likely to lead to inconsistency in accounting treatments applied between like financial institutions. The comparability and usability of financial accounts could be compromised. (ABA, 2002, p.13)[2]

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

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[2] Australian Bankers Association (ABA). (2002). Re: Exposure Draft of Proposed Amendments to IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"

explicit rejection of the proposal. Rather, the ABA relies on a crafted statement that is meant to influence and convince the IASB not to pursue the proposed change.[3]

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

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

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

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[3] It is worth noting that we selected this example due to its brevity. From our descriptive statistics, the average length of a response is 154 words, with the shortest response being one word and the longest being 2,867 words.

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

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

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

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

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

2. Institutional Setting

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

> For example, financial instruments (IAS 39) is the most terrible standard. Any
> standard that requires 200 questions and answers before it has actually come
> into effect represents a major problem. (p. 86)

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

The implementation of IFRS has been both challenging and, at times, controversial. This is particularly true in the development and implementation of standards for financial instruments. There was widespread opposition to the IASC's 1997 Financial Instruments Discussion Paper (Chatham et al., 2010), and prior to the E.U. adoption of IFRS in 2005, the complexity of IAS 39 *Financial Instruments: Recognition and Measurement* was cited as one

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

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

3. Prior Research and Hypotheses

3.1 Lobbying and Standard Setting

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

The lobbying literature relies on two main theoretical perspectives: positive accounting theory (Watts & Zimmerman, 1978) and Sutton's (1984) economic theory of lobbying (e.g., Ang et al., 2000; Dechow et al., 1996; Hill et al., 2002; Koh, 2011; Mellado & Parte, 2017; Puro, 1984; Reuter & Messner, 2015; Schalow, 1995). Whilst focusing on ex ante lobbying decisions made by constituents, as opposed to the response by the standard setter, these theories assume that the occurrence of lobbying efforts is a result of its efficacy.

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

In the context of the IASB, Hansen (2011) examines five exposure drafts for different accounting standards and finds that the agreement between comment letters and subsequent changes depended on the quality of the comment letter—as long as the lobbyist was not a business association or consultant. Further, Bamber and McMeeking (2016) examine proposals within comment letters responding to the IASB's 2004 exposure draft on disclosure in relation to financial instruments and show that the IASB's discussions of comment letters are biased against comment letters from the United Kingdom and positive towards those from the United States. Comments from accounting firms were also less influential than those of average participants, with fewer suggestions included into the issued standard IFRS 7.[4] Further, in examining lobbying around the share-based payments project prior to the issuance

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[4] These comment letters are included in this analysis, as the exposure draft is one out of fourteen considered in this study.

of IFRS 2, Giner and Arce (2012) studied 539 comment letters sent to the IASB. They find that only one of three issues opposed by the majority of respondents changed from the exposure draft to the final standard, namely, the reference date. It is therefore ambiguous as to what can be concluded by the IASB's standard-setting process in light of these results. There seems to be room for influence, yet the determinants of success are not fully understood. Next, we look at the ideology theory of regulation and the means of capturing the content of comment letters for meaningful analysis of lobbying success.

3.2 Ideology Theory of Regulation

The extent to which the IASB's due process provides scope for external influence is something of an open question. Büthe and Mattli (2011) argue that once a principle is developed, it is near impossible for lobbyists to change it. In addition, Perry and Nölke (2006) note that the development of the fair value paradigm reflects a contemporaneous shift in the international political economy stemming from greater growth in profits in the financial industry compared to other sectors. Further, the standard setters' own agenda and preferences may also shape standard development (Weetman, 2001). Ignoring these factors can cause confusion when interpreting lobbying studies, as signs of influence can be wrongly interpreted as reaching consensus or, indeed, as the process being captured. In this vein, Kothari et al. (2010) argue that there is a lack of a well-developed framework to predict the influence of the political process on accounting standards. Using the ideology theory of regulation, they show there is potential for both the ideological preferences of regulators and special-interest lobbying to affect the outcome of standards.[5]

Kalt and Zupan (1984) make a case that a theory of regulation with a broad conception of political behavior is required—the argument being that public interest theory is more of a

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

normative wish than an effective explanation of regulation, but that capture theory fails to recognize the potential importance of ideology. Like public interest theory, ideology theory stresses that regulation is a response to market failure, but predicts that lobbying will influence regulators, making regulation a joint outcome of political ideology and special-interest lobbying (Kothari et al., 2010). Applying ideology theory to standard setting, the ideology of the standard setter can be viewed as their "ingrained mindset that favors rules with certain characteristics" (Gipper et al., 2013, p. 10). In our setting, the ideological component to the development of financial instruments can be argued to be the fair value preference that was evident throughout the IASB's proposals.

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

> Fears that fair value accounting lead to improper early profit recognition are also overblown. IFRS 9 prohibits companies from doing that when quoted prices in active markets are not available and the quality of earnings is highly uncertain. Moreover, fair value accounting is often quicker at identifying losses than cost accounting. That is why banks lobbied so actively against it during the crisis. (para. 12)

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

H₁: The IASB does not take account of dissenting opinions from special-interest groups.

3.3 Psychological Reactance and Comment Letter Tone

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

Whilst most academic research has largely focused on the characteristics of the lobbyists, some research, such as Kwok and Sharp (2005), Hansen (2011), and Jupe (2000), pay closer attention to the effect of text or letter characteristics in their analyses. Jupe (2000) shows that the U.K. Accounting Standards Board (ASB) changed its proposals on FRS 1 according to the wishes expressed in comment letters from large companies that used self-referential arguments in their discussion of the proposal. Kwok and Sharp (2005) focus on keywords within comment letters that referred to different facets of power, and Hansen (2011) shows that lobbying success related to the quality of information in the response, as well as

lobbyists' credibility and their potential to affect the viability of the IASB.[6] Taken together, these results highlight the importance for lobbyists to frame their position in a suitable way to be influential.

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

In examining comment letters, we observe that aversion to a proposal is often presented to suggest agreement. The example below demonstrates this approach and is a response to the IASB's July 2009 exposure draft that proposed "to prohibit reclassification of financial assets and financial liabilities between the amortized cost and fair value categories."[7] The invitation to comment section included the question:

> Do you agree that reclassification should be prohibited? If not, in what
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> circumstances do you believe reclassification is appropriate and why do such
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> reclassifications provide understandable and useful information to users of

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

[7] The question is taken from the invitation to comment section of IASB's exposure draft: "Financial Instruments: Classification and Measurement," which was issued in July 2009.

financial statements? How would you account for such reclassifications, and

why?

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

> The CAC basically supports the proposal in the exposure draft to prohibit
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> reclassification. However, business models sometimes change fundamentally, for
>
> example, management changes associated with M&A. Under these circumstances,
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> reclassification should be exceptionally permitted subject to (1) detailed disclosure of
>
> reasons for reclassification and its influence, and (2) no retrospective application.
>
> (SAAJ, 2009, p.2)

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

In sections 3.1 and 3.2, we discussed whether constituents are likely to be influential through comment letter submissions in the formal due process. We conclude that this warrants analysis and that the influence we might observe has not changed the IASB's ideological conviction that fair values are the most suitable for financial instruments. Looking at textual tone—in addition to explicitly stated opinions in comment letters—can identify more subtle ways of expressing dissent and whether these are influential. Stated formally, in the null, our second hypothesis is as follows:

H2: Lobbying success is unaffected by negative tone in comment letters.

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[8] For the reclassification issue in the example above, the IASB subsequently decided to allow reclassification in the event of a change of business model.

4. Research Design and Sample

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

4.1 Sample Selection

Our sample is derived from the comment letters that the IASB makes available on its website, www.ifrs.org, as part of its commitment to a transparent standard-setting process. We focus on the four standards that deal explicitly with accounting for financial instruments: IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement,* and their superseding replacements IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments*. At the time of the data collection, 3,064 comment letters had been generated in response to 24 documents issued by the IASB relating to the development of these standards since 2001. Of these, 1,815 comment letters responded to the 16 exposure drafts that related to completed projects, i.e., for which there is an identifiable outcome.

There can be ambiguity when identifying the outcomes of proposed changes, as parts of a proposal may be adopted while other parts are not (Francis, 1987; Holthausen & Leftwich, 1983). Following Hansen (2011), we aim to reduce this ambiguity by analyzing responses to

the invitation to comment section of the exposure drafts. This section of the exposure drafts contains questions regarding the specifics of proposed changes on which the IASB invites constituents to comment.

To further remove ambiguity, several specific exposure drafts, and the comment letters on these drafts, were excluded. For "Derecognition: Proposed Amendments to IAS 39 and IFRS 7," as issued in April 2009, the whole proposal was withdrawn. This also occurred for "Offsetting Financial Assets and Financial Liabilities," as issued in January 2011. As such, the observations cannot be reliably compared to the outcome of separate issues within the exposure draft, leaving 1,695 comment letters for analysis.

As the study focuses on lobbyists' ability to prevent proposals from becoming standards, only the 70 questions that refer to proposed amendments to which lobbyists have an opportunity to communicate their opposition or concerns are included in the analysis. These questions take the form "Do you agree?" or "Is this appropriate?" (for example) and relate to the proposed amendment, not an alternative. The majority of the questions (86 out of 107) take this form. Table 1 – Panel A outlines the distribution of the sample across comment periods. The sample contains 5,078 question-observations, which are well dispersed between the periods before and after the commencement of the financial crisis, as 47% relate to the pre-crisis period and 53% to the post-crisis period. Table 1 – Panel B outlines the interest group distribution of the comment letter authors. In terms of lobbyist characteristics, the biggest lobby group is the financial sector, excluding accountants, and comprises 34.27% of our sample.

[TABLE 1 ABOUT HERE]

4.2 Outcome: The IASB's Decision

The proposed amendments referred to in each question are compared to the subsequently issued amendments to the standards. If the proposal to which the question relates is not

incorporated in the subsequent amendment, i.e., there has been a change from the proposal to the finalized standard; a binary variable *REJECT* is coded 1 and otherwise 0. Four researchers, including three senior chartered accountants, independently classified the outcome. The classifications were compared, and in instances of disagreement (14 out of 70 questions), the outcomes were discussed until consensus was reached. A change was identified for 28 questions (40%), which is similar to Hansen (2011), who identified a change for 46% of the issues in a multi-issue setting.

4.3 Explicit Opinions

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

4.4 Negativity: A Continuous Measure of Opposition

To construct our continuous measure of tone, we use computerized content analysis relying on predefined word lists that categorize words according to their generally accepted meaning/sentiment. Due to the political nature of the communication, the level of positivity may be misleading as a measure of consent. In addition, discontent may be wrapped in positivity by negating the positive words. Tetlock (2007) and Loughran and McDonald

(2011, 2013) note that positive word lists are of limited use for this reason. Measuring negativity circumvents the noise from using positive word lists and allows the analysis to capture even that part of the sample that avoids explicit opposition yet makes its discontent with the proposal known to the standard setter.

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

To reduce the noise in the measurement, the primary negativity measure is obtained by programmatic modification of the classifications to better suit the text to which they are applied. Words that occur frequently in an exposure draft are, when used in a corresponding comment letter, likely to be a reference to its occurrence in the exposure draft. To edit the classification scheme accordingly, if a word is classified as negative in Harvard IV, but occurs with a frequency of more than 0.5% of the words in the exposure draft, it is removed from the negativity count in comment letters, so as not to unduly increase the negativity score.[10]

Whilst there are still occasions of misclassification, the programmatic modification appears to improve the classification scheme. For instance, the word "cost" is excluded from the negative word count in comment letters corresponding to five exposure drafts. In all

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[9] The version used in the analysis comes from Bill McDonald's word list page, where the Harvard IV has been extended to include relevant inflections. The list is available at:
http://www3.nd.edu/~mcdonald/Data/Harvard%20IV_Negative%20Word%20List_Inf.txt
[10] Whilst this cut-off point seems arbitrary, we check which words it alters and set it at a level that seems to re-classify the words that would otherwise unduly carry negative sentiment. Whilst the test for our reported result use this modified word list that appears better suited to the context, we repeat all tests using the Harvard IV and Fin-Neg (Loughran & McDonald, 2011) without modification, and our results are qualitatively the same.

known examples, it refers to "amortized cost," i.e., the topic of proposed changes, and carries

no negative sentiment. An example is EFRAG's response to the 2004 *Exposure Draft of*

Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement: The

Fair Value Option:

> EFRAG supports the pragmatic approach as regards the transitional
>
> requirements i.e. no retrospective application when an entity changes the
>
> measurement from at fair value through profit and loss to **amortised cost**.
>
> [Emphasis added] (p.6)[11]

Conversely, in the letter from the Australian "Group of 100 Inc.," in response to the 2003

Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and

Measurement: Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk, the

word "cost" is included in the negative word count. In this case, it carries a negative

sentiment, as increased costs are portrayed as an unfavorable economic consequence of the

proposed change:

> Core deposits are a significant fixture of the Australian banking system. The
>
> inability to apply fair value hedging in respect of core deposits is likely to
>
> result in the use of cash flow hedging for core deposits. This will lead to the
>
> duplication of systems where these entities use portfolio hedging in respect of
>
> other activities, **increases in transaction costs** and potentially to changes in
>
> product design and pricing and funding arrangements. [Emphasis added]
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> (p.3)[12]

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[11] European Financial Reporting Advisory Group (EFRAG). (2004). Re: Exposure Draft of proposed Amendments to IAS 39 Financial Instruments Recognition and Measurement: The Fair Value Option.
[12] Group of 100 Inc. (2003). Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk.

"Risk" is the most frequently blocked word and is removed from the negativity count in comment letters corresponding to any of the 12 exposure drafts in which this word occurred with a frequency of more than 0.5%. In total, it is removed 1,181 times. The words "loss" and "board" are removed from the negativity count every time they appear in a comment letter, as they are frequent in all exposure drafts. In total, 63 unique words are removed from the negativity count. In addition, any negative words that occur in a question are blocked from the negativity count in the corresponding answers. This process reclassifies a further 401 words from negative to neutral, of which the word "question" is reclassified as neutral 120 times.

We follow Loughran and McDonald (2011) by adding negated positive words to the negative word count if "no," "not," "none," "neither," "never," and "nobody" occur within three words preceding the positive word.[13] Contrary to Loughran and McDonald (2011), who do not take account of negations preceding negative words as they do not expect phrases such as "not terrible earnings" in financial reports, our sample of comment letters contains phrases such as, "We have no objections to the proposal," and, therefore, negated negative words are accounted for by excluding the word from the negative word count.

As per Fagan and Gençay (2011), so-called stop words are removed from the analysis as they can distort the overall negativity score.[14] Finally, the term-weighting scheme in Equation 1, suitable to samples comprising documents of different lengths, is applied to the negativity assessment, as it is recognized that terms carry different levels of sentiment depending on their frequency (Loughran & McDonald, 2011).

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[13] The positive words come from the Harvard IV-4 Psychosocial Dictionary, available at
http://www.wjh.harvard.edu/~inquirer/spreadsheet_guide.htm
[14] The list of generic stop words has been downloaded from https://sraf.nd.edu/textual-analysis/resources/#StopWords. When including stop words, the results of the analysis are qualitatively the same.

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

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

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

4.5 Model Specification

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

$$\ln \frac{\Pr(REJECT=1)}{\Pr(REJECT=0)} = \alpha + \beta_1 AGREE_{i,t} + \beta_2 DISAGREE_{i,t} + \beta_3 NEGATIVITY +$$

$$\beta_4 AGREExNEGATIVITY_{i,t} + \beta_5 DISAGREExNEGATIVITY_{i,t} + Controls + \varepsilon_{i,t} \tag{2}$$

4.5.1   Controls for Political Pressure

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

Further, it is possible that the salience of the topic under consideration and the volume of comment letters received make the organization more hesitant to go ahead with implementing proposed changes. For example, Bertomeu and Magee (2015) show that increases in required disclosure proceed more slowly when increased disclosure costs imply greater political resistance from reporting firms. Therefore, the log of the volume of comment letters corresponding to the exposure draft, *VOLLG*, is included in the model. In addition, the length of the responses may signal that the proposed change is particularly complicated or controversial, which may lead the IASB to reject the proposed change or defer its implementation. Consequently, *LENGTH*, the number of lines in the answer to the question, and *WORDS*, the number of words in the letter, are also included as control variables. These variables have also been used to proxy for the quality of the response (see Hansen, 2011). A binary variable *ISS* equals 1 if the accounting issue in question relates to classification and measurement, as these may be perceived as particularly salient and controversial (Jermakowicz & Gornik-Tomaszewski, 2006), 0 otherwise.

4.5.2 Dissenting Opinions

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

4.5.3 Additional Predictors of Lobbying Success

In the dissenting subsamples, we also control for a host of variables representing the ability to provide information to the IASB, the credibility of the lobbyists, and their impact on the viability of the IASB, all which are important for lobbying success (Hansen, 2011). Specifically, to control for the quality of the response, we include *QPERC,* which is the percentage of questions posed in the exposure draft that were answered in the letter, and *CONCL,* an indicator variable that equals 1 if the letter mentions the IASB's conceptual framework and 0 otherwise. *CONT* takes the value 1 if the lobbyist is a named financial

supporter in the IASCF/IFRS Foundation's annual report in the year of the comment period and 0 otherwise. *HIDL* takes the value1 if the lobbyist is an association lobbying on behalf of members and 0 otherwise. *MARK* is the market capitalization of listed companies in the country as a percentage of market capitalization of listed companies in the world, in the year of the observation. *BOARDC* takes the value 1 if there is at least one member on the IASB from the constituent's home country during the consultation period for the relevant comment letter, 0 otherwise.

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

We include two controls for the accounting tradition in the lobbyist's home country. First, *ANGLO* equals 1 if the accounting system in the lobbyists' home country is rooted in Anglo-Saxon traditions. Accounting traditions of the IASB's constituents vary primarily because of the differences in sources of external finance available to firms in different countries (Nobes, 1998). Mandated standards prior to the introduction of IFRS, as well as the reporting incentives of managers, therefore, vary across markets (Ball et al., 2000; Burgstahler et al., 2006; Leuz et al., 2003). IFRS standards are arguably grounded in the Anglo-Saxon accounting tradition, with shareholders as the prime user of financial reports.[15] Botzem and Quack (2009) point out that Anglo-American logic amongst private standard setters shows their preference for capital-market oriented standards that, above all, serve the needs of large multinational corporations. Further, in Büthe and Mattli (2011), respondents from U.S. companies, as compared to German, French, and U.K. companies, report that they are more confident that their efforts will be influential in the IASB standard-setting process. Therefore, it is possible that lobbyists from countries and/or domestic institutions with an accounting ideology more closely related to that of the IASB will be more engaged in the process and more successful in their lobbying efforts.

Last, we control for the extent of differences between IFRS and local accounting standards prior to IFRS adoption. We base our measure on the scores of absence and divergence developed in Ding et al. (2007). Absence is defined as "the extent to which the rules regarding certain accounting issues are missing and divergence as the extent to which the rules regarding the same accounting issue differ" (Ding et al., 2007, p. 3). We therefore take the average of the absence and divergence score, and *IAS_DIFF* equals 1 if the average is above the median, 0 otherwise.

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

5. Results

5.1 Descriptive Statistics

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

[TABLE 2 ABOUT HERE]

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

Amongst the explanatory variables, *NEGATIVITY* and *DISAGREE* are positively correlated, whilst both are negatively correlated with explicit agreement. This confirms that lobbyists who disagree tend to use more negative language than lobbyists who agree and provides some validation that our negativity scores capture discontent with the proposed

changes. To the extent that multicollinearity may cause bias in our results, the precision of the estimates may be lower and their standard error greater, leading us to fail to reject the null that our opinion variables have no impact on the IASB's decision to reject its proposals. We include each variable of interest separately, interacted, and with and without the inclusion of controls in our main tests to address this.[16]

5.2 Multivariate Analysis

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

[TABLE 3 ABOUT HERE]

As Table 3 shows, the coefficient for *NEGATIVITY* is positive and significant. The positive and significant coefficient and marginal effect are consistent with the notion that a proposal met with higher aggregate levels of negativity is more likely to be rejected.[17] Figure

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

[17] For robustness, we repeat our main analysis using four measures of negativity used in prior research. Specifically, we test *HARVARD_NEG*, the ratio of negative words to total words based on the Harvard IV-4

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

[INSERT FIGURE 1 ABOUT HERE]

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

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

Psychosocial Dictionary, *HARVARD_NEG_W*, applying the weighting scheme in Equation 1 to the *HARVARD_NEG* measure, *FIN_NEG*, the ratio of negative words to total words based on the financial word list developed in Loughran and McDonald (2011), and *FIN_NEG_W* with the weighting scheme applied to the *FIN_NEG* measure. Results are qualitatively similar, but the level of negativity is higher without the context-specific adjustment described in section 4.4.

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

5.2.1 Dissenting Subsamples

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

[INSERT TABLE 4 ABOUT HERE]

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

[INSERT FIGURE 2 ABOUT HERE]

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

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

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(*QPERC)*, as measured by the questions answered in the comment letter as a percentage of the total number of questions posed in the exposure draft), a serving board member from the lobbyist's country (*BOARDC*), and whether the lobbyist is a known financial contributor to the IASB (*CONT*) are all positively and significantly related to lobbying success. Further, we find that *ANGLO*, i.e., whether the lobbyist's home country has a tradition of Anglo-Saxon accounting, is negatively and significantly linked to lobbying success. Bamber and McMeeking (2016) find the IASB tends to react less favorably to U.K. respondents. To test whether this is the effect we observe, we replace *ANGLO* with a dummy variable for the lobbyist being from the United Kingdom and find a marginal effect of -0.24 (z – 1.89), showing that U.K. lobbyists are less likely to succeed in influencing the IASB, in line with the findings of Bamber and McMeeking (2016). We do not find significant effects for *ANGLO* when we include additional indicators for the United Kingdom and/or the United States.[18] We conclude that many of the factors that have been found to determine lobbying success in the IASB's process in prior literature are also present in our analysis when using negative tone to capture dissent.

[INSERT TABLE 5 ABOUT HERE]

6. Interest Group Analysis

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

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

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[18]We include the United States, as it has been argued to have a special role in international standard setting: "The United States is at once one of the IASB's most powerful constituents and most reluctant endorsers, a contradiction that reflects its unique role in IFRS international politics" (Ramanna, 2013; p. 6)

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

[INSERT TABLE 6 ABOUT HERE]

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

(2011) analysis showing a rebalancing of power from private to public bodies in the wake of the financial crisis.

7. Conclusion

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

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

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

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

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Appendix: Variable Definitions

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

Table 1

Sample

Panel A: Sample selection and exposure draft distribution

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

Table 1, *continued*
Panel B: Interest group distribution of comment letters

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

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

Table 2
Summary Descriptive Statistics

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

Note. Variables are defined in the Appendix. Distributional descriptive statistics are displayed for observations relating to implemented proposed changes and observations relating to proposed changes that were rejected. The p-values of the test of differences are based on t-test for the means and Wilcoxon rank-sum test for the medians.

Table 3

Effect of Explicit Agreement, Disagreement, and Negative Tone on the Likelihood of the IASB Rejecting Its Proposal (Logistic Regression)

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

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

Table 4
The Effect of Explicit Disagreement and Negative Tone on the Likelihood of the IASB Rejecting Its Proposal in the Subsample of Dissenting Opinions

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

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

Table 5

The Effect of Previously Documented Variables on the Likelihood of the IASB Rejecting Its Proposal in the More Strictly Defined Subsample of Dissenting Opinions and Split by Type of Accounting Issue

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

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

Table 6
Interest Group Analysis
Panel A: Logistic regression on dissenting subsample

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

Panel B: Logistic regression on more restrictive dissenting subsample

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

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

Figure 1
Predictive margins of negativity on the likelihood of a proposal being rejected

Panel A: Predictive margins of *NEGATIVITY*
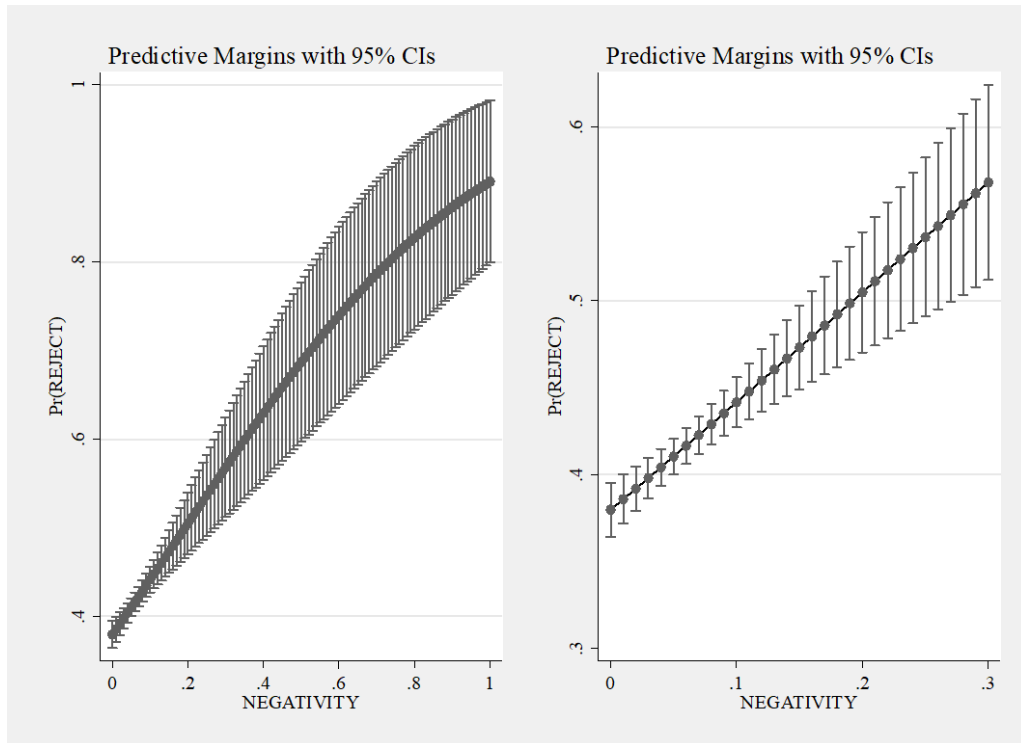
Panel B: Predictive margins of *DISAGREE* and *AGREE* at common levels of *NEGATIVITY*
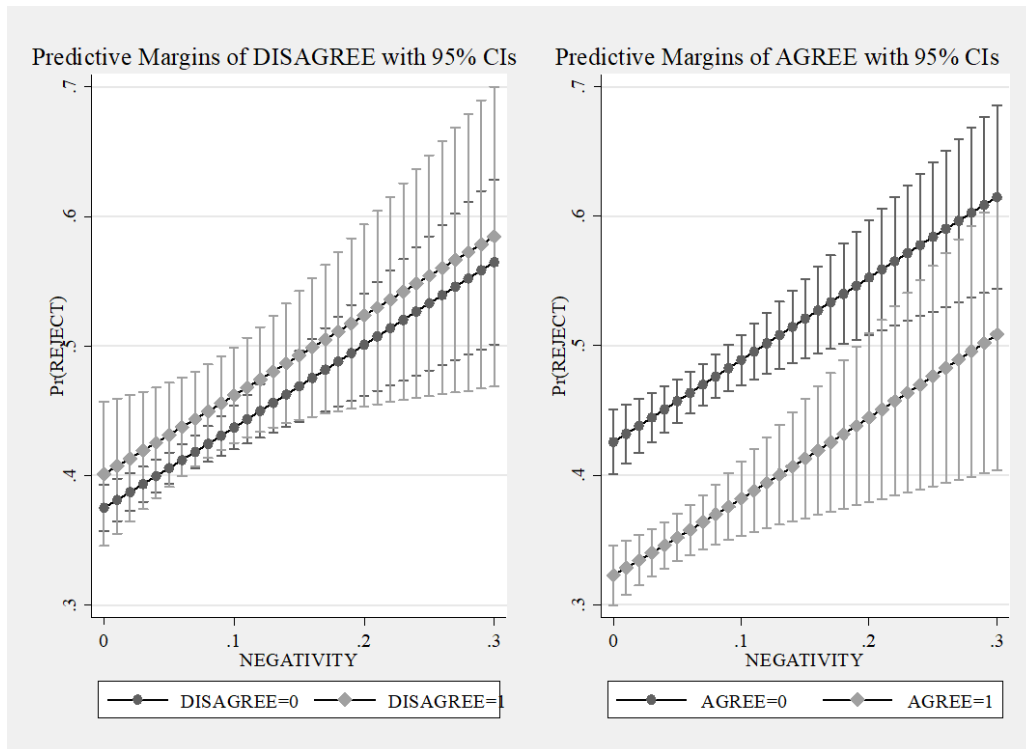
Figure 2
Predictive margins of negativity on the likelihood of a proposal being rejected in the dissenting sample