

**RESPONSE TO EXPOSURE DRAFT ON BEARER PLANT: AN
INSIGHT FROM CAPTURE THEORY**

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RESPONSE TO EXPOSURE DRAFT ON BEARER PLANT: AN
INSIGHT FROM CAPTURE THEORY

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RESPONSE TO EXPOSURE DRAFT ON BEARER PLANT: AN INSIGHT FROM CAPTURE THEORY

ABSTRACT

Despite of steady progress in global convergence of accounting standards, certain *International Accounting Standards (IAS)* or *International Financial Reporting Standard (IFRS)* remain controversial and in need of major overhaul. *IAS 41, Agriculture* is one of the accounting standards for specialised industry where universal acceptance has not been gained among the stakeholders across the world. Particularly, the stakeholders connected to agricultural sector often express strong criticism towards the *IAS 41*, but little attention has been given to them by the international accounting standard setter. The long-awaited revision of *IAS 41* only took place after 14 years since the issuance of *IAS 41* in 2000. However, the revision only covered a very limited scope of *IAS 41* whereby many of the issues as perceived by the stakeholders remained unanswered. Thus, a fuller understanding of the stakeholders' perception on *IAS 41* is considered as particularly urgent, as these insights or input eventually leads to a more robust and comprehensive accounting standard for agricultural sector. The perceived issues regarding *IAS 41* is examined through analysing the comment letters in response to the exposure draft on bearer plant. By examining these comment letters thoroughly, stakeholders' perception on the existing and proposed *IAS 41* is to be documented and studied in a way to identify as to why many of the stakeholders rejected the *IAS 41*. Next, during the revision of *IAS 41*, numerous national accounting-standard regulators have been observed to promote the interest of the local agricultural firms through the IASB's due process whereby these regulators openly support the lobbying position of their regulatees. This phenomenon is considered as unusual from the lens of normative theories of regulation, which generally assumes that regulators tend to advocate the interest of the consumers at large rather than working closely with the corporates. So far,

there is insufficient empirical evidence justifying the collusion in response between the national regulators and corporates in the setting of IASB's due process. Thus, the second objective of this study examines the interplay between them in influencing the revision of *IAS 41* through the lens of regulatory capture. A direct approach of content analysis has been used to answer these research questions whereby the analysis starts with regulatory capture theory and relevant research findings as guidance for initial codes. All comment letters are coded with the respective lobbying behaviour of the stakeholders, statistically compared, and discussed in detailed. Overall, most of the respondent is favourable with the ED on bearer plant with minor interest groups opposing strongly to the proposed *IAS 41* due to the limited amendments which specifically addressed the needs of certain interest groups. Further, collusion in response between the regulatees and national regulators has been revealed whereby these constituents demonstrated similar lobbying behaviour in many aspects consistently, which is an indication of regulatory capture. Content analysis further reveals that the motivation of some national regulators to take part in the IASB's due process is to support their regulatees due to the overlapping interests among them. These findings are expected to provide valuable insights to the IASB's annual improvement project in terms of the comprehensiveness of the *IAS 41* while also contributes to the literature which relates to fair value debate and effective strategy for lobbying.

Keywords: *IAS 41*, biological asset, content analysis, regulatory capture, lobbying, fair valuation accounting

RESPONSE TO EXPOSURE DRAFT ON BEARER PLANT: AN INSIGHT FROM CAPTURE THEORY

ABSTRAK

Walaupun terdapat perkembangan yang stabil dalam pemusatan piawaian perakaunan antarabangsa, sebahagian Piawaian Perakaunan Antarabangsa (IAS) atau Piawaian Pelaporan Kewangan Antarabangsa (IFRS) tetap kontroversial dan memerlukan pindaan besar. IAS 41, Pertanian adalah salah satu piawaian perakaunan untuk industri khusus di mana penerimaan umum belum diperolehi di kalangan pihak berkepentingan di seluruh dunia. Terutama, pihak berkepentingan yang berkaitan dengan sektor pertanian sering memberi kritikan yang kuat terhadap IAS 41, tetapi sedikit perhatian diberikan kepada mereka oleh pengawalselia perakaunan antarabangsa. Pindaan IAS 41 yang ditunggu-tunggu lama hanya berlaku setelah 14 tahun sejak IAS 41 dikeluarkan pada tahun 2000. Walau bagaimanapun, pindaan tersebut hanya merangkumi skop IAS 41 yang sangat terhad di mana banyak isu seperti yang dirasakan oleh pihak berkepentingan masih belum dijawab. Oleh itu, pemahaman yang lebih mendalam mengenai persepsi pihak berkepentingan terhadap IAS 41 dianggap sangat penting, kerana pandangan atau input ini akhirnya membawa kepada standard perakaunan yang lebih mantap dan komprehensif untuk sektor pertanian. Isu-isu yang dirasakan mengenai IAS 41 dikaji dengan menganalisis surat komen terhadap draf pendedahan pada 'bearer plant'. Dengan meneliti surat-surat komen ini secara menyeluruh, persepsi pihak berkepentingan terhadap IAS 41 yang ada dan yang diusulkan harus didokumentasikan dan dikaji dengan cara untuk mengenal pasti mengapa banyak pihak berkepentingan menolak IAS 41. Seterusnya, dalam proses pindaan IAS 41, banyak pengawal selia standard perakaunan nasional telah diperhatikan untuk mempromosikan kepentingan firma pertanian tempatan melalui proses pengawalselian IASB di mana pengawal selia ini secara terbuka menyokong kedudukan lobi mereka. Fenomena ini dianggap tidak biasa

dari lensa teori normatif peraturan, yang secara umum menganggap bahawa pengawal selia cenderung untuk mendukung kepentingan pengguna daripada bekerjasama dengan korporat. Sejauh ini, tiada bukti empirikal yang mencukupi untuk membuktikan pakatan antara pengawal selia nasional dan korporat dalam proses pengawalseliaan IASB. Oleh itu, objektif kedua kajian ini mengkaji interaksi antara mereka dalam mempengaruhi penggubalan IAS 41 melalui lensa 'regulatory capture'. Pendekatan langsung analisis kandungan telah digunakan untuk menjawab persoalan kajian ini di mana analisis dimulakan dengan teori 'regulatory capture' dan penemuan penyelidikan yang relevan sebagai panduan untuk kod awal. Semua surat komen dikodkan dengan perilaku melobi pihak berkepentingan, dibandingkan secara statistik, dan dibincangkan secara terperinci. Secara keseluruhan, sebahagian besar responden menyokong ED on 'bearer plant' dengan kumpulan kepentingan kecil menentang keras terhadap penggubalan yang dicadangkan kerana pindaan tersebut adalah terhad, yang secara khususnya menangani keperluan kumpulan kepentingan tertentu. Selanjutnya, pakatan antara korporat dan pengawal selia nasional telah didedahkan di mana konstituen ini menunjukkan perilaku melobi yang serupa dalam banyak aspek secara konsisten, yang merupakan indikasi 'regulatory capture'. Analisis kandungan selanjutnya menunjukkan bahawa motivasi beberapa pengawal selia nasional untuk mengambil bahagian dalam proses pengawalseliaan IASB adalah untuk menyokong korporat, disebabkan oleh pertindihan kepentingan di antara mereka. Penemuan ini diharapkan dapat memberikan pandangan yang berharga untuk projek peningkatan tahunan IASB dari segi kelengkapan IAS 41 dan juga menyumbang kepada kajian yang berkaitan dengan perdebatan nilai saksama dan lobi yang berkesan.

Kata kunci: *IAS 41*, Aset biologi, analisis kandungan, 'regulatory capture', melobi, nilai saksama akaun

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List of Symbols and Abbreviations

AOSSG - Asian-Oceanian Standard-Setters Group
CFA - Chartered Financial Analyst
BBA - Bearer Biological Asset
CBA - Consumable Biological Asset
DP - Discussion Paper
ED - Exposure Draft
FVA - Fair value accounting
HCA - Historical cost accounting
IAS - International Accounting Standard
IAS 16 - International Accounting Standard 16, Property, Plant and Equipment
IAS 41 - International Accounting Standard 41, Agriculture
IAS 39 - Financial Instruments: Recognition and Measurement
IASB - International Accounting Standards Board
IASC - International Accounting Standards Committee
IFRS - International Financial Reporting Standards
IFRS 2 - Share-based Payment
IFRS 3 - Business Combinations
IFRS 9 - Financial Instruments
MASB - Malaysian Accounting Standards Board
PPE - Property, Plant and Equipment
RQ - Research Question

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CHAPTER 1 : INTRODUCTION

This chapter contains the introduction to the issues in which the research is concerned with, the aims and objectives of the study, and the scope or outline of the research approach as well as the structure of the research dissertation.

1.1 Background of the *IAS 41* and fair valuation

International Accounting Standard, *IAS 41 Agriculture*; an accounting standard which prescribes the accounting practice for biological assets¹ and agricultural produce, had been controversial since the first exposure draft proposed by the International Accounting Standards Committee (IASC) in 1999. The standard had only been amended twice within a period of 20 years from 2000 to 2020, which took place on 22nd May of 2008 and 30th June 2014, respectively (Deloitte, n.d.-a). This indicates that the agricultural industry has always been receiving relatively less attention than other industries, e.g., financial industry of which applicable accounting standards were subjected to more updates by the international accounting standard-setter (Deloitte, n.d.-b).

The *IAS 41* caused a stir when it was first issued in 2000. The standard introduced a significant change that required the application of a fair value approach (FVA) to all biological assets and agricultural produces which largely deviated from the conventional accounting practice in the agricultural industry. Basically, paragraph 12 and 13 of the *IAS 41* state that all biological assets is required to be fair-valued at initial recognition and at each subsequent measurement date; while the agricultural produce is to be fair-valued at the point of harvest. Various forms of resistance in adopting the *IAS 41* has been observed globally as indicated by the active lobbying activities at both the national and international level ((AOSSG), 2011a, 2011b; (MASB), September, 2010). This

¹ Generally, *IAS 41* defines biological asset as a 'living animal and plant'; while agricultural produce as the 'harvested produce of the entity's biological assets'. Refer to the APPENDIX A for the complete definitions specified in the *IAS 41*.

implies that the *IAS 41* is one of the international accounting standards which failed to gain the acceptance among many.

In the past, many respondents were found to lobby against the accounting requirements which proposed for fair valuation accounting (Anantharaman, 2015; Chatham et al., 2010; Giner & Arce, 2012; Saemann, 1999). Drawing insight from these studies, the *IAS 41* was rejected probably because of its requirement(s) to apply the fair valuation model extensively to all biological assets – including bearer biological asset (*IAS 41*, paragraph 5); and consumable biological assets (*IAS 41*, paragraph 44). One of the main distinctions between the bearer and consumable biological asset is that the former is used to bear agricultural produce; while the latter itself is harvested eventually as the agricultural produce (refer to the APPENDIX A for more details regarding the definitions). Given of the widespread resistance in the adoption of the *IAS 41*, the harmonisation or convergence progress of accounting standards may be slowed down. Thus, it is important to study the perception of these stakeholders for identifying the perceived major issues of the *IAS 41*. A fuller understanding of the opinion and position of various stakeholders in terms of fair valuation and agricultural issues is crucial for the development of a more comprehensive and holistic agricultural accounting standard.

Until the late in 2013, the International Accounting Standard Board (IASB) had finally proposed to amend the controversial *IAS 41* through the exposure draft of bearer plant (IASB, 2013b). This ED proposed to limit the application of fair value model on only one particular class of biological assets – the bearer plant, which is generally known as a living plant used for bearing or producing fruit (*IAS 41*, paragraph 5). Thus, it was believed by many that the amendment to the *IAS 41* was to selectively address the concern of certain groups of lobbyists. While the accounting treatment of other

biological assets, i.e., consumable biological asset and bearer animal, would continue to be accounted under the existing fair value model.

Further, a national standard setter based in Malaysia was also observed to lobby actively for specific changes in the *IAS 41* in an earlier stage since 2010 ((MASB), 2010b). In a different setting, European union regulators were also found to support the position of the big EU banks and lobbied the IASB on their behalf (Bengtsson, 2011). It implies that some firms may have captured their national regulators for extending their support to the firm's positions (preferred accounting choices) in the international standard-setting arena. Such hidden and greater regulators-regulatees coalition in exerting influence on the international standard-setting process should be more effective, whereby the insight is drawn from the work of Cortese et al. (2010). Based on the outcome (revised *IAS 41*), it appears that such coalition had succeeded in lobbying for their preferred accounting choice whereby only the bearer plant would be scoped out from the FVA approach. Thus, it is important to better understand the interplay between the national regulators and their regulatees in lobbying for specific changes in the *IAS 41*. This should provide insights to various stakeholders for effective lobbying in the pursue of a complete or broader revision of the *IAS 41*.

Generally, this study first examines the perceived issues of *IAS 41* through analysing the respondents' comment letters submitted in response to the ED on bearer plant. Next, this study further examines the interplay between the national regulators and their regulatees for identifying the regulatory capture effect within the international standard-setting process. Based on the literature review of past researches, this study hypothesises that the national regulators are likely to promote the position (interest) of their regulatees, which is operationalised as an indifferent lobbying positions and arguments as observed from their comment letters in response to the issues of *IAS 41*.

The exertion of influence can be observed through comment letters written to the IASB, whereby past studies confirm that the regulator would possibly and eventually be captured by the regulated. The analysis of the lobbying behaviour is then reported in this study. This study employs the theoretical lens of regulatory capture based on the suitability of this theory in explaining the lobbying behaviour of the respondents.

1.2 Problem Statement

Despite of the resistance in adopting the IAS 41, the standard appears to be not receiving much attention from the IASB, as suggested by the number of updates for this standard within a period of 20 years (Deloitte, n.d.-a). Since IAS 41 requires a significance change in the conventional accounting practice for biological assets and agricultural produce, and it also relates to an extensive application of a fair value model, major stakeholders are expected to lobby against such accounting standard; or expected to support proposal which removes the FVA approach. However, it appears that there is a gap in the past literature showing little evidence supporting this view. The ED on bearer plant, which is the latest proposed amendment to the IAS 41, provides a great opportunity for studying the feedback (perception) of various stakeholders with regards to the issues of IAS 41 and fair valuation. A fuller understanding of the opinion and position of various stakeholders in terms of fair valuation and agricultural issues is crucial for the development of a more comprehensive and holistic agricultural accounting standard.

The amendment to the IAS 41 was rolled out in 2014, whereby the application of fair valuation approach has been limited on a specific type of biological asset, namely bearer plant. The amendment appears to selectively address the concerns of some specific stakeholders, implying the possibility of regulatory capture. Further, a national standard setter and a regional standard-setter group were also seen to lobby for such specific

changes since 2010 ((AOSSG), 2011a, 2011b; (MASB), 2010b). It appears that the interplay between the national standard setter(s) and their regulatees play a great role in influencing the development of the IAS 41 whereby a method preferred by some special interest has been implemented. Past study show that the national regulators are found to support the interest and preferred accounting choice of their regulatees in the international standard-setting process (Bengtsson, 2011); and a tendency that the IASB to align their industry-based IAS or IFRS to the preference of the major key players within its due process (Cortese et al., 2010). These studies generally showed that the regulator prioritise the special interest over the general interest of the public (users of financial statement). Cortese et al. (2010) reasoned that it is due to an aligned interest or close ties between the regulator and regulatees, at least in the context of accounting standard for the extractive sector. However, little insight has been provided by these studies in the context of another industry-based standard – IAS 41, which is relevant to the agricultural sector. Through examining the interplay between the national regulators and regulatees in shaping the IAS 41 in a specific direction, this should provide insights to various stakeholders for effective lobbying in the pursue of a complete or broader revision of the *IAS 41*. The next sub-chapter will present the approaches of the current study in examining these areas of concern.

1.3 Research objective and questions

The IASB issued the ED on bearer plant in August 2013 which proposed to amend the *IAS 41 Agriculture* by limiting the application of fair value accounting on certain biological asset, namely bearer plant. The research objectives and questions of this study are designed in a way to provide deeper insight into the fair valuation issues of *IAS 41* by analysing the comment letters in response to such ED. Content analysis is used to analyse the perceptions or feedbacks of the national regulators, regulatees (corporate), and others in their comment letters through the lens of regulatory capture.

Next, this study explores whether national regulators promote the interest of their regulatees in such revision of *IAS 41* by comparing their lobbying behaviours; and also, to provide insight as to why the national regulators take part in the IASB's due process. The motivation of this study is mainly driven by a limited amendment to the *IAS 41* which partially address the concerns of some specific stakeholders as well as responding to the calls for examining the lobbying behaviour within the accounting standard-setting process in the context of specialised industry (Cortese et al., 2010).

As an overview, the ED on bearer plant has 10 questions which touched upon several aspects of the *IAS 41* such as the scope (Q1), measurement (Q2, Q3 and Q4), additional guidance (Q5), disclosure (Q6 and Q7), transition provisions (Q8), first time adopters (Q9) which have been attached in the APPENDIX B. As this study examines the perceived fair valuation issues of the *IAS 41*, thus, only the feedbacks for the specific proposals (questions) which called for elimination of FVA for bearer plant are analysed, as follows:

ED Q2- *The IASB proposes that before bearer plants are placed into production (i.e., **before they reach maturity** and bear fruit), they **should be measured at accumulated cost**. This would mean that bearer plants are accounted for in the same way as self-constructed items of machinery.*

Do you agree with this accounting treatment for bearer plants before they reach maturity? If not, why and what alternative approach do you recommend? (IASB, 2013b, p. 5)

ED Q4 - *The IASB proposes to include bearer plants within the scope of IAS 16. Consequently, entities would be permitted to choose either the **cost model or the revaluation model** for **mature bearer plants** subject to the requirements in IAS 16. All*

other biological assets related to agricultural activity will remain under the fair value model in IAS 41.

Do you agree that bearer plants should be accounted for in accordance with IAS 16?

Why or why not? If not, what alternative approach do you recommend? (IASB, 2013b, p. 6)

Based on the research problem contextualised in the above discussion, this study, therefore, aims to achieve two main objectives as follows:

- 1) To examine the perception of national regulators, regulatees and others in terms of their lobbying position and argument on the fair valuation issues of the bearer plant (IAS 41).
- 2) To examine whether the national regulators align to the lobbying behaviour of their regulatees for lobbying for changes in the fair valuation of the bearer plant in the IAS 41.

The IASB commonly issues pronouncements to seek for the opinion of various stakeholders regarding its proposed accounting requirements. RO1 investigates these opinion or perception of the stakeholders in relation to the fair value accounting of bearer plant. The stakeholders' perception is viewed in a specific context in this study, which is limited to their lobbying behaviour – how they perceived about the proposed accounting changes in a way that whether they support or oppose to these changes which termed as “lobbying position”; and the reason(s) for support or opposition, which termed as “lobbying arguments”. Collectively, these two aspects in their perception is commonly known as “lobbying behaviour” in the accounting and lobbying literature. Specifically, RO 1 examines these perceptions (lobbying behaviour) in such context to find out the fair valuation issues that are deemed to be important to the respondents.

Most often the major reason that stakeholders do not accept certain accounting standard is due to the weakness in the standard itself, and they often provide practical insight for improvement or highlight the weakness of the standard in their comment letter. By studying these perceptions, technical issues of *IAS 41* may be better highlighted with the ultimate aim to provide in-depth insight to the IASB and other concerned stakeholders for further improvement in the international accounting standard for the agricultural sector.

Further, fair valuation accounting (FVA) has been a heated debate in the past 20 years that the perceptions on FVA have been diverse and extreme as observed from the comment letters. Many participants expressed strong opposition against the approach of FVA in many different accounting standards, particularly in the context of financial industry and financial instruments. (see Jorissen et al. (2012), Bengtsson (2011), Chatham et al. (2010), Perry and Nölke (2006), and Saemann (1999) for more details). However, there are relatively less studies focusing on the perceived FVA issues in the context of agricultural sector. Thus, by analysing the comment letters in response to the latest proposed amendment in the *IAS 41* through ED of bearer plant, the findings should provide deeper insight into the perceived fair valuation issues connected to the agricultural industry – which has received relatively little attention² from the IASB compared to the financial sector. Therefore, this study also extends the past works connected to FVA debate and lobbying in the context of *IAS 41*.

RQ 1a - To what extent the national regulators, regulatees and others support the ED on bearer plants which limits the application of FVA on bearer plants before (corresponding to ED Q2) and after its maturity (corresponding to ED Q4)?

² based on the number of amendments for the respective accounting standard

RQ 1b - What are the common argument(s) the national regulators, regulatees and others used to support their positions for limiting the application of FVA on bearer plant before (corresponding to ED Q2) and after its maturity (corresponding to ED Q4)?

Next, for RO2, this study examines whether national regulators align to the lobbying behaviour or interest of their regulatees in the revision of *IAS 41*. The objective of this is to identify the interplay between these two parties in influencing the development of the *IAS 41*. Past studies have widely examined the comment letters for the alignment in interest or preference over the accounting choices between both the standard setter and other stakeholders in different contexts (Saemann, 1999; Weetman, 2001; Winston & David, 2005) but the focus has often been on the alignment between a single standard setter with other stakeholders; rather than multiple national standard setters with their regulatees. The main assumption underlies this RO2 is that multiple national standard-setters may have been captured by their regulatees beforehand which gives rise to collusion in responses between the former and the latter as reflected in their comment letters. Such assumption is indirectly supported by Cortese et al. (2010) and Bengtsson (2011) where they found regulator or standard setter aligned their position or view to their regulatees. Cortese et al. (2010) argued that the alignment is caused by close ties and overlapping interest among the regulator and regulatees.

Guided by the past works mentioned above, this study explores the alignment in both lobbying position and argument between the national regulators and regulatees (corporates), as following:

RQ 2a – Is there any difference (alignment) between national regulators and corporates in their **lobbying position** for the proposed measurement requirements for bearer plants?

RQ 2b – Is there any difference (alignment) between national regulators and corporates in their **lobbying arguments** for the proposed measurement requirements for bearer plants?

Such design enables a comparison in lobbying behaviour among these constituents to examine the effect of regulatory capture in the revision of IAS 41. By extending Cortese's approach, the alignment in lobbying position and argument among these constituents (indifferent lobbying behaviour or collusion in responses) is to be interpreted as aligned interests, and thus, evidence of regulatory capture. This suggests that the national regulators prioritise (and promote) the interest of their regulatees over the general interest of the users in the standard-setting process. Further, the motivation of national regulator to take part in the IASB's due process will also be explored as to why they support their regulatees' preferred accounting method through the international platform. As this study focuses on the proposals to eliminate FVA in the ED on bearer plant, i.e., ED Q2 (proposed measurement model for bearer plant before its maturity) and ED Q4 (proposed measurement model for bearer plant after its maturity), therefore, there are two dimensions in both RQ 2a and RQ 2b as follows:

RQ 2a - Is there any difference (alignment) between national regulators and corporates in their **lobbying position** for the proposed measurement requirements for bearer plants?

RQ 2(a)(i) Is there any difference (alignment) between national regulators and corporates in their lobbying position for the proposed measurement requirements for bearer plants **before its maturity (corresponding to ED Q2)?**

RQ 2(a)(ii) Is there any difference (alignment) between national regulators and corporates in their lobbying position for the proposed measurement requirements for bearer plants **after its maturity (corresponding to ED Q4)?**

RQ 2b - Is there any difference (alignment) between national regulators and corporates in their **lobbying arguments** for the proposed measurement requirements for bearer plants?

RQ 2(b)(i) Is there any difference (alignment) between national regulators and corporates in their lobbying arguments for the proposed measurement requirements for bearer plants **before its maturity (corresponding to ED Q2)**?

RQ 2(b)(ii) Is there any difference (alignment) between national regulators and corporates in their lobbying arguments for the proposed measurement requirements for bearer plants **after its maturity (corresponding to ED Q4)**?

Segregation of both RQ2a and RQ2b into RQ2(a)(i), RQ2(a)(ii), RQ2(b)(i) and RQ2(b)(ii) respectively offers richer insight into the lobbying behaviour of various respondents as the same respondent might have a different perception for ED Q2 and ED Q4 – for instance, the same respondent might be favourable to ED Q2 but unfavourable to ED Q4 although these two EDs touched on the measurement aspects of bearer plant – with ED Q2 focuses on the measurement of bearer plant before its maturity and ED Q4 focuses on the measurement of bearer plant after its maturity. Consistent with this logic, in terms of lobbying arguments, the same respondent might use different type of argument to support their position, e.g., using conceptual arguments to support why he/she is favourable to the ED Q2; while supporting his/her position in ED Q4 with practical arguments. Further, this segregation provides more convincing evidence of regulatory capture if the corporate and regulatory respondents are found to have similar lobbying behaviour reflected in their comment letter concerning the measurement of bearer plant both before and after its maturity.

Next, RO2 is to be extended with an additional variable – country status of the respondent in both RQ2(a)(iii) and RQ2(b)(iii). The purpose of such extension is to examine whether there is an association between the respondents' country status and their lobbying behaviour. It is common to group the respondents by countries in which they domicile for analysing their lobbying behaviour or participation level within the standard-setting process (Chatham et al., 2010; Holder et al., 2013; Kenny & Larson, 1993; Larson, 2007; Larson & Brown, 2001). These studies generally found that there was a significant difference in the lobbying behaviour among these specific groupings based on geographic distribution. Zeff (2007) supports that country-level differences or factors such as business and financial culture, accounting culture, auditing culture and regulatory culture may affect the lobbying behaviour of the respondents.

Further, past studies also often observed that the firms from the developed market significantly influenced the international standard-setting process (Cortese et al., 2010; Winston & David, 2005). However, one of the unique settings in the revision of *IAS 41* through the ED on bearer plant is that this proposal is expected to affect the respondents domicile in developing nation more due to their greater stake in the world agricultural business. Thus, the constituents from developing nation should participate actively in this revision and this setting provides a unique opportunity to examine the lobbying behaviour of participants both from developed and developing countries. Drawing insight from these studies, the national regulators and regulatees (corporates) based in developing market might have a different perception on the *IAS 41* than those based in developed market. Specifically, the variation in responses among the counterparts from developed and developing nations in terms of lobbying position and lobbying argument is to be studied respectively in RQ 2(a)(iii) and RQ 2(b)(iii):

RQ 2(a)(iii): Is there any association in the **lobbying position** between the national regulators and corporates based on country status (developed or developing nation)?

RQ 2(b)(iii): Is there any association in the **lobbying argument** between the national regulators and corporates based on country status (developed or developing nation)?

The submissions in response to the ED on bearer plant should reflect a greater diversity of the world's stakeholders compared to the previous works consists mainly participants from the developed market. In other words, lobbying behaviour, or accounting issues is to be examined in a broader perspective which encompasses a diverse views and interests.

1.4 Significance and Motivation of Study

Previous studies which examine lobbying effect and power relations are mainly framed in a context where the dominating players originated from developed nations (Cortese et al., 2010; Walker, 1987). However, in the case of the revision of *IAS 41*, it appears that the constituents from the emerging market drove the change ((AOSSG), 2011a, 2011b; (MASB), 2010b). Given that there is a difference between constituents in the developed and developing market in terms of institutional and social-political setting, therefore, the proposed study contributes to the lobbying or standard-setting literature by examining respondents' lobbying behaviour in a broader and richer context which includes constituents both from the developed and developing market.

Next, given of the widespread resistance in the adoption of the *IAS 41*, the harmonisation or convergence progress of accounting standards may be slowed down. Thus, it is important to study the comment letters of various stakeholders for examining their perception in terms of their stance and argument with regards to the *IAS 41* and fair valuation issue. A fuller understanding of their position and arguments should

contribute to the development of a more comprehensive agricultural accounting standard. This also contributes to the fair value debate in the context of agricultural sector.

This study also identifies that there is a gap in the past literature which mainly focused on the participation level and lobbying behaviour of the preparers (firms) and financial statement users, rather than the national regulators (Chatham et al., 2010; Holder et al., 2013; Jorissen et al., 2012). Unlike of these studies, both the preparers (firms) and national standard setters were seen to participate actively in the revision of *IAS 41*. Thus, these national standard setters are expected to possess the ability to exert influence on the revision of the *IAS 41*. As indicated by the outcome (revised *IAS 41*), it appears that some constituents succeeded in securing their preferred method of accounting through effective lobbying. Further, some studies also found that the standard setter are also likely to bring about a preferred outcome for their regulatees (Bengtsson, 2011; Cortese et al., 2010). Therefore, this setting inspires the research design of this study whereby the second focus of this study is on analysing the interplay between the national regulators and their regulatees in lobbying for specific changes in the *IAS 41*. By examining how these specific group of lobbyists capture the national and international regulators in pursuing their interest in the context of *IAS 41*, this study should contribute to the body of knowledge relates to effective lobbying in the accounting standard-setting process.

1.5 The organisation of the dissertation

The dissertation is organized as follows:

Chapter 1 describes the background of this work. Chapter 2 presents the literature review. Chapter 3 discusses the research methodology, including the theoretical

framework and development of the hypothesis. Chapter 4 presents the findings and analysis. Finally, chapter 5 presents the conclusions and possibilities for future research.

In Chapter 1, there are five sub-chapters giving an overview of the dissertation. Section 1.1 broadly outlines the background of the *IAS 41* and fair valuation. Section 1.2 highlights the area of concerns as problem statement, followed by the presentation of research objective and questions in section 1.3. Next, significance and motivation of the study is presented in the section 1.4. At last, Section 1.5 presents the overall organisation of the dissertation.

In Chapter 2, the related works is to be discussed in detailed. Section 2.1 illustrates the issues of *IAS 41* and fair valuation in-depth. Section 2.2 presents the participation level and lobbying behaviour of the stakeholders with regards to fair valuation issues. Next, section 2.3 discussed the content analysis approaches and how directed content analysis is used in this study. Lastly, Section 2.4 discusses the theoretical framework that underlies this work – the regulatory capture theory and its application in the context of accounting literature.

In Chapter 3, section 3.1 presents the research methodology of the dissertation, whereby a combination of quantitative and qualitative approaches is to be adopted to study the research questions. Section 3.1 also discusses extensively in four stages that how content analysis is used in this study for analysing the comment letters. Each stage is labelled with corresponding heading respectively – section 3.1.1 for the development of coding scheme; section 3.1.2 for the coding procedure; section 3.1.3 for the statistical analysis and at last, section 3.1.4 for further analysis & reporting. Next, section 3.2 presents the theoretical framework which underlies the current study and the development of hypothesis.

In Chapter 4 and 5, the results and discussion are to be presented in four sub-sections respectively. Section 4.1 presents the descriptive statistic of the comment letters which includes demographic, stakeholder and geographical analysis. Section 4.2 and 4.3 both demonstrate the statistical finding regarding the alignment of lobbying position and arguments among the national regulators and corporates. Section 4.4 further explores the lobbying behaviour among these two interest groups by adding a control factor – the country status of the respondents. Inductive content analysis is then performed to support the statistical results through examining the comment letter thoroughly. Next, Chapter 5 discussed about the findings in relation to the previous empirical works and theories which commonly used in the accounting and lobbying literature.

In Chapter 6, the conclusion is to be presented, followed by a discussion of the limitation and possibilities for future research.

CHAPTER 2 : LITERATURE REVIEW

Previous chapter has introduced to the issues in which the research is concerned with and how this study is designed to address them. Moving on, this chapter reviews the previous literature relevant to fair valuation issues, lobbying in the accounting standard-setting process, content analysis and regulatory capture theory. These literatures are directly related to the current study, providing details on the theories, empirical findings and method used in this study.

2.1 Background of *IAS 41* and fair valuation

Biological assets³, the major component in the balance sheet of the agricultural firms whereby this type of assets had always been accounted under the *IAS 16, Property, plant and equipment* until the IASB rolled out the controversial *IAS 41 Agriculture* in early 2003. Since then, the *IAS 41* requires all biological assets to be stated at “*fair value less cost to sell*” at default, which is significantly different from how these assets were used to be accounted for decades⁴. Generally, such FVA model is required to be applied extensively to all biological assets (both bearer and consumable assets) from time to time – initial recognition and subsequent measurement.

Fair value is a complex and vague concept affecting many different accounting standards thus the IASB had specifically developed a single framework for measuring fair value in its *IFRS 13 Fair value measurement* in 2011. By definition, fair value refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date [IFRS 13.9]. Thus, FVA is a ‘mark-to-market’ model whereby the net asset value of the reporting entity should be

³ The *IAS 41* defines biological assets as “all living plant and animal” [IAS 41.5].

⁴ Before the effective date of the *IAS 41*, all biological asset is classified as a subset of “Property, plant and equipment” and is accounted under the *IAS 16*. The *IAS 16* permits two accounting choices for valuing the underlying assets subsequent to initial recognition – the cost model [IAS 16.30] and the revaluation model [IAS 16.31]. The former method requires the asset to be carried at cost less accumulated depreciation and impairment; while the latter requires the asset to be carried at a fair value at the date of revaluation less subsequent depreciation and impairment, provided that the fair value can be determined reliably.

estimated based on the observable market information at the measurement date as if the underlying asset or liability is to be sold on the same date. However, not all kind of assets are tradeable in the market, giving rise to a sticky situation whereby market transactions and information are not available – for example, bearer plant (rubber trees, fruit trees or oil palms). For these kinds of thinly-traded assets or liabilities, estimation of fair value has to be done using ‘valuation techniques’ whereby the *IFRS 13* classifies the inputs to the valuation model into three main categories or three levels. Generally, the higher the level under which an input belongs to, the higher degree of subjectivity involved in the estimation of fair value. Thus, the fair value relying on the level 3 inputs should subject to the greatest measurement errors due to the greatest extent of management estimates. To one extreme, the management must develop a pricing model which founded on many subjective, even questionable assumptions to derive the ‘fair value’. Such level-3 information is generally misleading and unreliable due to the intentional bias from the management (Hanley et al., 2018; Martin et al., 2006; Ronen, 2008).

However, the *IAS 41* allows for an exception to this fair value measurement requirements if the fair value of the biological assets cannot be reliably measured [IAS 41.12]. Nevertheless, IAS 41.30 clearly restricts that the measurement exception to only “*initial recognition for a biological asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable*”. Further, once the fair value data is available and reliably measurable, such measurement exception shall be lifted [IAS 41.30]. These fair valuation requirements as in the *IAS 41* have greatly restricted the agricultural firms over the accounting choices previously permitted under IAS 16, and strong opposition towards this new change has been observed globally. Similar scenarios have taken place in many different contexts whereby many studies observed that the fair valuation

accounting is strongly rejected, questioned, or challenged by many stakeholders participating in the accounting standard-setting process (Bengtsson, 2011; Chatham et al., 2010; Perry & Nölke, 2006; Saemann, 1999). Social acceptance is particularly important to the IASB for maintaining its legitimacy as the international accounting standard setter, given of its nature as a private organisation which receives funding from its stakeholders across the globe. Fair valuation accounting seems to be posing challenge to the IASB's legitimacy and the international standard setter has to, and has been observed to compromise and align their accounting requirements, at least partially, with the majority views of the dominant interest groups participating in its standard-setting process (Chatham et al., 2010; Cortese et al., 2010; Guenther & Hussein, 1995; Larson & Brown, 2001; Winston & David, 2005). For example, in the context of financial industry, the relevant accounting standards for financial instrument have been amended in a way which allowed financial assets to be reclassified under HCA (from FVA) due to the pressure from the "political actors"⁵ in the European Union (Bengtsson, 2011).

The IASC and its successor, International Accounting Standards Board (IASB)'s rationale in incorporating the concept of fair value into various standards is generally centred on the connotation that fair valuation provides more relevant⁶ information about a reporting entity which the financial statement users primarily relied upon for making their investing or financing decisions. It appears that the focus of the IASB has always been the financial statement users (investors, lenders and other creditors⁷) rather than other stakeholder groups such as the preparers, regulatory agencies or accounting professions as evidenced by the IASB's stated aim in its constitution (IASB, 2018b), the

⁵ Bengtsson, E. (2011). Repoliticalization of accounting standard setting—The IASB, the EU and the global financial crisis. *Critical Perspectives on Accounting*, 22(6), 567-580. <https://doi.org/https://doi.org/10.1016/j.cpa.2011.04.001> did not define these "political actors" explicitly in his study but generally refer the national or regional regulatory agencies in the EU as political actors.

⁶ More relevant in relation to historical cost accounting.

⁷ Unless otherwise stated, 'user' or 'financial statement user' refers to the investors, lenders and other creditors throughout this study based on the IASB's revised conceptual framework IASB. (2018a). IASB Conceptual Framework. <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>.

IASB's previous and current conceptual framework (IASB, 2018a). The IASB's revised conceptual framework 2018 clarifies and strengthens this view:

“The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.” (IASB, 2018a, paragraph 1.2)

“Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.” (IASB, 2018a, paragraph 1.10)

The IASB has explicitly stated in their revised conceptual framework that the financial statement should be catered specifically for the users who must rely on general purpose financial reports for much of the financial information they need. They claimed that fair valuation should be the most suitable measurement basis for the users which arguably, able to help them to predict the share price movement of the reporting entity in the future and form the basis for their decision on providing economic resources to the entity.

Some proponents support the IASB's view claiming that FVA provides the financial statement users with the most objective and direct information to support their investing or financing decisions (Perry & Nölke, 2006). These FVA supporters assume that the FVA approach is more transparent than historical cost accounting (HCA) which translates into less uncertainty and lower risk. Barlev and Haddad (2003) claim that the historic-cost based financial statement provides greater opportunity for the managers to manage income or window-dressing the statement of financial position because this approach relies significantly on the manager's discretion over the estimate of the reporting entity's net asset (value); while FVA requires the entity's net assets to be fair-valued based on the market mechanism that is, independent from the manager's influence. Therefore, FVA is said to reduce the manager's influence over the financial report and thus the information about the reporting entity is deemed to be more

objective and transparent. Next, the FVA proponents also argue that fair value is a ‘real value’ which incorporates all relevant information about the economic reality of the entity’s net assets which then help in efficiently directing the users’ economic resources to the performing business entities; or to help in preventing misallocation of economic resources.

However, this valuation method has often been subjected to resistance and criticisms in many different contexts as its implementation has led to a radical change in the prominent accounting practices of firms by switching from the historical cost to fair value model. The main reasons for rejection, among many, including the issue of reliability and increased volatility. The FVA opponents claim that the fair valuation accounting introduces as many arbitrary judgements into financial statements as it purports to remove from them (Perry & Nölke, 2006). As evidenced by the *IFRS 13 Fair value measurement*, multiple management assumptions are needed to derive the fair value especially in a setting where observable market transactions and market information is not available due to the nature of the underlying assets, liability or equity which is thinly-traded (illiquid):

“In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques (see paragraphs 6.91–6.95), reflecting all the following factors: (a) estimates of future cash flows; (b) possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows; (c) the time value of money; (d) the price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain; (e) other factors, for example, liquidity, if market participants would take those factors into account in the circumstances. The factors mentioned in paragraphs 6.14(b) and 6.14(d) include the possibility that a counterparty may fail to fulfil its liability to the entity (credit risk), or that the entity may fail to fulfil its liability (own credit risk)...” (IFRS 13, 2011, paragraph 6.14)

Thus, it appears that there is no significance difference between HCA & FVA which also rely on the management estimates on the value of the reporting entity's net assets. HCA requires the managers to estimate the closing value of the assets at the end of the reporting entity's accounting period based on the underlying assets' remaining expected useful lives and condition, while FVA requires the managers to estimate the entity's net assets based on their market price at the date of measurement as if the underlying net assets is to be sold on the same date. Moreover, significantly more management estimates are required under FVA approach when the market price or information is not available according to the *IFRS 13* which may further impair the reliability of the fair-valued information. That is, more predictions about how the underlying assets, liability or equity instrument of the reporting entity should behave in the future will be introduced into the financial statement under this fair valuation approach. This view is empirically supported by many 'value-relevance' studies which examine the predictive power of the reporting entity's fair-valued items on its share price or other performance indicators⁸. Petroni and Wahlen (1995), Nelson (1996), and Venkatachalam (1996) found that the predictive power of the firm's fair-valued information varies depending on how actively an underlying assets, liability or equity instruments being traded in the market. Higher degree of management estimates are required for deriving the 'fair value' of these non-frequently-traded net assets, which subjects to various measurement errors (Barth, 1994; Barth et al., 1995). However, more recent studies which focused on the financial assets of the banking sectors, empirically proved that even the level 3 fair-valued information is able to predict the future share price of the reporting entity despite of the involvement of significant management subjectivity in deriving such fair values (Kolev, 2019; Song et al., 2010). However, their findings also show that the level 3 fair-valued

⁸ Commonly, these value relevance studies assume that the accounting information of a reporting entity is relevant to the investors when the firm's share price is associated with the reported information.

information is less reliable than the ones relying on level 1 and 2 valuation inputs as evidenced by the fact that the value of these level-3 information is normally adjusted downwards by the financial statement users. Further, during the subprime investment crisis in 2008, Fiechter and Novotny-Farkas (2011) show that the value relevance for financial assets at fair value has been adversely affected due to the significant exposures to subprime investments by the financial institutions, and such value relevance has decreased further as the crisis worsened.

Supported by another perspective, the IASB's conceptual framework and its corresponding standards, i.e. the *International Financial Reporting Standards (IFRSs)* are loosely connected in the context of measurement bases for assets. Without the IASB's conceptual framework functioning as a foundation on which the IFRSs are built, the problem of inconsistency arises across the IASB's reporting standards. Notably, there is no unifying principle relating to asset measurement as per the IASB's conceptual framework which give rises to different and inconsistent measurement bases across the accounting standards. In other words, the decision to incorporate fair value measurement into a particular accounting standard is mainly based on the historical precedent and the combined judgement of the IASB members (Barth, 2014). Due to this, it gives rise to a substantial amount of studies in connection to examining the appropriateness of fair valuation in different accounting standards (Bengtsson, 2011; Chatham et al., 2010; Kolev, 2019; Palea, 2014; Perry & Nölke, 2006; Saemann, 1999).

Major agricultural firms, professional accounting bodies, accounting firms, and national standard setters have always been questioning the underlying concept and motive of the IASB and its predecessor, the IASC in integrating fair valuation into the agricultural accounting standard. The IASB argues that biological transformation is best reflected by fair value measurement where the changes in fair value should be captured to reflect the

changes in expected future economic benefits to the entity. However, it appears that this ideology is not well-received by various stakeholders connected to the agricultural sectors.

In the context of plantation industry, *IAS 41* required the firms to recognise the trees (plant) and fruits as one unit at fair value prior to harvest, of which is considered as impractical by many. Most of the key plantation firms are from emerging market and are not IFRS-compliant, having their tailored accounting policy for biological assets, which is significantly different as those prescribed in the *IAS 41*. To one extreme, the Malaysian Accounting Standard Board (MASB) even allowed only the listed plantation firms (among the “transitioning entities⁹”) to defer the adoption of IFRS for six years given that “full convergence of local standard with IFRS” had been achieved since 2012 (MASB, 2012, 2014, 2015). Further, the MASB is one of the main forces pushing for the latest amendment in the *IAS 41* since 2010 to gather supports for the revision in *IAS 41* as per their recommendation, as evidenced by (i) its calling for a review of *IAS 41* in the National Standard-Setters’ meeting ((MASB), 2010b), (ii) submission of comment letters in response to fair valuation issues of bearer plant in 2010 ((MASB), 2010a), and (iii) co-led a working group under Asian-Oceanian Standard-Setters Group to lobby for specific changes in the *IAS 41* ((AOSSG), 2011a).

Due to the resistance of key plantation firms in adopting the *IAS 41*, and the active lobbying activities conducted by national regulators, the IASB finally published an exposure draft (IASB) for public comment - proposing to amend the existing standard by mainly addressing the technical issue with regard to fair valuation of certain biological assets, namely bearer plant¹⁰. As an overview, this ED on bearer plant

⁹ An entity that would otherwise be subject to the application of MFRSs as its financial reporting framework and thereby be subject in particular to the application of MFRS 141 Agriculture and/or IC Interpretation 15 may in the alternative apply the Financial Reporting Standards (FRSs) as its financial reporting framework.

¹⁰ *IAS 41* defines bearer plant as a living plant that:

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than one period; and

consists of 10 questions (proposed changes), which touched upon several aspects of the *IAS 41* such as the scope (Q1), measurement (Q2, Q3 and Q4), additional guidance (Q5), disclosure (Q6 and Q7), transition provisions (Q8), first time adopters (Q9) which all have been attached in the APPENDIX B. On 30th June 2014, the amendment of *IAS 41* (and *IAS 16*) was officially issued (Deloitte, n.d.-a). This amendment excludes bearer plants from the scope of *IAS 41*, whereby this category of biological asset is no longer required to be accounted under the fair value model. This change might be interpreted as successful lobbying for specific interest groups, particularly the plantation firms.

Given the controversies surrounding the fair value approach, the impact of *IAS 41* has been studied in terms of value relevance, as well as the issues of practicality or implementation difficulty. For example, Elad (2004) found that *IAS 41* is incompatible with the accounting model in Francophone countries (French-speaking countries), and it poses significant implementation problems in various national settings. Feleagă et al. (2012) argue that the implementation cost of *IAS 41* outweighs its benefits due to increased volatility of earnings and a high degree of subjective accounting input. In terms of value relevance studies, Gonçalves et al. (2017) and Huffman (2016) suggests that consumables asset are more value relevant to be measured at fair value; while bearer assets are more value relevant to be measured at historical cost. These studies generally lend their support to the move of the IASB, implying that the IASB had made the right choice in amending the agricultural standard for addressing the concern over the issues of *IAS 41*.

However, fair valuation issue of *IAS 41* has not been studied in the context of examining the lobbying behaviour of respondents participating in the IASB's due process. This study complements the past researches by providing a more in-depth

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

insight into the perception of various stakeholders on the fair valuation issue of *IAS 41*. The next section focuses on this aspect which reviews on the previous works examining the views of participating stakeholders on fair valuation.

2.2 Participation level and lobbying behaviour towards fair valuation issues

Accounting standard-setting process is often found to subject to the influence of different interest groups (Chalmers et al., 2012; Chircop & Kiosse, 2015; Cortese et al., 2010; Walker, 1987; Winston & David, 2005). The constituents are able to take part in the process by providing their views concerning any accounting issue to the standard-setting body through its formal channel (e.g., submitting comment letter in response to the discussion papers and exposure drafts, attending public hearings) and informal means (e.g., informal meetings with Board members and its staff). Through active participation in the standard-setting process, standard setter's decision may be influenced and resulting in accounting requirement(s) which bias to the demand of certain interest groups (Cortese et al., 2010; Walker, 1987; Winston & David, 2005). Thus, there is an incentive to take part in the process to shape the accounting standard in a way which aligns closely to the constituent's respective interest (Watts & Zimmerman, 1978).

Many of the past works (Holder et al., 2013; Jorissen et al., 2012; Stenka & Taylor, 2010) examining the participation level within the accounting standard-setting process is grounded on the cost-benefit model of Sutton (1984) which predicts that the constituent will only participate in the process if the perceived benefit is greater than the cost of participating. These studies often examines the lobbying activities within the standard-setting process through the comment letters as these publicly visible sources represent the most readily available evidence of lobbying (Holder et al., 2013). Related studies found that there are various factors affecting the participation level and the

lobbying behaviour of the stakeholders which will be presented in the following sub-chapters.

2.2.1 Type of respondents or interest groups

Empirical findings show that different interest group(s) respond to the standard setting process to a different degree in the context of their participation level. These interest groups are generally segregated into preparers, users, and accounting professions. Preparers¹¹ generally dominate the standard-setting process in terms of the number of submissions of comment letter; accounting professions also contribute much of the submissions after the preparers and the minimum participation is often found to be the financial statement users (Chatham et al., 2010; Cortese et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Winston & David, 2005). This finding also holds for the specialised accounting standard which affects particular industry such as the extractive industry (Cortese et al., 2010) and financial industry (Chatham et al., 2010). The possible explanation for such finding based on Sutton (1984) is that the preparers receive greater perceived net benefits than the users by shaping the accounting standard in their favour, as empirically confirmed by Jorissen et al. (2012), Durocher et al. (2007), and Weetman et al. (1996). National regulators or standard setter were also found to be involved in the IASB's standard-setting process as well, though infrequent or low participation level (Anantharaman, 2015; Chatham et al., 2010; Jorissen et al., 2012).

2.2.2 Characteristic of the pronouncements

Next, characteristic¹² of the pronouncements (discussion memoranda or paper, preliminary views, and exposure drafts) are found to be affecting the relative participation level by categories of respondents in the standard-setting process (Jorissen et al., 2012; Saemann, 1999). Empirical findings show that more submission of

¹¹ Throughout this study, preparers, financial statement preparer or company management are used interchangeably.

¹² The accounting changes proposed by the standard setter in their pronouncement generally covers three major aspects – recognition, measurement and disclosure of accounting information. Exposure draft or discussion paper, therefore, may be characterised by these three aspects.

comment letter is received from the preparers, accounting professions and standard setter when the pronouncement relates to accounting recognition and measurement; while more submission is found from the users when the pronouncements relates to additional or enhanced disclosure. One of the possible reasons is due to the different or conflicting motives among the preparers, accounting profession and users. These interest groups are often observed to have different lobbying positions across pronouncements with specific characteristic. For instance, Chatham et al. (2010) observed that preparers opposed strongly to the discussion paper which proposed for fair valuation accounting while other groups (accounting profession, regulators and users) generally favoured for such proposal. Users generally prefer more disclosure about the reporting entity while the firm's management is more likely to reject the idea of enhanced disclosure (Saemann, 1999). The following sub-chapters from 2.2.2.1 to 2.2.2.4 review the literatures which examined the lobbying behaviour of various constituents for proposed requirements which relate to FVA (i.e., IFRS 2 Share-based payment, IFRS 3 Business combination, IFRS 9 Financial instruments); or relate to characteristic or implication of FVA (i.e., measurement-related, increased volatility or uncertainty, enhanced uniformity, and increased disclosure and information processing cost).

2.2.2.1 Pronouncement which relates to measurement & recognition

Past studies often rely on the Positive Accounting Theory (PAT) of Watts and Zimmerman (1986) and the Agency Theory of Jensen and Meckling (1976) to predict or explain the participation among the preparers in the accounting standard-setting process (e.g., see Mellado and Parte (2017), Chircop and Kiosse (2015) and Jorissen et al. (2012) for more recent works). According to PAT, proposed accounting changes are perceived by the firm management to affect the expected cash flow of the reporting entity due to altered political, contract and information cost. Such perceived effect on the firm's

expected cash flow then induces the management to participate in the standard-setting process (Watts & Zimmerman, 1986). However, Sutton (1984) added that the constituents are likely to lobby if the expected benefit is greater than the lobbying cost. Agency theory supports these views that connects the firm's expected cash flow to the management's personal utility. In a setting wherein the management's personal interest (e.g., management bonus) is directly linked to the firm's expected cash flow, the pronouncement which perceived to affect the firm's expected cash flow may subsequently affect the management utility or self-interest. Many past works found evidences which showed that pronouncement which adversely affects the firm's cash flow or accounting number instigates participation among the preparers in the standard-setting process (Ang et al., 2000; Georgiou & Roberts, 2004; Hill et al., 2002; Saemann, 1999).

Jorissen et al. (2012) then extended PAT and relevant past studies that the DPs and EDs which relate specifically to recognition and measurement are more likely to drive the participation among the preparers. Along with agency theory which posits that the firm management are more likely to act in their own interest rather than the interest of the shareholders (users), thus, preparers are expected to act in a way which ultimately protects their personal interest. Specifically, the preparers are expected to lobby against the proposal relates to recognition and measurement to avoid the perceived effect of such proposal on the firm's expected cash flow and their personal utility. Saemann (1999) interpreted recognition as one form of extensive disclosure and thus claims that managers are more likely to oppose to proposal with such characteristic as well.

Further, accounting profession is also found to contribute much of the comment letters when the EDs and DPs relate to the measurement aspect (Jorissen et al., 2012). Under the lens of agency theory, accounting profession is predicted to promote and protect the

interest of their clients (preparers) rather than the interest of the financial statement users. However, Puro (1984) and Jorissen et al. (2012) observed that the accounting profession only aligns their participating behaviour to the preparers in proposals with specific characteristic (e.g., ED which relates to measurement).

For accounting standard setters and governments, Jorissen et al. (2012) also found that the participation level of this group is driven by DPs and EDs which relate to recognition and measurement issues. In terms of lobbying positions, Chatham et al. (2010) observed strong support from the accounting standard setters and regulators in relation to DP which proposes for increased application of fair value measurement.

Contrast to the findings above, the users, stock exchanges and their supervisory authorities were noted to write relatively less letters when the proposals relate to measurement and recognition (Jorissen et al., 2012).

2.2.2.2 Pronouncement which increases uncertainty or volatility

Pronouncement which proposes revised accounting measurement also relates to one of the popular debates among the choices between historic cost accounting (HCA) and fair value accounting (FVA). Preparers are found to prefer HCA over FVA for the flexibility given by the HCA which allows them to 'manage the income' or 'enhance the performance' of the reporting entity through accounting (Revsine, 1991). Further, FVA or fair value measurement is said to increase the volatility and the preparers are often found to rejecting FVA with this reason (Saemann, 1999). Saemann (1999) argues that erratic earning adversely affects corporate managers' utilities in terms of the managers' compensation, price investors willing to pay for the shares, and interest rate of borrowings. Similar to this line of argument, Elbannan and McKinley (2006) added that FVA gives rise to increased uncertainty around accounting information. Jorissen et al. (2012) also claim that FVA makes accounting number less predictable. However,

mix evidence has been found. Chatham et al. (2010) found that preparers actively took part in the standard-setting process and opposed strongly to the DP proposes for fair value accounting. Anantharaman (2015) also noted that majority of the preparers opposed to the proposal which requires the application of FVA. Jorissen et al. (2012) proved otherwise empirically that EDs and DPs which introduces uncertainty into the financial statement attracts less participation from the preparers.

For accounting profession, there are three theories which used to predict the participation level and lobbying behaviour of this group. Agency theory posit that the accounting profession should align with their clients (preparers) on proposed accounting requirements, while professional and legal responsibilities to the public suggests the otherwise, that the accounting profession should align their interest with the financial statement users. However, inconsistent evidence has been found regarding the lobbying behaviour of this group. Saemann (1999) found that the accounting profession acted rather neutrally to pronouncement which proposes for requirements that leads to increased uncertainty - that the numbers of support and opposition are fairly distributed within this group. A more recent work of Chatham et al. (2010) shows similar result whereby the accounting professions were observed to incline slightly to opposing DP which proposes increased application of FVA. However, Anantharaman (2015) added that the big accounting firms (big five) are found to favour the preparer's position for FVA more than the non-big five. Over time, Saemann (1999) noted that for pronouncements with such characteristic, there was an increasing trend in the alignment in the lobbying positions between the preparers and accounting professions from 1985 to 1995 compared to the findings from 1974 to 1981. These studies generally lend some support to the alignment in position (interest) between the preparers and accounting professions with regard to pronouncement which proposes FVA or requirements that leads to increased volatility.

Past studies often found alignment in lobbying behaviour among the users and regulators (including accounting standard setter and governments) in relation to proposals which lead to accounting requirement that increases uncertainty. Jorissen et al. (2012) noticed that the DPs and EDs with such characteristic is not a significant driver for the participation level among both the users and regulators. Financial statement users, however, are found to generally favour for pronouncements which propose for enhanced disclosure even such proposal may also lead to increased volatility or conservatism, especially for proposal which connects to 'current value reporting' (Saemann, 1999). Chatham et al. (2010) also observed similar result that they found strong support from the accounting standard setters and regulators (favouring the user's positions) when the DP calls for increased application of FVA. However, Saemann (1999) noted that the FASB was only slightly bias to the users' position on the proposals which relate to volatility issues.

2.2.2.3 Pronouncement which enhances uniformity (reduces accounting choices)

In addition, accounting standards which only permit fair valuation approach (e.g., *IAS 41 Agriculture*) should be more restrictive than other standards which permit both historic cost and fair valuation approach (e.g., *IAS 40 Investment property*, *IAS 16 Property, Plant and Equipment*, *IAS 38 Intangible Assets*). Some standards (e.g., *IFRS 9 Financial instruments*), requires historic cost approach for certain underlying assets and liabilities while all other items are required to be fair-valued, should also be more restrictive than standard which permits both approaches for all underlying items within the scope of the respective standard. Saemann (1999) found that the preparers are likely to oppose to proposed accounting requirement which restricts alternative methods grounded on Agency theory and PAT.

Accounting profession may support the preparer's or the user's position based on the agency theory and professional and legal responsibilities to the public. Saemann (1999) found weak tendency of accounting profession aligning to the users' position with regard to pronouncements which relate to uniformity issues.

Saemann (1999) also showed that all users fully supported the proposals which relate to uniformity issues. He reasoned such observation to a preference of standardised (comparable) and less complex financial statements among the users resulted from reduced accounting choices or enhanced uniformity in the financial statements. He also noted that the FASB strongly supported the calls for accounting requirements that increase uniformity.

2.2.2.4 Pronouncement which increases disclosure and information production cost

Next, FVA also requires for additional disclosure which may translate into higher¹³ cost of reporting or information production cost. Such cost should be even higher for fair-valued information which relies on the higher-level input. Watts and Zimmerman (1978) claim that proposed accounting requirements which alters information cost induce participation among the preparers. However, Jorissen et al. (2012) provided contradicting evidence that DPs and EDs which increase information cost do not seem to be driving the constituents to take part in the standard-setting process. Jorissen et al. (2012) added that, however, pronouncements which propose for additional disclosure instigate more participation among the preparers and they reasoned such observation for the fear (risk) of losing of private proprietary information among the preparers due to increased public disclosure. In terms of lobbying behaviour, past studies found that preparers opposed strongly to pronouncements which increases cost of reporting (Elbannan & McKinley, 2006; Saemann, 1999). Saemann (1999) added that preparers

¹³ Increased disclosure may indicate increased printing and auditing requirements or more complicated procedures to obtaining the necessary data which then translates into higher cost of reporting.

do not always oppose to additional disclosures especially the enhanced disclosure is 'non-costly' and this finding extends the PAT – increased information production cost (rather than increased disclosure) is more likely to induce the preparer to participate in the standard-setting process.

Accounting profession may support the preparer's or the user's position based on the agency theory and professional and legal responsibilities to the public. However, regulation theory implies that the profession does not align their interest to others but attempts to maximise their own personal interest, that is, to favour of accounting changes which increases the opportunity to audit (and their audit fees). Clarke et al. (1998) support the third view that requirements of extensive disclosures which increases the demand for audit services, are likely to observe support among this interest group. However, Saemann (1999) found that the views of accounting professions on the pronouncements which propose for costly disclosure and non-costly disclosure are evenly split, that some are aligned to the preparers' position while some are aligned to the user's position. Jorissen et al. (2012) also noted that the accounting profession 'does not react with the same intensity as the preparer do' in the DPs and EDs which proposed for enhanced disclosure.

For the users, Mian and Smith (1990) claim that this group prefer as much disclosure of information as long it is provided freely. Durocher et al. (2007) added that economic consequences arising from new accounting requirements may also affect the participation of the users where they are motivated by the benefit to secure accounting standard which requires the provision of useful information in the financial statements. Saemann (1999) noticed that a significant number of users supporting the pronouncements which propose for increased disclosure in accounting standards and this observation holds even the proposals may increase the reporting cost. Saemann

(1999) reasoned that since the financial information about the reporting entity is not readily accessible and examinable by the users, so they have the incentive to support enhanced disclosure and the requirement to audit for all new disclosures. Jorissen et al. (2012) also found similar results where the users, including stock exchanges and their supervisory bodies were observed to react more than other stakeholders to EDs and DPs which proposed for enhanced disclosure.

For accounting standard setters and governments, Jorissen et al. (2012) found that the participation level of this group is not driven by EDs which lead to increased disclosure and reporting cost. Saemann (1999) noted that the FASB strongly supported pronouncements which require increased disclosures as long these requirements do not increase information production cost; while the positions of the FASB is evenly split (but slightly bias to the user's position) when the pronouncements involved costly disclosure.

2.2.2.5 Reason of disagreement over the pronouncement relates to FVA

FVA is an integral aspect in many international accounting standards such as the *IFRS 2 Share-based payment*, *IFRS 3 Business combination*, *IFRS 9 Financial instruments* and so on. This section reviews the reason of disagreement over these accounting standards in aspect(s) which require fair valuation of accounting information. The arguments which the respondent commonly used to support their position for the proposed accounting requirement is generally classified into conceptual arguments, or arguments relates to economic consequences (Anantharaman, 2015; Chatham et al., 2010; Giner & Arce, 2012; Stenka & Taylor, 2010).

Different type of arguments (or lobbying strategy) is found to have different impact on the outcome of the standard setting process. Generally, the conceptual argument is often noted to be more effective in persuading the standard-setter (Stenka & Taylor, 2010;

Watts & Zimmerman, 1978; Weetman, 2001) as these type of arguments sounds politically and socially acceptable. In contrast, arguments which relates to the economic implication of the proposed requirement on the respondents themselves is perceived to be self-serving and is less likely to be effective in lobbying (Jupe, 2000).

Chatham et al. (2010) explored the fair valuation issues in the context of financial instruments by examining the feedback for FIDP which proposed that a fair value model be used for nearly all financial instruments. Overall, most respondents' arguments are classified by Chatham et al. (2010) as "non-technical" or relates to "economic consequence" in their study. They noted that the respondents mainly challenged the relevance and reliability of the proposed FVA requirements by citing the economic implications of FVA (i.e., increased volatility and cost/benefit of providing the fair value). Eventually, the outcome – *IAS 39 Financial instruments: recognition and measurement*, indicates that the majority views which opposed to the extensive application of FVA on financial instruments, has been ignored by the IASC whereby the final standard has incorporated requirements which is more aligned to the user's accounting preference.

In another setting which involves accounting for business combination, Anantharaman (2015) reviewed the comment letters in response to the ED 201 issue 3 which proposed to replace the use of the pooling-of-interest method with purchase method to account for business combination. This is another scenario whereby the historical cost approach is replaced with a fair-value approach – that the purchase method requires the asset and liabilities to be stated at fair value rather than historical cost. Anantharaman (2015) observed that a majority of corporate respondents opposed the abolition of the pooling-of-interests method with the argument that the changes would bring adverse economic consequences to their firms and industries. Further, majority of the respondent affiliated

to the government were also seen to support the position of the corporate, with the same arguments relate to the economic consequences of the proposed requirement. However, the accounting standard has adopted the purchase method despite of the majority views, implying an ineffective lobbying argument or strategy by the participants.

Giner and Arce (2012) also provided additional insight into the arguments used by various respondents in the context of *IFRS 2 share-based payment*. There is an aspect in this standard which requires fair value information for recognising the share-based payment as expenses at the grant date. They noted that the IASB did not align itself with the majority preference of the comment letters in the FV aspects of share-based payment at the beginning; and eventually the respondents are found to support such requirement at the end through their feedback to the respective exposure draft. The most common argument used to disagree with the valuation criteria was found to be the conceptual arguments, both at the DP and ED stage of the respective standard. They also found that the preparers shifted their arguments from the economic consequence-based type to the conceptual argument in the latter stage of lobbying, which they claimed, due to the awareness of the effectiveness of conceptual argument in lobbying.

2.2.3 Country of origin

Next, this section highlights another common grouping basis for analysing the stakeholders' participation level and lobbying behaviour within the standard-setting process whereby the respondents are grouped by their countries (Chatham et al., 2010; Kenny & Larson, 1993; Larson, 2007); or characteristic of their countries (Holder et al., 2013; Larson & Brown, 2001). These studies generally found that there was a significant difference in the lobbying behaviour among these specific groupings. These observed differences at country-level¹⁴ have implications for the international

¹⁴ Zeff, S. A. (2007). Some obstacles to global financial reporting comparability and convergence at a high level of quality. *The British Accounting Review*, 39(4), 290-302. argues that there are certain differences across countries in terms of the business and

accounting standard setter for implementing a standardised or unified set of accounting standards across the globe (Zeff, 2007).

With regard to a proposed requirement of fair valuation accounting for financial instruments, Chatham et al. (2010) noticed that the level of rejection towards such proposal among the respondents from European countries is significantly higher than their non-European counterparts. They reasoned that the European viewpoint may be different from others due to the factors specific to these countries. However, they did not observe similar result if the respondents were grouped under 'British–American model vs. Continental model', or individual country. Non-Europeans and Europeans were also observed to use different type of arguments to support their positions whereby the former cited decision usefulness and substance over form more often than the latter, while the latter cited prudence more often than the former. A more recent study of Holder et al. (2013) noted that when the DP relates to recognition issues, significantly more submissions were received from countries required or permitted to use IFRS than from countries subject to the requirement of national GAAP. Further, the respondents which domicile in countries subject to the IFRS requirements are more likely to express unfavourably to DP relates to recognition and to support their positions with the accounting characteristic of relevance.

Many other studies also evidenced that country-level determinants affect the behaviour of the stakeholders and quality on financial reporting (Ball et al., 2000; Bushman & Piotroski, 2006; Francis et al., 2001). It is well supported by prior studies that there is a difference in the properties of accounting information prepared under different national accounting models. For example, the accounting incomes reported in the common-law countries are found to be more timely but less conservative than the ones in code-law

financial culture, accounting culture, auditing culture and regulatory culture. He claimed that these country-level differences are the obstacles to convergence of accounting standards by the IASB.

countries due to the extent of political influence on accounting (Ball et al., 2000). Countries are also characterised by the quality of their regulatory system and political economy structure which these characteristics are found to incentivise the preparers to report the accounting information more (or less) conservatively due to a complex interplay of country-level factors (Bushman & Piotroski, 2006).

From a different angle, many lobbying studies predominantly focus on a single-country or single national regulator or standard setter, mainly in the context of the developed economy (Saemann, 1999; Stenka & Taylor, 2010; Walker, 1987; Weetman, 2001). One notable exception is the study by Holder et al. (2013) who compared the participation level and lobbying behaviour among the respondents within the standard-setting process of both the IASB and FASB¹⁵ on the same topic related to contingencies. They also cross-compared the participation level and lobbying behaviour of the respondents between the setting of IASB and FASB. However, one particular area potentially remains unexplored – the lobbying behaviour of constituents from developing market, possibly due to the low participation level from these parties as observed from the past (Chatham et al., 2010; Holder et al., 2013).

Having discussed the participation level and lobbying behaviour of respondents towards the fair valuation issue within the standard-setting process, the next part presents the most common methodology used for analysing the comment letter.

2.3 Content analysis

Content analysis generally refers to a method of text analysis which begins with classifying a large amount of text with similar meaning into fewer categories (coined as “coding” by some researchers), followed subsequently by an interaction analysis among the categories (Grbich, 2012; Philipp, 2000; Pope et al., 2000; Weber, 1990). However,

¹⁵ The Financial Accounting Standards Board is a national accounting standard setter of United States.

content analysis is not a simplistic description of data, and it thoroughly examines words used which goes beyond a mere words-counting approach (Weber, 1990).

The outcome of this process is a conceptual model which provides additional or new insights into the interaction among the categories, describing the phenomenon as reflected in the discourse. (Elo & Kyngäs, 2008). Thus, the main factor which determines the success of content analysis is attributed to the coding or categorisation process, that the categories created must be reflecting the subject of study and must be conceptually and empirically grounded (Dey, 2003; Weber, 1990). Further, similar subcategories can be combined into a smaller number of categories for a more effective interaction analysis (Hsieh & Shannon, 2005).

Specifically, there are two approaches to content analysis, which is the inductive or deductive approach (Elo & Kyngäs, 2008), whereby Hsieh and Shannon (2005) defines the former as “conventional approach” while the latter as “directed approach”. The conventional approach is used when the existing theory or literature on the subject of study is limited; therefore, the categories are only derived after the text data has been explored. While the directed approach allows the researchers to derive the categories grounded on the previous theory or literature before exploring the text data. Thus, the directed approach tests a previous theory in a different context or in a different period(s) (Elo & Kyngäs, 2008; Hsieh & Shannon, 2005).

However, within the realm of qualitative analysis, some researchers consider content analysis is a simplistic approach which does not provide deep insight into the subject of study (Elo & Kyngäs, 2008). Anyway, a simplistic approach will not necessarily lead to low-quality findings (Vaismoradi et al., 2013). Further, the content analysis itself is not constrained by any framework and therefore, it is flexible in a way that there is no “correct” way of adopting such a method. As a result, it gives rise to numerous

variations in how this approach is used as long as it achieves the researchers' objectives (Weber, 1990). By extension, describing the whole process of content analysis comprehensively and entirely is the most challenging part as not all process is translatable into words (Backman & Kyngäs, 1998).

Inductive content analysis or conventional content analysis derives the categories from the textual data directly in the absence of theoretical perspective (Elo & Kyngäs, 2008; Kondracki et al., 2002). The categories emerge during the process when the researcher immerses himself or herself in the data (Elo & Kyngäs, 2008). The conceptual model built using this conventional approach is based on the actual data rather than the existing theory or literature, hence being described as an inductive approach.

The inductive approach begins with opening coding, followed by creating categories and eventually abstraction (Elo & Kyngäs, 2008). Opening coding refers to a process whereby the textual data are scrutinised for "keywords" or "heading", and all this information is to be written down in the margin of the document. Next, these headings are to be collected and summarised in a coding sheet, and categories are to be generated in this stage (Burnard, 1991; Elo & Kyngäs, 2008). Then, all the categories and sub-categories are to be reviewed and reduced to fewer number by grouping all related categories into higher-order and meaningful headings in the context of the researcher's study (Burnard, 1991; Dey, 2003; Downe - Wamboldt, 1992; McCain, 1988). This process requires a high degree of subjectivity from the researcher as to what information to be classified within the same categories (Dey, 2003). Subsequently, abstraction requires the researchers to formulate an overall description of the research topic through the process of creating categories (Burnard, 1996; Polit & Beck, 2004; Robson, 2002). The final process is to report the findings in the context of the interaction among the categories (Hsieh & Shannon, 2005).

Next, deductive or directed approach to content analysis refers to a form of textual analysis whereby the categories for the data are to be derived from existing theory, models, literature reviews or mind map (Hsieh & Shannon, 2005; Polit & Beck, 2004; Sandelowski, 1995). Thus, these previous works provide a framework for testing the researcher's data with a more structured process than conventional content analysis (Hickey & Kipping, 1996).

This approach aims to test a previous theory (theories) in a different context or different period(s) (Elo & Kyngäs, 2008; Hsieh & Shannon, 2005). As such, the existing theoretical framework or theory may be validated or extended conceptually. By using previous works as the foundation for the categorisation process, such as the earlier theories, the researchers can anticipate how the variables of interest interact among each other, and this approach facilitates the initial coding procedure (Hsieh & Shannon, 2005). In other words, the categories for the data may be derived from the previous works even before analysing the actual data (Hsieh & Shannon, 2005; Kyngas & Vanhanen, 1999).

The directed approach begins with developing a categorization matrix or coding scheme based on the previous works. Next, the textual data are reviewed for keywords and coded with or assigned to the pre-determined categories (Polit & Beck, 2004). There are two possibilities in the coding process whereby the text may or may not fit into the predetermined categories. The only aspect which corresponds to the categories is chosen, and for those which has little connection to the categories, a new category or sub-categories may be created subsequently. The initial coding scheme is subject to revision and refinement when additional information is identified during the analysis process. Such new categories may indicate a different perspective to the theory which further extending or enriching the theory (Hsieh & Shannon, 2005). Interaction among the

categories may be examined statistically in a way which compares the frequency of one code (category) to another through rank order statistic (Curtis et al., 2001). At last, the reporting stage requires the researcher to report their findings related to their codes or categories. Discussion on findings is guided or framed by the previous theory and literature. The results offer supporting or countering exemplars to the theory in a specific context, thus refining, extending and enriching the theory (Hsieh & Shannon, 2005).

In the context of accounting literature, content analysis has been widely used to study the perception of stakeholders on various proposed accounting requirements through their comment letters (Chatham et al., 2010; Holder et al., 2013; Stenka & Taylor, 2010; Weetman, 2001; Winston & David, 2005). The comment letters are widely viewed as an observable form of lobbying to influence the standard-setter for achieving a specific agenda. Studying the comment letters is, therefore, generally considered as examining the lobbying activities or lobbying behaviour of the participants within the standard-setting process.

Past studies often operationalise lobbying behaviour¹⁶ observed within the accounting standard-setting process in three forms: (i) lobbying positions; (ii) lobbying arguments; and (iii) lobbying intensity. Content analysis of comment letters is used to explore such lobbying behaviour of the participants through reading or scrutinising their letters for information which reflects the participants' lobbying positions (Kenny & Larson, 1993; Saemann, 1999); or both positions and arguments (Chatham et al., 2010; Weetman, 2001). Recent studies often cover all three aspects of the participants' lobbying behaviour (Holder et al., 2013). Further, there is also another stream of research which solely focuses on the participation level of the stakeholders without analysing their

¹⁶ In response to the discussion paper or exposure draft issued by the standard setter, the respondents often express in their respective comment letter how they perceived about the proposed accounting requirement(s) in a way that whether they support or oppose to these proposal which termed as "lobbying position"; and the reason(s) for support or opposition, which termed as "lobbying arguments".

lobbying behaviour in detailed (Jorissen et al., 2012). The common topic for these studies, however, generally centred as to what factors affect the participation level and/or the lobbying behaviour of the stakeholders within the accounting standard-setting process. For example, Jorissen et al. (2012) found that the participation level of preparers and users are driven by pronouncement (proposed accounting requirement) with specific characteristic(s). Many past studies also observed that the lobbying behaviour of the interest groups varied when the pronouncement connected to particular accounting issues such as volatility issues (Chatham et al., 2010; Saemann, 1999); costly disclosure (Elbannan & McKinley, 2006; Saemann, 1999); and issue of recognition (Holder et al., 2013; Mellado & Parte, 2017).

Past studies often do not elaborate in much detail on how content analysis is used to examine the lobbying behaviour of various stakeholders within the standard-setting process. However, one notable study of Holder et al. (2013) did provide some insight into this matter, that they framed the process of content analysis into three main stages: (i) categorisation, (ii) coding, (iii) statistical analysis. The approach to content analysis which they used should fall into the category of directed approach, although they did not mention this explicitly in their study. Other relevant studies (Chatham et al., 2010; Kenny & Larson, 1993; Saemann, 1999; Weetman, 2001) are also found to follow this approach implicitly evidenced by the development of initial coding scheme which based upon the past literature and theories applicable to lobbying in the accounting standard-setting process. The coding scheme predetermines the categories for each expected lobbying behaviour of the participants, such as their lobbying positions (e.g., favourable or unfavourable to the proposed requirements) and lobbying arguments (e.g., conceptual or practical nature).

In line with the refined content analysis approach of Holder et al. (2013), other relevant studies are observed to have similar stages in which they used content analysis. The first stage, categorisation involves dividing the participants into different interest groups which mainly consisting of preparers, the accounting profession, users and regulators. Next, each of the participant's comment letter is scrutinised for their lobbying behaviour and coded with the predefined categories for these behaviours according to the initial coding scheme. At last, the interaction among all variable of interests (or categories) will be explored using statistical test in a specific way, depending on the objective of the respective research. In this regard, many past works studied the variation or degree of difference in lobbying behaviour among the interest groups in many different forms or contexts. For example, Holder et al. (2013) studied the difference in lobbying behaviour among the interest groups within the standard-setting process of IASB and FASB respectively. Chatham et al. (2010) examined the degree of variation in lobbying positions and arguments among the participants regarding fair valuation of financial instrument. Some studies, however, examine the alignment in lobbying behaviour between the interest groups with regard to a wide array of pronouncements with different characteristic (Saemann, 1999).

Participants were also regrouped to provide new insight into their participation level or lobbying behaviour. For example, some studies regrouped the participants based on their country of origin (Chatham et al., 2010; Kenny & Larson, 1993); the industry which the participants operate in (Kenny & Larson, 1993); national accounting standard and tax regulations which apply to the participants (Larson & Brown, 2001); or IFRS adoption status for countries in which the participant domiciles (Holder et al., 2013).

The content analysis will be used to analyse the comment letter in this study, and the following part discusses the main theory which this study relies on for guiding the content analysis process and the development of hypothesis.

2.4 Regulatory capture and overlapping interests

The current study relies on the regulatory capture theory to the extent of predicting and explaining the interplay between the national regulators and regulatees in influencing the revision of the IAS 41. This theory is suitable for this purpose as it focuses specifically on the alignment in responses (or interest) between the national regulators and regulatees; while also looks into the outcome of the process whether the rules or standard has been amended in a way according to the preferences of some special interest rather than the public interest. Both agency theory and positive accounting theory are often used to predict the participation level of the stakeholder (particularly the preparers and accounting profession) within the standard setting process (Holder et al., 2013; Jorissen et al., 2012; Saemann, 1999), rather than the collusion in response between the regulators and those they regulated. Further, these two theories are also limited in a way that they do not emphasise on the outcome of the process. The following parts introduce the regulatory capture theory and its application in the past accounting literature.

Regulatory capture theory, or theory of economic regulation as initially coined by Stigler (1971) in the early '70s, was developed to revamp the traditional economic analysis of regulation. He challenged the traditional view that the regulators protect the consumer at large from monopolistic abuse and to promote better social welfare through redistribution of resources. He argued that, in a sophisticated business-political setting, the regulated industry is seen to “capture” the regulator that the corporations achieve desirable regulatory outcomes by exerting influence on the regulators.

Peltzman (1976) added that between the two main competing forces in any regulatory process, it is the firms' interest (whom it is to be regulated) that tends to prevail over the interest of the larger group – the consumers. Therefore, the general perception that regulation is formulated to protect the consumers' interest (or “public interest”) is not always true. The capture theory was subsequently used to argue that regulation was shaped in response to the demands or preferences of the firms (Posner, 1974, p. 335); While Mitnick's (1980) approach to regulatory capture focused specifically on how the linkage between regulator-regulatees can promote capture and result in the consistency in the decision and action between these two.

In the context of accounting or lobbying literature, regulatory capture is not commonly used as the theoretical foundation to study lobbyist's behaviour. Cortese et al. (2010) and Walker (1987) are one of the pioneers extending the accounting standard-setting literature by building their work under this perspective. They both suggested that the accounting standard-setting process has been captured by certain powerful interest groups. Particularly, Cortese et al. (2010) argued that powerful extractive firms and their representatives were able to secure their favourable regulation through capturing the IASB; while Walker (1987) suggested that the accounting standard-setting process in Australia had been captured by the accounting profession in multiple ways of which procedures, priorities, output, and even the appointment to the board was subject to the influence of the profession.

One of the indicators of regulatory capture is the hidden coalition between the powerful key players which might eventually affect the outcome of the standard-setting process (Cortese et al., 2010). They argued that the success in lobbying is mainly attributed to a complex net of close ties between the regulator-preparers; preparers-accounting professions; and accounting professions-regulator. Specifically, exchange of benefits is

evidenced in these complex connections that the IASB/IASC is dependent¹⁷ on the financial and non-financial resources provided by both the preparers and accounting professions; the accounting profession often consult their client (the preparers) for input in response to the IASB's proposed requirements; and the preparers are likely to be benefited from a favourable accounting requirement issued by the IASB/IASC eventually. Brown (2006) also claimed that the financial dependency of the IASB/IASC on their regulatees may result in marginalisation of accounting issues which do not align to the interest of the constituents who provides the funding. Given that the adoption of IFRS/IAS around the world is continuously growing, there is an inclination for business firms to exert their influence in the global accounting practice by lobbying their current accounting practice (Cortese et al., 2010).

There is another stream of study which examines standard setter's responsiveness to the lobbying effort of the respondents (Weetman, 2001; Winston & David, 2005) through inspecting how far of the respondent's suggestion/comment has been incorporated into the final standard. Both Winston and David (2005), and Weetman (2001) show evidences whereby some aspects of the accounting standard is modified or updated in a way which align to the majority position (view) reflected in the comment letters. This indicates that some interest groups are influential in the process of development of accounting standard. These studies may imply that the standard setter has been captured

¹⁷ IASB's Independence and technical competence are not beyond question Bengtsson, E. (2011). Repoliticalization of accounting standard setting—The IASB, the EU and the global financial crisis. *Critical Perspectives on Accounting*, 22(6), 567-580. <https://doi.org/https://doi.org/10.1016/j.cpa.2011.04.001> , Zeff, S. A. (2002). "Political" Lobbying on Proposed Standards: A Challenge to the IASB. *Accounting Horizons*, 16(1), 43-54. <https://doi.org/10.2308/acch.2002.16.1.43> . Specifically, the due process mechanism used by IASB to propose new standard, or to revise existing standards, is subjected to various criticisms Bengtsson, E. (2011). Repoliticalization of accounting standard setting—The IASB, the EU and the global financial crisis. *Critical Perspectives on Accounting*, 22(6), 567-580. <https://doi.org/https://doi.org/10.1016/j.cpa.2011.04.001> , Cortese, C. L., Irvine, H. J., & Kaidonis, M. A. (2010). Powerful players: How constituents captured the setting of IFRS 6, an accounting standard for the extractive industries. *Accounting Forum*, 34(2), 76-88. <https://doi.org/https://doi.org/10.1016/j.accfor.2008.11.003>

Due to the inherent nature of IASB as a self-funding and not-for-profit entity, the main stream of its revenue came from the contribution of multi-national organizations, industry associations, accounting firms and national standard setters Brown, A. M. (2006). The Financial Milieu of the IASB and AASB. *Australian Accounting Review*, 16(38), 85-95. <https://doi.org/doi:10.1111/j.1835-2561.2006.tb00329.x> , Cortese, C. L., Irvine, H. J., & Kaidonis, M. A. (2010). Powerful players: How constituents captured the setting of IFRS 6, an accounting standard for the extractive industries. *Accounting Forum*, 34(2), 76-88. <https://doi.org/https://doi.org/10.1016/j.accfor.2008.11.003> , who normally will lobby to secure preferred outcomes *ibid.*. These constituents are more likely to have significant advantages and influence over users of financial reports, regardless of IASB's self-proclaimed objective to serves the information need of investors and market participants (only).

by the preparers, if Cortese approach to regulatory capture has been subscribed to. However, Giner and Arce (2012) provided contradicting evidence that none of the interested parties had a dominant influence on the IASB standard-setting process, despite of the active participation of the preparers, and the dependent of the IASB on the national regulators for endorsing the IFRS.

The review of the relevant literature which directly related to the current study ends here. The next chapter presents the research methodology, and the development of the theoretical framework and hypothesis.

University of Malaysia

CHAPTER 3 : METHODOLOGY

Last chapter has extensively reviewed the relevant past works connected to fair value accounting and lobbying in the IASB's due process. All relevant terms, definitions, theories, and empirical findings have also been set out earlier. Next, this chapter presents the methodology and theoretical framework in the sub-chapter 3.1 and 3.2, respectively.

3.1 Research Methodology

The two main research objectives of this study are set to explore the respondents' perception on the fair valuation issues of *IAS 41* through their comment letters in response to the ED on bearer plant. The first objective is similar to the previous works whereby the respondents' lobbying position and argument as reflected in their comment letters concerning a proposed change(s) in an accounting standard is to be studied; while the second part, this study examines whether the national regulators align to their regulatees in the context of their lobbying behaviour and also to study the motivation of these national regulators participating in the IASB's standard-setting process.

Given by the flexibility of content analysis¹⁸, a combination of inductive and deductive approach is used to achieve the research objectives highlighted above. As supported by Chatham et al. (2010), Stenka and Taylor (2010) and Winston and David (2005), content analysis is commonly used to study respondents' lobbying behaviour in the context of accounting standard-setting process. There are four stages on how content analysis is used in this study consistent with the work of Chatham et al. (2010). Next, a robust theoretical framework is needed for guiding the content analysis process in terms of the development of the initial coding scheme (stage 1) and the analysis of the

¹⁸ There is no "right" way of performing content analysis. It is highly flexible and there are numerous variations in how content analysis is to be performed in the context of the researcher's study Elo, S., & Kyngäs, H. (2008). The qualitative content analysis process. *Journal of Advanced Nursing*, 62(1), 107-115. <https://doi.org/10.1111/j.1365-2648.2007.04569.x>, Weber, R. P. (1990). *Basic content analysis*. Sage.

comment letters (stage 3 and 4). Stage 2 is the coding process, whereby the comment letters are scrutinised for information which fits into the predetermined category as per the coding scheme. The following section presents the overview of these four stages. In the subsections of 3.1.1 to 3.1.4, more details will be disclosed regarding such methodology.

The theoretical framework relies mainly on the regulatory capture theory, the empirical work of Cortese et al. (2010), and past lobbying literatures in the context of accounting standard-setting process. Sub-chapter 3.1 focuses on how such framework is used to develop the coding scheme; while sub-chapter 3.2 focuses on the development of hypothesis for testing the results of content analysis (stage 3) which is also guided by the same framework.

Three main categories are identified in the initial coding scheme which includes (i) the respondent's profile, (ii) their lobbying behaviour, (iii) and their country status. Each letter is then coded with the predetermined categories based on the coding scheme. At last, the interaction among these categories is to be analysed as following:

RQ 1a - To what extent the national regulators, regulatees, and others support the ED on bearer plants which limits the application of FVA on bearer plants before (corresponding to ED Q2) and after its maturity (corresponding to ED Q4)?

RQ 1b - What are the common argument(s) of the national regulators, regulatees, and others used to support their positions for limiting the application of FVA on bearer plant before (corresponding to ED Q2) and after its maturity (corresponding to ED Q4)?

RQ 2(a)(i) and 2(a)(ii) – Is there any difference between national regulators and corporates in their **lobbying position** for the proposed measurement requirements for bearer plants before – ED Q2 (after – ED Q4) its maturity?

RQ 2(b)(i) and 2(b)(ii) – Is there any difference between national regulators and corporates in their **lobbying arguments** for the proposed measurement requirements for bearer plants before – ED Q2 (after ED Q4) its maturity?

RQ 2(a)(iii): Is there any association in the **lobbying position** between the national regulators and corporations based on country status (developed or developing nation)?

RQ 2(b)(iii): Is there any association in the **lobbying argument** between the national regulators and corporations based on country status (developed or developing nation)?

RQ 1a and 1b study the perception or lobbying behaviour of the stakeholders on the ED of bearer plants, while RQ 2a and 2b study the alignment in their lobbying behaviour in such revision of *IAS 41*. Thus, the focus of the current study is mainly placed on the interplay (RQ 2a and 2b) between the national regulators and their regulatees in influencing the development of the *IAS 41*.

Only the feedbacks for the proposed accounting requirements in the ED on bearer plant which relates to fair value measurement is to be studied, which are the ED Q2 and ED Q4. The motivation for such research design is to extend the insights to the FVA debates in the context of agricultural sector and also ensure this study provides the most relevant findings to the major stakeholders - the preparers, accounting profession and standard-setters who had been empirically proven to be more interested in the measurement-related ED questions than other type of questions (Jorissen et al., 2012).

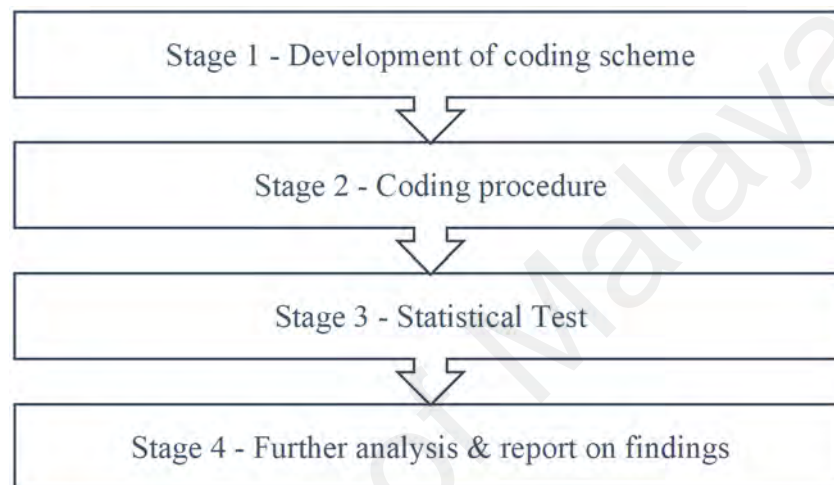
To recap, bearer plant was required to be fair-valued under the *IAS 41* since 2003. Then, ED Q2 and Q4 proposed a revised measurement model for bearer plant before and after its maturity respectively, i.e., ED Q2 proposed that the bearer plants before maturity are to be measured at accumulated cost; and ED Q4 proposed that bearer plants after

maturity are to be measured either at cost or revaluation model (dual-accounting options).

The following sub-chapters 3.1.1 to 3.1.4 present the research methodology in greater details whereby the content analysis is conducted in 4 sequential and distinctive stages.

The flow-chart of such methodology is presented in the diagram below:

Table 3.1: Flowchart of the content analysis process



3.1.1 Stage 1 – Development of coding scheme

Under stage 1, a comprehensive coding scheme is to be developed based on the previous theories and works (Chatham et al., 2010; Cortese et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Stenka & Taylor, 2010; Walker, 1987; Watts & Zimmerman, 1986; Weetman, 2001) following a deductive approach to content analysis. Three main categories have been identified in this stage, which are the (i) the respondent's profile, (ii) their lobbying behaviour, (iii) and their country status. The theoretical framework which is used to develop the coding scheme will be further explained below.

3.1.1.1 Respondent's profile

First, the respondents are classified into different classes for the analysis of their participation level by stakeholder categories. A detailed sub-categorisation in respondent's profile provides richer insight into the participation level of various constituents in the standard-setting process as guided by the previous works of Chatham

et al. (2010), Holder et al. (2013) and Stenka and Taylor (2010). The interest group who submitted the most letters; or the under-represented group is to be revealed with such design.

Specifically, the participating stakeholders in the revision of *IAS 41* were first divided into twelve interest groups similar to the prior studies (Chatham et al., 2010; Holder et al., 2013; Stenka & Taylor, 2010) as follows:

1. Regulatory body
2. Standard-setters group
3. National's lobby group
4. Professional accounting body
5. Audit, tax and advisory firm
6. Individual – accountant
7. Non-accounting professional body
8. Preparers
9. Preparers' lobby group
10. Trade association
11. Individual – corporate
12. University

Next, an additional category which comprises of national regulator, regulatees (corporate) and others is to be created which essentially reduces all twelve types of respondent into three groups. This was motivated by the basic similarities among subsets of the original twelve classifications¹⁹ and also to achieve the RO2 which examines the alignment in the lobbying behaviour between the national regulators and regulatees. A dichotomous classification is supported by and Stenka and Taylor (2010),

¹⁹ Chatham, M. D., Larson, R. K., & Vietze, A. (2010). Issues affecting the development of an international accounting standard on financial instruments. *Advances in Accounting*, 26(1), 97-107. <https://doi.org/https://doi.org/10.1016/j.adiac.2010.03.002> also justifies his work of regrouping the stakeholders with similar objectives for easing further statistical analysis.

whereby such categorisation is based on the assumption that the patterns of reasoning and interest differ across groups but consistent within the same group.

To ensure that the basis of re-grouping is conceptually and empirically grounded, this study mainly relies on the cost-benefit model (Sutton, 1984) and agency theory (Jensen & Meckling, 1976) for the participation behaviour of the regulatees within the accounting standard-setting process. The cost-benefit model predicts that the preparers are incentivised by shaping the accounting standard in their favour if the expected benefits is greater than the lobbying cost; while agency theory suggests that the preparers' representatives tend to act in the favour of the preparers. Thus, the basis of regrouping here for the category of regulatees includes all constituents who may represent the preparers' economic interest, which are (i) the preparers of financial statement themselves, (ii) the preparers' representatives and (iii) the accounting profession. The representative of the preparers, such as trade association or corporate representative bodies, are therefore, expected to lobby on behalf of the preparers in which they tend to support their majority positions, as evidenced by Kenny and Larson (1993).

Next, the accounting profession, accounting firms and professional accountancy bodies are to be included in the regulatees group relying on the agency theory and empirical work of Jupe (2000), and Georgiou (2004). Agency theory posits that accountancy firms (audit, tax, advisory) have incentive to align with their client's interest as they see their wealth as a function of that of their clients. Georgiou (2004) also added that the preparers lobby the standard-setter through their external auditor due to the perceived effectiveness of such approach. Jupe (2000) confirmed this view that the accountancy firms and auditors are found to support the positions of their clients (the preparers) in their effort of lobbying the accounting standard setter. By extension, this study assumes

accounting firms and professional accounting bodies tend to act similarly in promoting the interest of their client or members. Specifically, accounting firms are likely to lobby for rules that would promote their clients' economic interest, whereas accountancy bodies tend to lobby for rules that would promote the interest of their members. In other words, the professional accounting bodies should ultimately promote the economic interest of the preparers under the agency theory, albeit indirectly.

However, some stakeholders are to be omitted from being classified into either the category of regulators or corporates due to ambiguous interest or objective - for example, university. Some stakeholders are representing the interest of financial statement user instead of the regulators or corporates, for example, the Chartered Financial Analyst Institute (Non-accounting professional institute). The financial analyst is often classified as the 'users' in many past works (Chatham et al., 2010; Giner & Arce, 2012). Thus, these stakeholders are to be categorised as "others".

With regard to the basis of grouping for regulators, this group includes the national standard setter (and standard-setters group), other watchdog agencies such as stock exchanges²⁰, and national lobbying group. See Winston and David (2005) for similar categorisation for regulators that they justified the importance of this group to international accounting as the IASB or IASC has to rely on the national accounting standard setters to endorse and enforce the IAS or IFRS in their respective country.

3.1.1.2 Lobbying behaviour

Next, the second main category – the respondent's lobbying behaviour is to be further branched out to lobbying position and lobbying argument to captures these two major aspects of the respondents based on their comment letter corresponding to the research objectives and questions.

²⁰ This is in line with Giner, B., & Arce, M. (2012). Lobbying on Accounting Standards: Evidence from IFRS 2 on Share-Based Payments. *European Accounting Review*, 21(4), 655-691. <https://doi.org/10.1080/09638180.2012.701796> which classify the stock exchange as 'regulator'.

Drawing insight from Chatham et al. (2010), Holder et al. (2013), and Winston and David (2005), the respondents' lobbying position associated to the ED on bearer plant were divided into four sub-categories and are defined as follows:

- 1) **Favourable** – when the respondents expressed agreement towards the ED question without reservation.
- 2) **Favourable conditional on changes** outlined in the letter - if the respondents expressed an overall positive attitude towards the ED question with reservations.
- 3) **Unfavourable** - if the respondents expressed disagreement towards the ED question.
- 4) **No response** – when the respondents did not state their position but provided feedback on other issues or raising questions in the ED question.

Next, this study classifies the respondent's argument into four sub-categories similar to the way prior researches used to classify the nature of argument in the comment letters (Chatham et al., 2010; Holder et al., 2013; Stenka & Taylor, 2010; Winston & David, 2005). The definition for each of these sub-categories is outlined below:

- 1) **Conceptual argument** – in which the argument refers to accounting concepts or principles. For example, if the letter cited “relevance” as the justification for their position.
- 2) **Practical argument** - “non-technical” in nature or embody an “economic consequences” point of view. For example, if the letter cited cost of compliance, volatility in earnings as the justification for their position.
- 3) **Combined argument** – A combination of conceptual and practical argument.
- 4) **Silent/raised other issues** – When the respondent did not provide any argument for their lobbying position or raising other issues which is not related to the bearer plant.

However, the ED on bearer plant has two questions (proposals) related to fair value accounting – ED Q2 and ED Q4. Thus, another level of sub-category is required whereby the lobbying position and argument is to be further branched out to ED Q2 and ED Q4 respectively. These two specific ED questions proposed a revised accounting measurement model for bearer plant before and after its maturity, which gives rise to RQ 2(a)(i), RQ 2(a)(ii), RQ 2(b)(i) and RQ 2b(ii) respectively in this study. In other words, a multiple level of categorisation in respondent's lobbying behaviour is required due to the complexity involved in capturing their behaviour in the context of these research questions. For instances, the same respondent may be favourable to ED Q2 while unfavourable to ED Q4, which gives rise to two entries regarding his/her lobbying position; or the respondent may support his/her position with conceptual arguments in ED Q2 but using practical arguments for ED Q4, which again giving rise to two entries related to his/her lobbying arguments. Such hierarchical structure of categorisation is crucial for effective organisation of the categories to answer the research questions.

Thus, with this additional dimension, each letter is to be coded with two lobbying positions whereby one for ED Q2 and another for ED Q4; while the same letter again is to be coded with two lobbying arguments, which is again one for ED Q2 and another for ED Q4.

3.1.1.3 Country status

The last main category – the respondent's country status, classifies the respondents according to the status of their countries in terms of developing or developed nation. The objective for this categorisation is to explore the interaction among the three main categories of respondent's profile, their lobbying behaviour and their country status. Such research design is to test whether the respondents based in developing nation lobby differently than their counterparts in developed nation.

The underlying approach in classifying the country as a developing or developed nation is solely based on the classification methodology of United Nation (UN, 2014). UN classified the countries of the world into three board categories: (i) developed economies, (ii) economies in transition and (iii) developing economies. This study adopted this approach and classified the respondents accordingly into the respective groups. However, there is no respondent from country in the category of “economies in transition” participated in the revision of *IAS 41*. Therefore, this forms the basis as to why only two broad groups with regards to country status is used in this study.

Overall, stage 1 involves the development of the initial coding scheme for this study based on the existing theories and literature, and the next section presents the details as in stage 2 – the coding procedure.

3.1.2 Stage 2 – Coding procedure

Once the coding scheme is developed, coding is initiated immediately. First, all comment letters (72 letters) in response to ED on bearer plant (IASB, 2013b) were downloaded from the website of IASB (2013a). The comment letters are to be reviewed by an individual researcher who scrutinises the letters for relevant textual data and highlight the relevant text with respective categories as per the coding scheme. However, textual data which fail to fit in any of the categories is to be further reviewed and a new category or sub-category may be created to capture such additional information which may indicates a different perspective to the existing theory and literatures. There is a total of 8 entries (codes) per letter in which 2 entries relate to respondent’s profile; 2 entries relate to their lobbying positions; another 2 entries relate to their lobbying argument; and at last, 2 entries relates to their country status. These entries will be discussed in detailed in the following sections. With a total of 72 comment letters, thus, $72 \times 8 = 576$ entries should have been assigned to all comment letters for further analysis.

The coding of text is facilitated by using Nvivo 12, a qualitative data analysis software. A human-coded process is adopted whereby all the coding is subject to the review of the researcher rather than fully relying on the auto-coding feature embedded in the data analysis software. The human-coded approach ensures reliability in terms of consistency in coding (Beattie et al., 2004). The following subsections outline the coding procedure(s) for the 8 entries in four parts, from section 3.1.2.1 to 3.1.2.4.

3.1.2.1 The profile of respondent

First, the letter is to be scrutinised for key words which tells the profile of the respondent. Once the information has been found, the letter is to be coded with one of the twelve respondent profiles²¹. Further, the letter is to be coded with another heading which describes the broader grouping the respondent belongs to – corporates (regulatees), regulator, or others. In other words, each letter is coded and thus classified into a specific and a broader interest group of which the respondent belongs to.

3.1.2.2 Lobbying position

Next, the comment letter is to be coded with the respondent's lobbying position and argument respectively regarding the proposals to limit FVA on bearer plants before its maturity (ED Q2) and after its maturity (ED Q4). This section presents the coding procedure with respect to such lobbying position. The respondent's feedback for both ED questions is to be scrutinised and coded with one of the following positions: (1) favourable, (2) favourable with condition, (3) unfavourable, or (4) no response. Thus, there is one entry (position) each to be assigned to the comment letter for their response to ED Q2 and ED Q4, respectively. Capturing the respondent's lobbying position in these two aspects corresponds to the RQ 2(a)(i) and RQ 2(a)(ii), respectively. For example, the letter is coded with number 1 to represent the respondent's favourable position for the ED Q2 (corresponding to RQ2(a)(i)); and it is coded with number 3 for

²¹ These twelve interest groups includes: 1. Regulatory body, 2. Standard-setters group, 3. National's lobby group, 4. Professional accounting body, 5. Audit, tax and advisory firm, 6. Individual – accountant, 7. Non-accounting professional body, 8. Corporation, 9. Corporation's lobby group, 10. Trade association, 11. Individual – corporation and 12. University

ED Q4 to represent his or her unfavourable position for the proposed requirement (corresponding to RQ2(a)(ii)). These two aspects should provide richer insight into the fair valuation issues of *IAS 41*.

3.1.2.3 Lobbying argument

Next, this section presents the coding procedure with respect to lobbying argument. The respondent's feedback for both ED questions is to be scrutinised and coded with one of the following arguments: (1) conceptual, (2) practical, (3) combined or (4) silent/raising other issues. Thus, there is one entry (argument) each to be assigned to the comment letter for their response to ED Q2 and ED Q4 respectively. Capturing the respondent's lobbying argument in these two aspects corresponds to the RQ 2(b)(i) and RQ 2(b)(ii), respectively. For instance, the letter is coded with number 1 to represent the respondent's conceptual argument for the ED Q2 (corresponding to RQ 2(b)(i)); and it is coded with number 2 for ED Q4 to represent his or her practical argument for the proposed requirement (corresponding to RQ 2(b)(ii)). These two aspects, again, should provide richer insight into the fair valuation issues of *IAS 41*.

3.1.2.4 Country status

The last piece of crucial detail to be coded to each letter is the respondent's country status which eventually answers the RQ 2(a)(iii) and RQ 2(b)(iii). As respondents from developing market may lobby differently than those based in developed market, both RQ 2(a)(iii) and 2(b)(iii) examines whether these respondents share the same lobbying behaviour. First, each of the comment letter will be coded with the specific country in which the respondent domiciles. Then, another narrower category, namely 'country status' which consists only of developing and developed nation will be coded to each letter.

Once these three main categories – respondent profile, lobbying behaviour and country status have been coded to each letter under stage 2, the interaction among these categories are to be examined statistically in stage 3.

3.1.3 Stage 3 – Statistical test

Next, stage 3 involves using statistical test to explore the interaction among the three main categories in this study which are the (i) respondent profile, (ii) their lobbying behaviour and, (iii) their country status. This is the final stage in most of the directed content analysis approach whereby the relationship between the categories is to be examined and reported. As guided by such approach, a conceptual model is therefore be built to describe the phenomenon about the lobbying behaviour of the national regulators and regulatees in the context of IAS 41. The findings may provide supporting or countering evidence to the existing theories and literatures in a different context, or in a different period. As such, the previous works²² related to accounting standard-setting process may be enriched and extended, particularly in the context of specialised industry.

In this regard, descriptive statistic is used to present the result of RQ1a and 1b mainly through showing the relative frequency of the respondent's lobbying positions and arguments respectively by the three major interest groups – regulators, regulatees and others. The statistic summaries the extent to which the interest groups support the call for limiting the application of FVA on bearer plant, as well as revealing their argument for such positions. In addition, the statistic of respondents' participation level will also be presented in few different perspectives for additional insight – in terms of twelve

²² Refer to the work of Chatham, M. D., Larson, R. K., & Vietze, A. (2010). Issues affecting the development of an international accounting standard on financial instruments. *Advances in Accounting*, 26(1), 97-107. <https://doi.org/https://doi.org/10.1016/j.adiac.2010.03.002> , Holder, A. D., Karim, K. E., Lin, K. J., & Woods, M. (2013). A content analysis of the comment letters to the FASB and IASB: Accounting for contingencies. *Ibid.*, 29, 134-153. <https://doi.org/https://doi.org/10.1016/j.adiac.2013.03.005> , Stenka, R., & Taylor, P. (2010). Setting UK standards on the concept of control: An analysis of lobbying behaviour. *Accounting and Business Research*, 40(2), 109-130. <https://doi.org/10.1080/00014788.2010.9663387> and Weetman, P. (2001). Controlling the standard-setting agenda: the role of FRS 3. *Accounting, Auditing & Accountability Journal*, 14(1), 85-109. <https://doi.org/doi:10.1108/09513570110381088>

interest groups; three major interest groups²³; and two major groups based on country status.

Further, this study also adopted the lens of regulatory capture to analyse the result because directed content analysis commonly does not provide a framework on how to examine the relationship among the categories. Thus, a more robust theoretical framework grounded on regulatory capture is developed for this study to examine the interaction among the variable of interests meaningfully. Drawing insight from past works related to lobbying in accounting standard-setting process and regulatory capture (Chatham et al., 2010; Cortese et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Saemann, 1999; Stenka & Taylor, 2010; Walker, 1987), as well as the research gap in these stream of literatures, the current study examines the alignment in the lobbying behaviour of the national regulators and regulatees, as follows:

- 1) RQ 2(a)(i) and 2(a)(ii) examine the difference (alignment) in lobbying position between the corporates and national regulator in respect of proposed measurement requirements of bearer plant before (ED Q2) and after its maturity (ED Q4).
- 2) RQ 2(b)(i) and 2(b)(ii) examines the difference (alignment) in lobbying arguments between corporates and national regulator in respect of proposed measurement requirements of bearer plant before (ED Q2) and after its maturity (ED Q4).
- 3) RQ 2(a)(iii) explores the association among respondent's profile, their lobbying position, and their country status.
- 4) RQ 2(b)(iii) explores the association among respondent's profile, their lobbying argument, and their country status.

²³ National regulators, regulatees (corporates), and others

Mann-Whitney test is opted for testing RQ 2(a)(i)(ii) and RQ 2(b)(i)(ii), respectively. The alignment (degree of difference) in both lobbying position and argument between the corporates and regulators is therefore, revealed statistically. This statistical test is chosen because the variables in RQ 2(a)(i)(ii) and RQ 2(b)(i)(ii) are discrete, ordinal and have a limited range, i.e., respondent's lobbying position is coded within a range from 1 to 4 on a four-point Likert scales whereby their position are classified as favourable to unfavourable respectively. As the distribution of the data for all the variables (respondent's profile, lobbying position, and argument) is expected to be not normal or highly skewed; and not continuous, thus, the Mann-Whitney test is selected over the 2-sample t-test which assumes otherwise - a normal and continuous distribution. In other words, a nonparametric test is selected over a parametric test due to the nature of the data distribution in this study. Next, the design of RQ 2(a)(iii) and RQ 2(b)(iii) provides additional insight into the data whereby the association of three variables – respondent category, lobbying position/argument and country status is to be tested using Chi-square test for independence. The selection of this statistical approach is also consistent with the work of Chatham et al. (2010), Winston and David (2005), and Saemann (1999) that the variable of interests to be examined are of nominal or categorical nature. Further, Chi-square test is also less restrictive than a t-test which the latter requires the assumption of a normal sampling distribution. If the p value for Chi Square is lower than 0.05, this study interprets that the variables are related, associated, or dependent on each other – that the lobbying behaviour is related to the respondents' group; or the lobbying behaviour is dependent on the group (different group will act differently in terms of their lobbying behaviour).

Once the statistical test has been performed, the findings are to be discussed in relation to the existing theories, previous literatures, and research objectives.

3.1.4 Stage 4 – Further analysis & reporting

At last, stage four relates mainly to reporting and discussion of the statistical findings. As there are two primary research objectives in this study, the following sections explain how these objectives are achieved in greater details.

The first research objective of this study is to examine the stakeholders' perception on the fair valuation issues of *IAS 41* through scrutinising their comment letters in response to the ED on bearer plant. Discussion on these stakeholders' perception is guided by directed content analysis and the theoretical framework grounded on the previous works related to lobbying in the accounting standard process and regulatory capture (Chatham et al., 2010; Cortese et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Stenka & Taylor, 2010; Walker, 1987; Watts & Zimmerman, 1986; Weetman, 2001).

First, the way through which the discussion is guided by directed content analysis is to evaluate whether the findings from this study supports the regulatory capture theory and previous literatures related to lobbying in the accounting standard-setting process. As such, the existing theories and previous literatures may be enriched, extended, and refined, particularly in the context of specialised industry. In particular, the participation level and lobbying behaviour of the interest groups in the revision of *IAS 41* will be discussed in relation to the past literatures. Further, this study also discusses the reasons for rejection (lobbying arguments) of the *IAS 41* through the perceptions of various stakeholders for providing valuable input to the IASB's annual improvement project. The views of these stakeholders should be useful to the IASB to resolve any pending controversial accounting issues.

Next, the interaction among the main categories - respondent's profile, their lobbying behaviour and country status is to be further discussed in the context of the RO2 which examines the interplay between the national regulators and their regulatees in

influencing the revision of the IAS 41. The discussion for this part is grounded on and guided by the theoretical framework of regulatory capture and the empirical work of Cortese et al. (2010). Mainly relying and extending on the Cortese's approach to regulatory capture, the close alignment in the lobbying position and argument between the regulators and corporates is to be interpreted as a coalition between these key players, that is, an indicator of regulatory capture. Such alignment in lobbying behaviour (and interest) between the national regulators and their regulatees should exert a greater influence on the development of the IAS 41. At last, the outcome (revised *IAS 41*) is to be studied to ascertain whether the revised standard reflected the preferred method of such coalition. Thus, the findings of this study may extend and refine these previous works in a different specialised industry – agricultural sector. Moreover, to provide additional insight into the collusion in response between the national regulators and those they regulated in the international standard-setting process, an inductive approach to content analysis is required whereby the comment letters have to be scrutinised further for information which explains the regulatory capture effect. This is crucial to justify the reasons which the national regulator used to promote the interest of their regulatees in the IASB due process, as to why they support their regulatees' preferred accounting method through the international platform.

3.2 Development of theoretical framework and hypothesis

Chapter 3.1 has discussed about how content analysis is used in this study to explore the fair valuation issues of the *IAS 41* from the perspectives of various stakeholders. However, a theoretical framework is needed for guiding the content analysis process in terms of the development of an initial coding scheme (which has been covered in the sub-chapter 3.1.1); and analysis of the variables of interest (categories). Thus, the section below focuses more on how the variables of interest in the current study are

explored with reference to such theoretical framework which relies on the relevant past studies (listed below) and mainly the work of Cortese et al. (2010).

Under the final stage of content analysis, the relationship of the categories is analysed in a particular way, depending on the research objective of the study. In this regard, many past works studied the variation or degree of difference in lobbying behaviour among the interest groups in many different forms or contexts (Chatham et al., 2010; Holder et al., 2013; Saemann, 1999). For example, Holder et al. (2013) studied the difference in lobbying behaviour among the interest groups within the standard-setting process of IASB and FASB respectively. For the current study, the results of content analysis are analysed in a way to determine whether the national regulators align to the lobbying behaviour of their regulatees through the lens of regulatory capture. This theory predicts that the regulators prioritise the special interest of their regulatees over the general interest of the public, implying an aligned or overlapping interest between the regulators and their regulatees. Thus, this study operationalises aligned interests as alignment in lobbying behaviour (collusion in responses towards the ED Q2 and Q4) between the regulators and regulatees, which is then interpreted as the evidence of regulatory capture. This is well supported by past studies which showed evidence of regulatory capture in the context of accounting standard-setting process (Cortese et al., 2010; Walker, 1987). Cortese et al. (2010) also showed that the IASB has aligned one of its specialised accounting standards to the preferences and existing accounting practices of the preparers in the extractive sector due to regulatory capture. They argued that the success in lobbying is mainly attributed to a complex net of close ties and overlapping interests between the regulator and regulatees. Boyer and Ponce (2012) added that supervision (regulation), in fact, created a 'particular link' between the regulator and regulatees which increase the likelihood of prioritization of the special interest over the 'socially optimal objective'. The current study extends these approaches to regulatory capture by

operationalising the close ties and overlapping interest between regulators and regulatees as the alignment in their lobbying behaviour within the international standard-setting process. Therefore, this study hypothesises that the national regulator to align to their regulatees in their lobbying behaviour (no difference in their responses towards the ED Q2 and Q4), which is stated below.

Further, alignment in accounting preferences or lobbying behaviour between the stakeholders and standard setter has also been widely studied in many different contexts (Saemann, 1999; Weetman, 2001; Winston & David, 2005). Some studies even found that the international standard setter to align its IFRS or IAS to the accounting preference of the preparers (Cortese et al., 2010; Winston & David, 2005). Such alignment are often associated to or interpreted as aligned or overlapping interest(s) among these parties (Cortese et al., 2010; Saemann, 1999; Stenka & Taylor, 2010). Georgiou (2004) also added that a considerable number of companies lobby the standard setter indirectly through their external auditor due to the perceived effectiveness of this approach. Similarly, the preparers may lobby the IASB through their national standard-setter or regulator as well. For example, the EU regulators were observed to represent the interest of the EU banks in the international standard-setting process with regard to FVA issues (Bengtsson, 2011).

Next, the regulatory capture effect appears to be more apparent in the standard-setting process which involves accounting standards for specialised industry such as the *IAS 39 (IFRS 9) Financial instruments* for banking industry (Bengtsson, 2011); and *IFRS 6 Exploration for and evaluation of mineral resources* for extractive industry (Cortese et al., 2010). Moreover, past studies often found preparers and their representatives opposed strongly to the FVA, especially in the context of financial industry (Bengtsson, 2011; Chatham et al., 2010; Saemann, 1999). Street et al. (1999) also added that

measurement and disclosure requirements of the IASC or IASB often subject to non-compliance among the firms. Thus, proposed requirements relate to measurement issue should be more likely to observe lobbying from the preparers and their representatives, as supported by Jorissen et al. (2012). By extension, if the national regulators represent the interest of their regulatees (preparers), the former are likely to support the position of the latter in opposing the FVA requirements or supporting the proposal to eliminate (or limit) the application of FVA. Hence, such aligned interest between the regulators and preparers should be reflected in their responses, giving rise to alignment in their lobbying positions and arguments.

This study, therefore, hypothesizes that the lobbying behaviour of national regulators to align with their regulatees due to the regulatory capture effect in the context of agricultural sector and measurement-related proposals (ED Q2 and Q4 as in the ED of bearer plant). H 2(a)(i) and (a)(ii) correspond to RQ 2(a)(i) and (a)(ii); while H 2(b)(i) and 2(b)(ii) correspond to RQ 2(b)(i) and (b)(ii):

H 2(a)(i): There is no significant difference between the corporates and national regulators in their lobbying positions associated with the measurement aspect of bearer plant before its maturity – ED Q2.

H 2(a)(ii): There is no significant difference between the corporates and national regulators in their lobbying positions associated with the measurement aspect of bearer plant after its maturity – ED Q4.

H 2(b)(i): There is no significant difference between the corporates and national regulators in their lobbying argument associated with the measurement aspect of bearer plant its before maturity – ED Q2.

H 2(b)(ii): There is no significant difference between the corporates and national regulators in their lobbying argument associated with the measurement aspect of bearer plant after its maturity – ED Q4.

Further, country-level differences may affect the lobbying behaviour and subsequently the collusion in response between the national regulators and regulatees. Past studies found that there is a difference in the lobbying behaviour among the participants within the standard-setting process based on geographical factors (Chatham et al., 2010; Holder et al., 2013; Kenny & Larson, 1993; Larson, 2007; Larson & Brown, 2001). These empirical observations lie in the differences across countries in terms of the business and financial culture, accounting culture, auditing culture and regulatory culture (Zeff, 2007).

However, many of these studies focus on examining the lobbying behaviour of the western counterparts using geographical classifications such as British–American model vs. Continental model; EU countries vs Non-EU countries; or common law countries vs. code law countries. It appears that very limited studies had examined lobbying behaviour of the respondents from developing nations. This raises the questions whether the counterparts from developed country lobby differently than those in developing country. This study, therefore, attempts to provide some insight into this aspect by leveraging on the unique setting of *IAS 41*- whereby stakeholders from developing market is expected to participate actively in the revision of *IAS 41* due to a great stake in the world's agriculture business. Drawing insights from Zeff (2007) and relevant past studies (Chatham et al., 2010; Holder et al., 2013; Kenny & Larson, 1993; Larson, 2007; Larson & Brown, 2001), this study hypothesizes that, in its null form:

H 2(a)(iii): There is no association in the lobbying position between the national regulators and corporates based on country status (developed or developing nation)

H 2(b)(iii): There is no association in the lobbying argument between the national regulators and corporates based on country status (developed or developing nation)

H 2(a)(iii) corresponds to RQ 2(a)(iii) while H 2(b)(iii) corresponds to RQ 2(b)(iii). The regulatory capture theory is again used to predict and explain the alignment in the lobbying behaviour between the national regulators and regulatees, with an additional dimension whereby these parties are further segregated into developed or developing nations. The theory implies that the national regulators should align to the responses of those they regulated, despite of the country-level difference. Having discussed the research methodology and theoretical framework underlies the current study, the next chapter presents the result of the content analysis.

CHAPTER 4 : RESULTS

Previous chapter has discussed how content analysis is used to analyse the comment letters in response to the ED on bearer plant. The theoretical framework underlies the current study has also been laid out extensively in the last chapter. Moving on, this chapter presents the result of the content analysis regarding the variable of interests in four parts from section 4.1 to 4.4. The descriptive statistic of the comment letter submissions is first reported, followed by the statistic for their lobbying positions and lobbying argument; and at last, their country status. The discussion of these statistical results is then presented in the Chapter 5 in detail.

4.1 Descriptive statistic of the submissions

This section presents the descriptive statistic of the comment letter submissions by stakeholder group (table 4.1 to table 4.3); and county status (table 4.4 to table 4.5). These different viewpoints with regards to the characteristic of the submission provide richer insights into the participation level of the respondents within the revision of the IAS 41.

Overall, the comment letters in response to the ED of bearer plant were submitted by 72 respondents, who represented over 25 countries and several different stakeholder groups. These comment letters were generated from the IASB's website²⁴. Note that out of the 72 comment letters, one letter is found to be unusable for further analysis due to lack of details of the respondent – the name, address, background of the respondent is not revealed in the abovementioned letter. Hence, it is to be excluded from the analysis as in the sub-chapter 4.2, 4.3 and 4.4.

²⁴ <http://archive.ifrs.org/Current-Projects/IASB-Projects/Bearer-biologicalassets/Exposure-Draft-June-2013/Pages/Comment-letters.aspx>. The website was accessed on 15th December 2019.

Table 4.1 below shows that there is a total of 12 types of stakeholders who responded to the ED on bearer plant. All letter clearly indicates the organisation in which it represents, except one submission which did not reveal his or her identity and therefore this response is classified as “unassigned”.

Table 4.1 Group of participants responding to the exposure draft on bearer plant

| No. | Classification | No. | Relative frequency |
|-----|----------------------------------|-----|--------------------|
| 1 | Regulatory body | 22 | 31% |
| 2 | Preparers | 14 | 19% |
| 3 | Audit, tax and advisory firm | 11 | 15% |
| 4 | Professional accounting body | 8 | 11% |
| 5 | Trade association | 3 | 4% |
| 6 | University | 3 | 4% |
| 7 | Preparers' lobby group | 2 | 3% |
| 8 | Individual – accountant | 2 | 3% |
| 9 | Non-accounting professional body | 2 | 3% |
| 10 | Individual – corporate | 1 | 1% |
| 11 | National's lobby group | 1 | 1% |
| 12 | Standard-setters group | 2 | 3% |
| 13 | Unassigned | 1 | 1% |
| | Total | 72 | 100% |

Specifically, as shown in Table 4.1, regulatory bodies top the list with 22 submissions, representing 31% of all submissions, followed by preparers (14 submissions, 19%), audit, tax and advisory firms (11 submissions, 15%), and professional accounting body (8 submissions, 11%). Other interest groups also submitted few letters in response to the ED on bearer plant, whereby trade association and universities both submitted 3 letters respectively (4%, 3/72); while preparers’ lobby group, individual accountant, non-professional accounting body and standard-setter group each submitted 2 letters respectively (3%, 2/72). At last, there is one letter (1%, 1/72) each from an individual who represents the preparers in a personal capacity, a national lobby group and a

respondent who did not disclose his/her identity. A more detailed profile of these respondents can be found in APPENDIX C.

From Table 4.1, it can be deduced that the revision of *IAS 41* has attracted the most comment letters from the regulatory bodies, outnumbering the preparers by 8 letters (22/14, 157%) and professional firms by 11 letters (22/11, 200%). By re-grouping these stakeholders in a broader category, that is, grouping them with their representatives whereby they share a common interest, there will be 4 major groups as reported at table 4.2. Under this view, the regulatory bodies and their representatives still dominate the revision of *IAS 41* with 25 comment letters compared to 20 letters from the preparers and their representatives; and 21 letters from the accounting profession.

In detailed, under this collective perspective, there is a total of 25 letters from the regulatory body (22), national's lobby group (1) and standard-setters group (2); a total of 20 letters from the corporate (14), trade association (3), preparers' lobby group (2), individual – preparer (1); while a total of 21 letters from the audit, tax and advisory firm (11), professional accounting body (8), and individual – accountant (2). At last, the minority is being grouped as “others”, consisting of university (3), non-accounting professional body (2), and unassigned (1). This is re-categorized into Table 4.2 below.

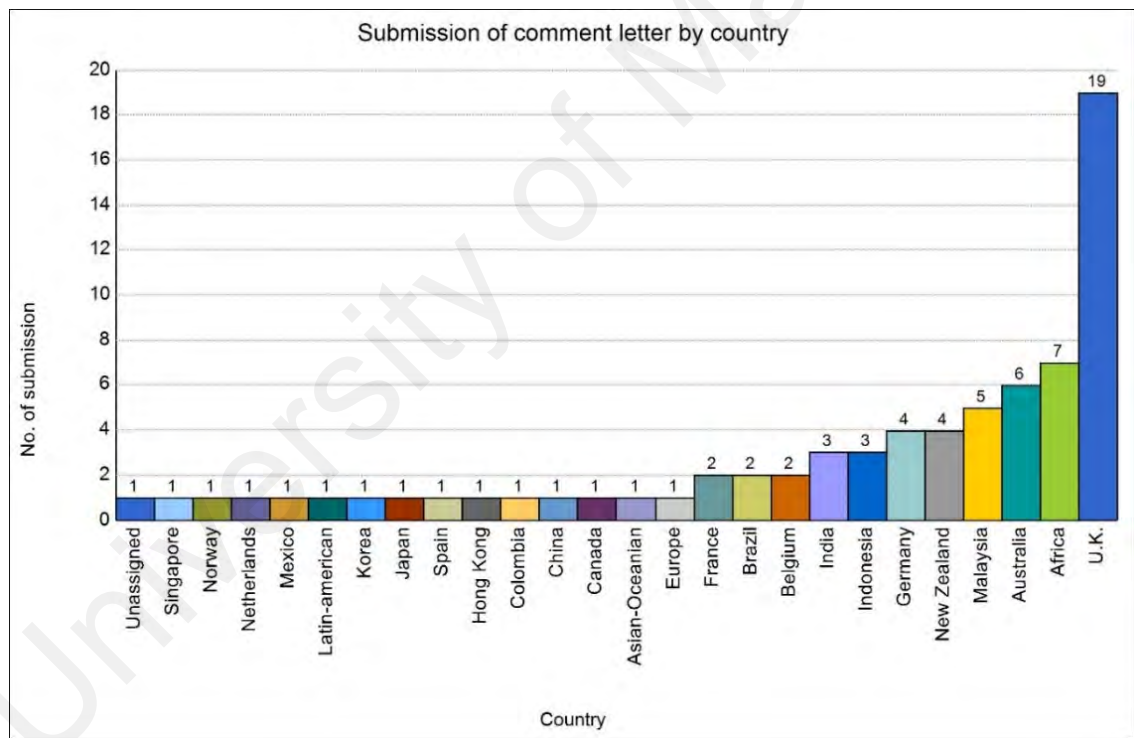
Table 4.2 Group of participants responding to the exposure draft on bearer plant

| No. | Classification | No. | Relative frequency |
|-----|---|-----|--------------------|
| 1 | Regulatory body and representatives | 25 | 34.72 % |
| 2 | Preparers and representatives | 20 | 27.78 % |
| 3 | Accounting profession and representatives | 21 | 29.17 % |
| 4 | Others | 6 | 8.33 % |
| | Total | 72 | 100 % |

Moving on to the country status, the comment letters are categorized by the submission in accordance to the respective countries of the respondents. The geographic analysis in Table 4.3 below shows that a total of 25 countries took part in the revision of *IAS 41*.

The constituents from the United Kingdom (UK) submitted the most comment letters, representing 26.38% of all the submission (19/72), followed by Africa 9.72% (7/72) and Australia 8.33% (6/72). These top 3 submitted almost half of the comment letters, which is 44% of all the responses. Conversely, the remaining letters comes from 23 countries with 40 submissions. At the lower end of the graph shown above, 18 countries (68% of 25 countries) provided only 1 letter (29.2%, 21/72), with an average of 1.16 letter per country within this range. In other words, the inputs to the revision of *IAS 41* were mainly dominated by the participants from few countries such as the UK, Africa, Australia and Malaysia.

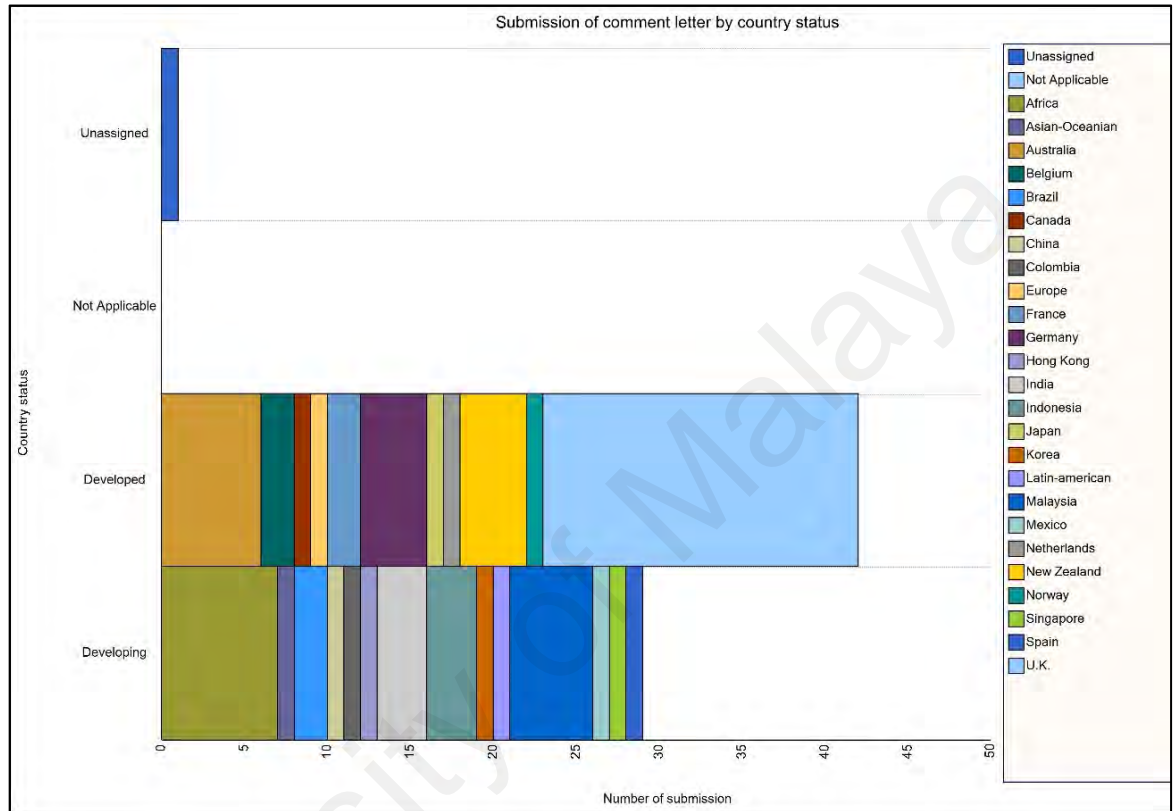
Table 4.3 Submission of comment letter by country



From a different angle, table 4.4 below shows the descriptive statistic of submissions when the respondents are grouped according to the country status (developing or developed nation). This revision of IASB’s accounting standard for agricultural activities has seen a relatively high participation from the developing market, whereby 40.85% (29/71) of the comment letters were submitted by the counterparts in

developing market; while 59.15% (42/71) of the submissions originated from developed market. In other words, the constituents from developed nation only submitted 13 more letters (18%, 13/71) than their counterpart domiciles in developing nation.

Table 4.4 Submission of comment letter by country status



In particular, constituents from developing market submitted a total of 29 letters mostly from Africa (24.13%, 7/29), followed by Malaysia (17.24%, 5/29), India (10.34%, 3/29), Indonesia (10.34%, 3/29) and Brazil (6.9%, 2/29). At the lower end, there is one submission each (3.45%, 1/29) from Mexico, Latin-American, Spain, Asean-Oceanian, China, Hong Kong, Korea, Singapore and Columbia. Note that respondents representing Latin-American and Asean-Oceanian are both “regional standard-setter” - a group of the accounting standard-setters representing a particular region.

Meanwhile, the respondents from developed market submitted a total of 42 letters with approximately half of the submissions originated from the United Kingdom alone (45.24%, 19/42), followed by Australia (14.29%, 6/42), New Zealand (9.52%, 4/42) and

Germany (9.75%, 4/42). Belgium and France both contributed 2 comment letters respectively (4.76%, 2/42); while there is one submission each (2.38%, 1/42) from Canada, Europe, Japan, Netherlands, and Norway respectively.

Next, this section presents the stakeholder analysis whereby the respondents are summarised and analysed by two main categories. i.e., regulatees (corporates) and regulators. As this study is designed in a way to learn about the lobbying behaviour of the national regulators and regulatees, this section provides some fundamental insights into the descriptive statistic of the composition of these two groups. One letter has been excluded as the respondent did not disclose his or her particulars. The composition of the stakeholder group is shown in Table 4.5 below.

Table 4.5 Interest groups classified by category (corporate or regulator)

| Corporate | Submission | Relative frequency |
|------------------------------|-------------------|---------------------------|
| Preparers | 14 | 34.15% |
| Preparers' lobby group | 2 | 4.88% |
| Trade association | 3 | 7.32% |
| Individual - corporate | 1 | 2.44% |
| Audit, tax and advisory firm | 11 | 26.83% |
| Professional accounting body | 8 | 19.51% |
| Individual - accountant | 2 | 4.88% |
| Total | 41 | 100.00% |

| Regulators | Submission | Relative frequency |
|------------------------|-------------------|---------------------------|
| Standard-setters group | 2 | 8.00% |
| National's lobby group | 1 | 4.00% |
| Total | 25 | 100.00% |

| Others | Submission | Relative frequency |
|----------------------------------|-------------------|---------------------------|
| University | 3 | 60.00% |
| Non-accounting professional body | 2 | 40.00% |
| Total | 5 | 100.00% |

The revision of *IAS 41* observes that the corporates group submitted the most comment letter, which is 57.75% (41/71) of all the responses whereas the regulator group submitted 35.21% (25/71) of all the responses. Note that the classification of corporate

(regulatees) also includes the accounting profession and their professional accounting body based on agency theory. Other minor respondents included universities and non-accountancy professional bodies such as the CFA Institute and the Central Association of Agricultural Valuers. Both contributed to a mere 7.04% (5/71) of all submissions. On a different note, there is only one submission (1.4%, 1/71) representing the financial statement user – CFA Institute, which is the professional bodies for the financial analyst. In other words, the user group is severely under-represented in the revision of *IAS 41*.

Further, the breakdown as in table 4.5 shows that the majority of submissions within the corporate groups came from the preparers, 14 letters (34.15%); and followed by audit, tax and advisory firm with 11 letters (26.83%) and professional accounting body, 8 letters (19.51%). While within the regulator groups, regulatory body submitted 22 letters (88%), followed by standard-setters group with 2 letters (8%) and a national lobby group, 1 letter (4%). At a more detailed level, the regulatory body group consists of submissions mainly from national standard-setter (81.8%, 18/22); while national watchdogs also contributed few comment letters (18.2%, 4/22) in response to this ED, such as the Ministry of Finance of Republic of Indonesia, Securities and Exchange Board of India (SEBI), The International Organization of Securities Commissions (OICV – IOCSO), and Financial Reporting Council (FRC). It appears that not only the national standard-setters is interested in the revision of *IAS 41*, while the securities regulators also concerned about the accounting treatment of biological assets. Further details of the profile of these regulators is presented in the APPENDIX D.

Having presented the descriptive statistic of the submissions categorised by stakeholder groups and their country status, the next section reveals the relevant statistic of the respondent's lobbying behaviour.

4.2 Lobbying position of respondents by constituent group

This section first presents the result of RQ 1a - the descriptive statistic of the lobbying positions of national regulators, corporates (regulatees) and others regarding the proposals to limit the FVA on bearer plant before and after its maturity as in the ED Q2 and Q4. The finding is summarised in the table 4.6 below, in which the relative frequency of the respondent's position regarding both ED questions is revealed. Next, the Mann-Whitney statistic of RQ 2(a)(i) and 2(a)(ii) will be presented in table 4.7 which reveals the degree of alignment in the lobbying positions between the national regulators and corporate in terms of ED Q2 and Q4. Some letters clearly stated there are "majority position" and "minority position" in the ED Q2 and (or) Q4, that only the majority position is being taken into consideration.

First, table 4.6 below shows that most of the respondents expressed favourably to both ED questions which limit the application of FVA on bearer plants before and after its maturity, respectively. Regardless of the respondent's group, a total of 90.14% (64/71) expressed favourably to the ED Q2; while a total of 85.92% (61/71) respondents expressed favourably to the ED Q4. The result shows extremely strong favouritism towards the proposed changes in the measurement aspect of bearer plants, where most of the respondents agreed to abolish the pure fair value model previously applicable to this category of asset since 2003.

A detailed breakdown as in the table 4.6 shows that the corporate group were most favourable²⁵ to both ED questions with 36 of 41 (87.80%) and 37 of 41 (90.24%) expressing support to limit the application of FVA on bearer plant before and after its maturity, respectively. On the other hand, regulators also expressed favourably to both IASB proposals with 24 of 25 (96%) and 22 of 25 (88%) support to the ED Q2 and Q4 respectively. Interestingly, this study also noted that securities regulators and a ministry

²⁵ Including favourable without reservation and favourable with condition

of finance took part in the revision of *IAS 41*, and these regulators are generally supportive of the proposed accounting changes.

Table 4.6 The position of corporate, regulator and other in ED Q2 and ED Q4 by “count” and “percentage”

| | Lobbying position | Type of respondents | | | Total (71) |
|---|--------------------------------|---------------------|-----------|----------------|-------------|
| | | Corporate (41) | Other (5) | Regulator (25) | |
| Following Q2 in ED - bearer plant “before maturity” – measured at accumulated cost | (i) Favourable | 20 (48.78%) | 3 (60%) | 11 (44%) | 34 (47.89%) |
| | (ii) Favourable with condition | 16 (39.02%) | 1 (20%) | 13 (52%) | 30 (42.25%) |
| | (iii) Neutral | 5 (12.2%) | 0 (0%) | 0 (0%) | 5 (7.04%) |
| | (iv) Unfavourable | 0 (0%) | 1 (20%) | 1 (4%) | 2 (2.82%) |
| Following Q4 in ED - bearer plant “after maturity” measured in accordance with IAS 16, cost or revaluation model | (i) Favourable | 24 (58.54%) | 1 (20%) | 14 (56%) | 39 (54.93%) |
| | (ii) Favourable with condition | 13 (31.71%) | 1 (20%) | 8 (32%) | 22 (30.99%) |
| | (iii) Neutral | 2 (4.88%) | 0 (0%) | 0 (0%) | 2 (2.82%) |
| | (iv) Unfavourable | 2 (4.88%) | 3 (60%) | 3 (12%) | 8 (11.27%) |
| | Total | 41 (100%) | 5 (100%) | 25 (100%) | 71 (100%) |

Among the corporate group of 41 respondents, only a small number (12.21%, 5/41) are neutral or raising other issues in respect of the ED Q2, of which are firms which engaged in animal-farming (2.43%, 1/41) and seed-producing business (7.32%, 3/41). While only 4.88% (2/41) of the corporates are neutral or raising other issue in response to the ED Q4. None of the corporate expressed unfavourably to the ED Q2 while very few corporates (2/41, 4.88%), consisting of an accounting firm and a professional accounting body, opposed to the ED Q4. Summing up, only few corporates expressed differently than the rest. On the other hand, none of the regulators expressed neutrally to both ED Q2 and Q4; while only an insignificant number of regulators were unfavourable to both ED questions (4% to Q2 and 12% to Q4). It appears that there is less objection in ED Q2 (2.82%, 2/71) than ED Q4 (11.27%, 8/27) even both EDs also relates to FVA issues.

Next, RQ2 analyses whether the level of support to the ED Q2 and ED Q4 varies by the two main groups under study, i.e., corporates and regulators. The RQ2 has 2 parts corresponding to the ED Q2 and Q4 respectively, as reiterated below:

RQ 2 - Is there any differences (alignment) between national regulators and corporations in their **lobbying position** for the proposed measurement requirement of bearer plants?

RQ 2(a)(i) Is there any difference (alignment) between national regulators and corporates in their lobbying position for the proposed measurement requirement for bearer plants **before its maturity (ED Q2)**?

RQ 2(a)(ii) Is there differences (alignment) between national regulators and corporates in their lobbying position for the proposed measurement requirement of bearer plants **after its maturity (ED Q4)**?

The result of RQ 2(a)(i) and 2(a)(ii) has been summarised in the table 4.7 below using Mann-Whitney test. It appears that the lobbying position between the corporates and regulators is statistically indifferent in both ED Q2 and Q4 ($p > .05$ respectively), indicating the possibility of alignment in their lobbying positions. The finding is consistent with the prediction of H 2(a)(i) and H 2(a)(ii) which hypothesized that the lobbying behaviour of national regulators to align with their regulatees due to the regulatory capture effect. The statistic implies that the special interest of the corporates has been prioritised over the general interest of the public (financial statement users) at the national level. In turn, the interplay between these national regulators and their regulatees has manifested in the international standard-setting process whereby the former is observed to support the position of their regulatees, rather than the user's position.

Table 4.7 Mann-Whitney Test of RQ 2a (Lobbying position)

| Test Statistics ^a | | |
|------------------------------|------------------------|------------------------|
| | Lobbying position (Q2) | Lobbying position (Q4) |
| Mann-Whitney U | 510.000 | 493.000 |
| Wilcoxon W | 1371.000 | 1354.000 |
| Z | -.037 | -.292 |
| Asymp. Sig. (2-tailed) | .971 | .770 |

a. Grouping Variable: Respondent's category

Further supported by Chi-square test as shown in table 4.8 below, results also show an insignificant association between these variables ($p > .05$) in both ED questions. This strengthens the observation and interpretation above. Sub-chapter 5.2 will further discuss about these results in relation to the past literature and theory.

Table 4.8 Chi-Square Test of RQ 2a (Lobbying position)

| Chi-Square Tests - Lobbying position (Q2) | | | |
|---|--------------------|----|-----------------------------------|
| | Value | df | Asymptotic Significance (2-sided) |
| Pearson Chi-Square | 5.359 ^a | 3 | .147 |
| Likelihood Ratio | 7.362 | 3 | .061 |
| Linear-by-Linear Association | .001 | 1 | .973 |
| N of Valid Cases | 66 | | |

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .38.

| Chi-Square Tests - Lobbying position (Q4) | | | |
|---|--------------------|----|-----------------------------------|
| | Value | df | Asymptotic Significance (2-sided) |
| Pearson Chi-Square | 2.277 ^a | 3 | .517 |
| Likelihood Ratio | 2.921 | 3 | .404 |
| Linear-by-Linear Association | .287 | 1 | .592 |
| N of Valid Cases | 66 | | |

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .76.

Next, inductive approach to content analysis is used to review the letters for information which supports the statistical findings as in the table 4.7 and 4.8. The close alignment in lobbying position between the national regulators and regulatees, which implies of

overlapping interest among these parties and regulatory capture effect, is suggested by the findings below. Refer to the APPENDIX E for more details regarding the code used below, for example, R1 refers to regulator 1 as in the APPENDIX E.

As how one national regulator [R1] puts it:

“... As the national standard setter in Indonesia, we see this as a key aspect in implementing IAS 41, thus would not discount the possibility of issuing a local practical guidance should IASB decided not to provide one. We have to consider the need of stakeholders in Indonesia, and at the same time maintaining the benefit of implementing IAS 41 in Indonesia ...”.

This letter explicitly confirms the alignment in interest between the national standard-setter and corporates in Indonesia. Such alignment in interest might have been manifested as the alignment in their lobbying position within the international standard-setting process. As attached in APPENDIX E, there are few respondents (especially national regulators) expressed in a way which seemingly promote the interest of the corporates.

One letter [A1] did provide insight into the close ties between the local agricultural business and its accounting firms and regulators. *“... Agriculture makes a significant contribution to New Zealand's economy...”*, which suggests an interdependency between the national regulators and local corporates. Given the view that international accounting standard would affect the expected cash flow of the local firms, thereby it would also affect the national revenue of a country in terms of collection of corporate tax.

The CFA who represents the interest of the users of financial statement, however, expressed in their letter [U1] that the fair value model which previously applicable to the bearer plant since 2003 should not be abolished. Their unfavourable positions towards both ED Q2 and Q4 formed a strong contrast with the positions of the corporate-regulator coalition. The CFA's letter provides a convincing evidence that the

special interest of certain preparers has been prioritised over the information needs of the financial statement users, as follows [U1]:

“... The ED notes that the Board has been told that the fair value of bearer plants is particularly subjective during the early years of their life cycle. Some argue that a cost based measure is more reliable. As we note above, while the measure may be highly reliable, the amount recognized in the financial statements provides little, if any, economic meaning or utility to investors...”; “... By providing the choice to eliminate fair value information altogether, the proposal is moving in the opposite direction to the needs of users of financial statements (i.e. providing more fair value information)...”

Moreover, the IASB’s move to propose this ED on bearer plant is also perceived to be of questionable by certain respondents. One respondent said this in its letter [C2]:

“... We strongly believe that the IASB should consider expanding the scope of the amendment. We understand that the timing and scope of the amendment is tailored to be of use for certain industries in jurisdictions currently onboarding in transferring to IFRS. However we believe the proposed changes to IAS 41 raise broader issues in respect of the current standard ...”

This limited scope of revision in the *IAS 41* is perceived by some stakeholders to be addressing the main concern of certain interest group who lobbied the IASB extensively – the plantation firms, with the help of their respective national regulators.

On the other hand, certain respondents [C1][A3] from the corporate side also strengthen the view above in their comment letter that the revision of *IAS 41* predominantly concerned about the information needs and practical difficulty of the plantation firms in complying with the agricultural accounting standard:

“... We would like to thank the IASB and its staff for their efforts to address the major concerns of the agriculture industry over the application of IAS 41 , resulting in the publication of this Exposure Draft...” ; “... We support the proposed amendments, which we believe provide a simple and practical way of resolving the issue reported to the IASB by users and preparers that the fair value model required by IAS 41 Agriculture is not appropriate for measuring bearer plants ...”.

Overall, this additional information derived through inductive approach provides qualitative support to the view that the national regulators align to the position and

interest of their regulatees (rather than the users' position). Next, the section below covers the second part of the lobbying behaviour – the lobbying arguments of the respondents with regards to the ED Q2 and Q4.

4.3 Lobbying arguments of respondents by constituent groups

This section first presents the result of RQ1b - the descriptive statistic of the lobbying argument of national regulators, corporates (regulatees) and others regarding the proposals to limit the FVA on bearer plant before and after its maturity as in the ED Q2 and Q4. The finding is summarised in the table 4.9, in which the relative frequency of the respondent's argument regarding both ED questions is revealed. Next, the Mann-Whitney statistic of RQ 2(b)(i) and 2(b)(ii) will be presented in the table 4.10 which reveals the alignment in the lobbying arguments between the national regulators and corporate in terms of ED Q2 and Q4.

As an overview, a great majority (93%) of the respondents followed the general structure of the questions furnished in the exposure draft. However, 7% of the respondents provided an overall opinion which did not address each of the questions specifically in the ED. Some respondents only wrote a simple yes or no to the ED questions with no further explanations. As such, this is categorised as 'no argument'. Some others provided a detailed explanation to justify why the proposed standard is reasonable, or not reasonable based on the business model of certain agricultural businesses such as animal-farming and seed-producing business.

Note that this study only focuses on the arguments provided for justifying the proposed measurement method for bearer plant, which is alleged to be the primary concern raised by the lobbyists in this ED. The argument provided as to why the IASB should not treat bearer animals and agricultural produce differently than bearer plant is not factored into the analysis because it is beyond the scope of this study.

The descriptive statistic regarding the variation in responses (RQ1b) has been summarised in the table 4.9 which demonstrates what type of argument that corporates, regulators and others commonly used to support their position. Overall, the revision of *IAS 41* has observed that the respondents often use conceptual rather than practical argument to justify their stance.

Table 4.9: The argument of corporate, regulator and others in ED Q2 and ED Q4 by “count” and “percentage”

| | Lobbying argument | Type of respondents | | | Total (71) |
|---|-----------------------|---------------------|-----------|----------------|-------------|
| | | Corporate (41) | Other (5) | Regulator (25) | |
| Following Q2 in ED -bearer plant “before maturity” – measured at accumulated cost | (i) Conceptual | 16 (39.02%) | 2 (40%) | 10 (40%) | 28 (39.44%) |
| | (ii) Practical | 5 (12.2%) | 1 (20%) | 0 (0%) | 6 (8.45%) |
| | (iii) Combined | 2 (4.88%) | 0 (0%) | 1 (4%) | 3 (4.23%) |
| | (iv) No argument | 18 (43.9%) | 2 (40%) | 14 (56%) | 34 (47.89%) |
| Following Q4 in ED - bearer plant “after maturity” measured in accordance with IAS 16, cost or revaluation model | (i) Conceptual | 13 (31.71%) | 3 (60%) | 14 (56%) | 30 (42.25%) |
| | (ii) Practical | 6 (14.63%) | 0 (0%) | 2 (8%) | 8 (11.27%) |
| | (iii) Combined | 2 (4.88%) | 0 (0%) | 0 (0%) | 2 (2.82%) |
| | (iv) No argument | 20 (48.78%) | 2 (40%) | 9 (36%) | 31 (43.66%) |
| | Total (unique) | 41 (100%) | 5 (100%) | 25 (100%) | 71 (100%) |

Majority of the respondents either opted for conceptual arguments (39.44% for ED Q2; 42.25% for ED Q4); or provided no argument/ raised other issue(s) (47.89% for ED Q2; 43.66% for ED Q4). Only a mere 8.45% and 11.27% of the respondents defending their position using practical argument in the ED Q2 and Q4, respectively. The combined argument is the most uncommon type among the respondents in both questions (4.23% for ED Q2; 2.82% for ED Q4).

In a more detailed level, the findings show that majority of the corporates often favour for conceptual arguments rather than practical arguments (39.02% vs 12.2% for ED Q2;

31.71% vs 14.63% for ED Q4). Few corporate respondents support their stance with practical arguments, 12.2% in ED Q2 and 14.63% in ED Q4, respectively. Consistent with the lobbying argument of the corporate, the regulators were observed to favour for conceptual argument more than practical argument as well (40% vs 0% for ED Q2; 56% vs 8% for ED Q4). Surprisingly, there are more corporates provided no argument or raising other issue(s) compared to those defended their position by conceptual arguments despite of the perceived effectiveness of conceptual argument in convincing the IASB (43.9% vs 39.02% for ED Q2; 48.78% vs 31.71% for ED Q4). Whereas many of the regulators were also observed to provide no arguments or raising other issue(s) in respect of both ED questions (56% for ED Q2; 36% for ED Q4).

Next, RQ 2b analyses whether the argument used to support or oppose to the ED Q2 and Q4 on bearer plant varies by the two main groups under study, i.e., corporates and regulators. Thus, the RQ 2b has 2 parts corresponding to the ED Q2 and Q4 respectively, as reiterated below:

RQ 2b - Is there any difference between national regulators and corporates in their

lobbying arguments for the proposed measurement requirement for bearer plants?

RQ 2(b)(i) Is there any difference between national regulators and corporates in their lobbying arguments for the proposed measurement requirement for bearer plants **before maturity (ED Q2)**?

RQ 2(b)(ii) Is there any difference between national regulators and corporates in their lobbying arguments for the proposed measurement requirement for bearer plants **after maturity (ED Q4)**?

Generally, as seen from the descriptive statistics above, both the corporate and regulators mainly opted for either conceptual arguments or provided no argument/raised

other issue(s) with regards to both ED questions. To answer as to how closely the lobbying argument of corporate and national regulator align to each other's as per RQ 2(b)(i) and 2(b)(ii), the result has been presented in the table 4.10 below. The Mann-Whitney test again, indicates that there may be a close alignment in the lobbying argument of the corporates and regulators in both ED questions ($p > .05$ respectively). The evidence is consistent with the prediction of H 2(b)(i) and H 2(b)(ii) respectively which hypothesise that the lobbying behaviour of national regulators to align with their regulatees due to the regulatory capture effect. The result implies that the national regulators mainly relied on the information provided by their regulatees and hence, they collectively lobbied for the specific changes in the IAS 41 with similar argument. The interpretation and discussion of the result will be further elaborated in the sub-chapter 5.3.

Table 4.10 Mann-Whitney Test of RQ 2b (lobbying argument)

| Test Statistics ^a | | |
|------------------------------|----------|---------|
| | ArgQ2 | ArgQ4 |
| Mann-Whitney U ^b | 475.000 | 402.000 |
| Wilcoxon W | 1336.000 | 727.000 |
| Z | -.546 | -1.589 |
| Asymp. Sig. (2-tailed) | .585 | .112 |

a. Grouping Variable: Respondents' category

Next, an inductive approach to content analysis further reveals the details of the respondents' arguments as follows. Overall, it is notable that when the respondents express positively to the ED (Q2 and Q4) which proposed to limit the use of fair value model for bearer plant, they commonly defend their position by conceptual argument such as "reliability" or (and) "relevance"; economic similarity of bearer plant with self-constructed property, plant and equipment; or other conceptual or technical reasons²⁶.

Some respondents cited "reliability" with supporting facts such as difficulty in arriving

²⁶ For example, mature plant does not undergo any further biological transformation; management intent or business model (not intended to be sold but are held for produce).

the fair value due to the lack of active market for immature plant, hence the firms rely on subjective valuation technique which may affect the reliability of the financial statement. While some cited “relevance” coupled with the lack of interest among the users or the firm in the fair value of the biological assets.

For the practical arguments, respondents often cited the issue of “preparation cost outweighs the benefits to users” and “practical challenges”. These are the arguments which focuses on how the proposed requirements may negatively affect the financial or economical aspects of the business firms, known as ‘economic consequence’. Surprisingly, this ED has observed a high number of respondents (47.89% for ED Q2; 43.66% for ED Q4) giving no justification or raising other issue with regard to their lobbying position. Many of the issues being raised by these respondents are related to the inconsistency in the accounting treatment of bearer animal and agricultural produce compared to bearer plant. For example, several respondents argued that the IASB failed to provide a strong justification as to why bearer animals and agricultural produce should be treated differently than the bearer plant while they are having similar economic characteristic. Few corporate respondents which operated in the animal-farming business (2.43%, 1/41), or non-traditional agricultural business for instances seed-producing business (7.32%, 3/41), urging the IASB to expand the scope of amendment or to revisit the *IAS 41* fully instead of just a partial amendment targeting only on the bearer plant.

Content analysis further reveals that a great number of corporates and regulators argued that fair valuation for bearer plant is not relevant (or less relevant than cost model) to the investors or users of financial statement. Interestingly, users are the most under-represented group in this due process concerning the revision of *IAS 41*; while the CFA institute which represents the highest standard of investor/analysts, strongly emphasized

the otherwise in their comment letter [U1] that fair valuation is considered particularly important to the users of financial statement. The institute argued that eliminating the fair value information of bearer plant “*will result in the loss of decision-useful information, and (because of increased optionality for preparers) decreased comparability for investors in entities engaged in agricultural activities*”.

This section generally shows that the national regulators aligned to the corporate in terms of the lobbying argument which they used to support the ED on bearer plant. The following sub-chapter further examines the alignment in their lobbying behaviour with an additional dimension added, their country status.

4.4 Country status

Next, this section first presents the descriptive statistic relates to the country status of the respondents in the table 4.11 in which they are further divided into ‘developed’ or ‘developing nation’. The motivation of such design is to study the effect of country status on the respondents’ lobbying behaviour. Then, table 4.12 and 4.13 further reveal the descriptive statistic of the lobbying behaviour of the respondents regarding ED Q2 and Q4 with such additional dimension. At last, the Chi-square statistic of RQ 2(a)(iii) and RQ 2(b)(iii) will be presented in the table 4.14, 4.15, 4.16 and 4.17 respectively which reveals whether the lobbying behaviour of the respondents are associated with their country status in terms of ED Q2 and Q4.

In general, there are 41 submissions came from the corporates, followed by 25 submissions from the regulators and 5 submissions from others. By further breaking down this information into developed and developing nation, a different perspective has been obtained as in the table 4.11 below.

Table 4.11: Respondents' category by country status

| Group | Country status | | Total |
|--------------|-----------------------|-------------------|--------------|
| | Developed | Developing | |
| Corporates | 31 (73.81%) | 10 (34.48%) | 41 |
| Regulator | 8 (19.05%) | 17 (58.62%) | 25 |
| Other | 3 (7.14%) | 2 (6.09%) | 5 |
| Total | 42 (100.00%) | 29 (100.00%) | 71 |

The finding shows that the corporates contributed significantly more comment letters than other interest groups but only limited to those based in developed nations. Specifically, the local corporates in developed countries are the most active participant (73.81% submission) compared to other interest groups in the same region. In contrast, regulators from developing market were observed to have a different participation behaviour than those from developed market. It seems that the national regulators in developing nation are more concerned with the revision of *IAS 41*, contributing more submissions (170%, 17/10) than the local corporates.

Next, the following tables present the variation in responses among the counterparts from developed and developing nations in terms of their lobbying position (table 4.12) and lobbying argument (table 4.13). Overall, most of the respondents based in developed nation generally are favourable to both ED Q2 and Q4. Many respondents from developing nation also expressed strong favouritism towards both questions. However, the position regarding ED Q2 and Q4 of the category named 'others' seems to be more diverse in relation to the corporates and regulators regardless of their country status.

In regard with the respondents' lobbying arguments as in the table 4.13 below, it shows that both constituents from developed and developing nation generally favour conceptual arguments more than practical arguments; and there is a great number of

these respondents raised other issues or give no argument to defend their lobbying position.

Table 4.12 The position of corporates, regulators and others in ED Q2 and ED Q4 by country status in “number” and “percentage”

| Demographic | Corporate (41) | | Other (5) | | Regulator (25) | | Total (71) | |
|-----------------------|--------------------|-----------------|---------------|----------------|----------------|-----------------|----------------|----------------|
| | Developed (31) | Developing (10) | Developed (3) | Developing (2) | Developed (8) | Developing (17) | | |
| ED Q2 | (i) Favourable | 14 (45.16%) | 6 (60%) | 2 (66.67%) | 1 (50%) | 1 (12.5%) | 10 (58.82%) | 34 (47.89%) |
| | (ii) Fav with con. | 12 (38.71%) | 4 (40%) | 0 (0%) | 1 (50%) | 6 (75%) | 7 (41.18%) | 30 (42.25%) |
| | (iii) Neutral | 5 (16.13%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 5 (7.04%) |
| | (iv) Unfavourable | 0 (0%) | 0 (0%) | 1 (33.33%) | 0 (0%) | 1 (12.5%) | 0 (0%) | 2 (2.82%) |
| ED Q4 | (i) Favourable | 18 (58.06%) | 6 (60%) | 1 (33.33%) | 0 (0%) | 3 (37.5%) | 11 (64.71%) | 39 (54.93%) |
| | (ii) Fav with con. | 11 (35.48%) | 2 (20%) | 1 (33.33%) | 0 (0%) | 4 (50%) | 4 (23.53%) | 22 (30.99%) |
| | (iii) Neutral | 2 (6.45%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 2 (2.82%) |
| | (iv) Unfavourable | 0 (0%) | 2 (20%) | 1 (33.33%) | 2 (100%) | 1 (12.5%) | 2 (11.76%) | 8 (11.27%) |
| Total (unique) | 31 (100%) | 10 (100%) | 3 (100%) | 2 (100%) | 8 (100%) | 17 (100%) | 71 (100%) | |

Table 4.13 The argument of corporate, regulator and others in ED Q2 and ED Q4 by country status in “number” and “percentage”

| Demographic | Corporate (41) | | Other (5) | | Regulator (25) | | Total (71) | |
|-----------------------|------------------|-----------------|---------------|----------------|----------------|-----------------|----------------|----------------|
| | Developed (31) | Developing (10) | Developed (3) | Developing (2) | Developed (8) | Developing (17) | | |
| ED Q2 | (i) Conceptual | 13 (41.94%) | 3 (30%) | 1 (33.33%) | 1 (50%) | 5 (62.5%) | 5 (29.41%) | 28 (39.44%) |
| | (ii) Practical | 4 (12.9%) | 1 (10%) | 0 (0%) | 1 (50%) | 0 (0%) | 0 (0%) | 6 (8.45%) |
| | (iii) Combined | 2 (6.45%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 1 (5.88%) | 3 (4.23%) |
| | (iv) No argument | 12 (38.71%) | 6 (60%) | 2 (66.67%) | 0 (0%) | 3 (37.5%) | 11 (64.71%) | 34 (47.89%) |
| ED Q4 | (i) Conceptual | 6 (19.35%) | 7 (70%) | 1 (33.33%) | 2 (100%) | 5 (62.5%) | 9 (52.94%) | 30 (42.25%) |
| | (ii) Practical | 5 (16.13%) | 1 (10%) | 0 (0%) | 0 (0%) | 0 (0%) | 2 (11.76%) | 8 (11.27%) |
| | (iii) Combined | 2 (6.45%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 0 (0%) | 2 (2.82%) |
| | (iv) No argument | 18 (58.06%) | 2 (20%) | 2 (66.67%) | 0 (0%) | 3 (37.5%) | 6 (35.29%) | 31 (43.66%) |
| Total (unique) | 31 (100%) | 10 (100%) | 3 (100%) | 2 (100%) | 8 (100%) | 17 (100%) | 71 (100%) | |

Next, the tables below presents the Chi-square result as to whether the corporates and regulators in developed (and developing) nation acted in line to each other in terms of their lobbying positions regarding to ED Q2 (table 4.14) and Q4 (table 4.15). Note that

the category named ‘other’ has been excluded from analysis, resulting in 66 respondents which comprises only of corporates and regulators. These variables of interest are hypothesised that there is no association in the lobbying position – H2(a)(iii) and lobbying arguments – H2(b)(iii) between the national regulators and corporates based on their country status (developed or developing nation).

Table 4.14 shows that among the respondents based in developed nation, there is a strong evidence ($p < .05$) that there is an association between the respondent category and their lobbying position for ED Q2; while the result suggests otherwise for the ones based in developing nation. In other words, compared to the ones in developed county, it appears that the corporates and regulators in developing country acted more in line to each other in terms of their lobbying position for ED Q2.

Table 4.14 Chi Square Test of RQ 2(a)(iii) - lobbying position in ED Q2

| Chi-Square Tests - Lobbying position (Q2) | | | | | | |
|---|------------------------------------|--------------------|----|-----------------------------------|----------------------|----------------------|
| Country status | | Value | df | Asymptotic Significance (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
| Developed | Pearson Chi-Square | 8.744 ^b | 3 | .033 | | |
| | Likelihood Ratio | 9.317 | 3 | .025 | | |
| | Linear-by-Linear Association | 1.864 | 1 | .172 | | |
| | N of Valid Cases | 39 | | | | |
| Developing | Pearson Chi-Square | .004 ^c | 1 | .952 | | |
| | Continuity Correction ^d | .000 | 1 | 1.000 | | |
| | Likelihood Ratio | .004 | 1 | .952 | | |
| | Fisher's Exact Test | | | | 1.000 | .637 |
| | Linear-by-Linear Association | .003 | 1 | .953 | | |
| | N of Valid Cases | 27 | | | | |
| Total | Pearson Chi-Square | 5.359 ^a | 3 | .147 | | |
| | Likelihood Ratio | 7.362 | 3 | .061 | | |
| | Linear-by-Linear Association | .001 | 1 | .973 | | |
| | N of Valid Cases | 66 | | | | |

Further, in terms of ED Q4, the findings in the table 4.15 below suggests that both national regulators and corporates have similar lobbying position regardless of their country status ($p > .05$).

Table 4.15 Chi Square Test of RQ 2(a)(iii) - lobbying position in ED Q4

| Chi-Square Tests - Lobbying position (Q4) | | | | |
|--|------------------------------|--------------------|----|-----------------------------------|
| Country status | | Value | df | Asymptotic Significance (2-sided) |
| Developed | Pearson Chi-Square | 5.239 ^b | 3 | .155 |
| | Likelihood Ratio | 4.957 | 3 | .175 |
| | Linear-by-Linear Association | 1.887 | 1 | .170 |
| | N of Valid Cases | 39 | | |
| Developing | Pearson Chi-Square | .346 ^c | 2 | .841 |
| | Likelihood Ratio | .336 | 2 | .845 |
| | Linear-by-Linear Association | .245 | 1 | .621 |
| | N of Valid Cases | 27 | | |
| Total | Pearson Chi-Square | 2.277 ^a | 3 | .517 |
| | Likelihood Ratio | 2.921 | 3 | .404 |
| | Linear-by-Linear Association | .287 | 1 | .592 |
| | N of Valid Cases | 66 | | |

However, the tables below reveal a different result whereby there is no strong evidence ($p > .05$) that there is an association between the respondent category and their lobbying argument in both ED Q2 (table 4.16) and Q4 (table 4.17). In other words, the findings suggested that both national regulators and corporations commonly used similar argument to defend their position regardless of their country status.

Table 4.16 Chi Square Test of RQ 2(b)(iii) - lobbying argument in ED Q2

| Chi-Square Tests - Lobbying argument (Q2) | | | | |
|--|------------------------------|--------------------|----|-----------------------------------|
| Country status | | Value | df | Asymptotic Significance (2-sided) |
| Developed | Pearson Chi-Square | 2.133 ^b | 3 | .545 |
| | Likelihood Ratio | 3.297 | 3 | .348 |
| | Linear-by-Linear Association | .279 | 1 | .597 |
| | N of Valid Cases | 39 | | |
| Developing | Pearson Chi-Square | 2.311 ^c | 3 | .510 |
| | Likelihood Ratio | 2.935 | 3 | .402 |
| | Linear-by-Linear Association | .083 | 1 | .774 |
| | N of Valid Cases | 27 | | |
| Total | Pearson Chi-Square | 3.548 ^a | 3 | .315 |
| | Likelihood Ratio | 5.252 | 3 | .154 |
| | Linear-by-Linear Association | .383 | 1 | .536 |
| | N of Valid Cases | 66 | | |

Table 4.17 Chi Square Test of RQ 2(b)(iii) - lobbying argument in ED Q4

| Chi-Square Tests - Lobbying argument (Q4) | | | | |
|---|------------------------------|--------------------|----|-----------------------------------|
| Country status | | Value | df | Asymptotic Significance (2-sided) |
| Developed | Pearson Chi-Square | 6.503 ^b | 3 | .090 |
| | Likelihood Ratio | 7.196 | 3 | .066 |
| | Linear-by-Linear Association | 2.879 | 1 | .090 |
| | N of Valid Cases | 39 | | |
| Developing | Pearson Chi-Square | .824 ^c | 2 | .662 |
| | Likelihood Ratio | .848 | 2 | .655 |
| | Linear-by-Linear Association | .774 | 1 | .379 |
| | N of Valid Cases | 27 | | |
| Total | Pearson Chi-Square | 4.601 ^a | 3 | .203 |
| | Likelihood Ratio | 5.264 | 3 | .153 |
| | Linear-by-Linear Association | 2.353 | 1 | .125 |
| | N of Valid Cases | 66 | | |

Overall, the finding as in table 4.14 and 4.15, 4.16 and 4.17 provide interesting insight in relation to the hypothesis 2(a)(iii) and 2(b)(iii) which expect that the respondent's lobbying behaviour is dependent on their profile and country status. Significant association is only observed as in table 4.14, limited to only the regulators and corporates domicile in developed nation.

Next, inductive approach to content analysis also provides additional insights into the lobbying behaviour of the constituents from both developed and developing market. Findings reveal that a specific group of lobbyists has possibly captured the IASB in the context of *IAS 41* : "... We understand that the timing and scope of the amendment is tailored to be of use for certain industries in jurisdictions currently onboarding in transferring to IFRS..." This letter [C2] implies that the revision of *IAS 41* is to specifically address the concern of the counterparts in developing countries²⁷, particularly the plantation firms and national regulators in these nations. Further, as evidenced by the ED on bearer plant, it appears that the IASB's proposal to scope out

²⁷ these jurisdictions are currently converging its national standards toward IFRS Standards

bearer plant from the *IAS 41* is aligned to the interest of these stakeholders from developing market.

Moreover, a national regulator from developing market also seen to openly support the interest of their regulatees through comment letter. A standard-setter wrote in its comment letter [R1] that:

“.... we see this as a key aspect in implementing IAS 41, thus would not discount the possibility of issuing a local practical guidance should IASB decided not to provide one. We have to consider the need of stakeholders in Indonesia, and at the same time maintaining the benefit of implementing IAS 41 in Indonesia”.

Further, an accounting professional body in New Zealand [A1] argues that:

“.... Agriculture makes a significant contribution to New Zealand's economy and NZICA agrees that a project on bearer biological assets is considered to be important and urgent. In canvassing the views of our members, predominantly those of the NZICA Regional Advisory Group, a recommendation is put forward for your consideration....”.

Next, European Financial Reporting Advisory Group (EFRAG) highlighted in their comment letters one particular important message to its constituents in an appendix placed right after the chairman statement (first page) that

“.... the Asian-Oceanian Standard-Setters Group (AOSSG) submitted a request to the IASB for a short-term revision of accounting model used for bearer biological assets. The submission was supported with a research paper of the Malaysian Accounting Standards Board (MASB)....”.

A further inspection in the working group of AOSSG which responsible for *IAS 41* shows that India and Malaysia regulators are the ones which led and co-led the project. The basis of AOSSG used to defend their position as to why fair valuation of bearer plant should be abolished is solely based on the user outreach performed by the Malaysian regulator in the context of Malaysia. These considerations possibly justify why the EFRAG highlighted this matter in their comment letter to remind their

constituents that India and Malaysia are one of the main forces pushing for the revision of *IAS 41*.

In all, these qualitative insight to the comment letters appear to provide additional support that the constituents from developing market has greater influence on the revision of *IAS 41*. Next chapter will discuss all these findings reported in Chapter 4 comprehensively in relation to the previous empirical studies and relevant theories which commonly used in accounting or lobbying literature.

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CHAPTER 5 : DISCUSSION

Previous chapter has presented the statistics for content analysis of the comment letters in response to the ED on bearer plant. The comment letters were also further reviewed for information which supports the regulatory capture effect among the national regulators and the corporate (regulatees). Moving on, this chapter discusses the findings as in chapter 4 in four parts from section 5.1 to 5.4. The statistic of the respondent's profile is first discussed in relation to the relevant theory and past empirical findings, followed by their lobbying positions and lobbying argument; and at last, their country status.

5.1 Profile of the respondents and participation level

The revision of *IAS 41* through ED on bearer plant has observed the highest number of comment letter submissions from regulatory bodies, followed by preparers and professional accounting firms. This finding is only consistent with the prior studies to certain extent (Chatham et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Stenka & Taylor, 2010), that the preparers and accounting firms are among the most active participants in the previous standard-setting process. The participation level of the preparers is often explained by the positive accounting theory that the preparers lobby actively when their interest is affected by the new accounting requirement(s). For the accounting profession, multiple theories have been used to explain their participation behaviour, one of which is the agency theory which predicts that the accounting profession represents the interest of their clients (preparers) and lobby on their behalf. These theories may explain the participation level in terms of revision of *IAS 41*, whereby the preparers' interest is more affected by the proposed requirements than other stakeholders, and thus the high participation from the preparers and their representatives (including their auditors).

Further, the finding of this study is similar to the observation of Jorissen et al. (2012) in that the ED (DP) proposed for changes in the accounting measurement attracted more comment letters from the preparers, accounting profession and standard setter (collectively, known as PPS below). This study also observed high participation level from these interest groups (PPS) because of the similar characteristic in the ED on bearer plant, which also proposed for amendment in the measurement model for certain biological assets. Thus, this study confirms the observation of Jorissen et al. (2012). However, Jorissen et al. (2012) found that national standard setters contributed relatively less submissions²⁸ than the preparers and accounting profession in the IASB's due process; while this study observes more submission from the regulatory bodies than the preparers and accounting profession. Further, many prior studies (Chatham et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Winston & David, 2005) did not find national regulators as one of the active participants in the international standard-setting process as the current study does. Viewing these from the regulatory capture theory, the national regulators might align themselves to the interest of their regulatees and thus, motivated to take part in the standard-setting process on the behalf of their regulatees. Moreover, these past studies often avoid targeting the participation level of national regulators which in turn motivates this study, to explore their motivation for taking part in the international standard-setting process. Specifically, the lobbying behaviour and motivation of national and regional regulators²⁹ will be discussed in detailed in the subsequent sections through regulatory capture theory.

Next, this study also observed that the inputs to the revision of *IAS 41* were dominated by participants from few countries such as the UK, Africa, Australia and Malaysia. To

²⁸ National standard setters submitted 14.6% of the comment letters, compared to 43% of submission by the preparers and 25.2% of submission by the accounting profession from the year of 2002 - 2006.

²⁹ As presented in the demographic analysis, there is a total of 25 submissions from the regulators and their representatives. The submissions were mainly contributed by the national standard setters such as Malaysian Accounting Standard Board (MASB), Indonesian Institute of Accountants (IAI) and so on. Further, there are two submissions from the regional standard-setter group which is Group of Latin-American Accounting Standard Setters (GLENIF) and Asian-Oceanian Standard-Setters Group.

certain extent, this finding again is consistent with the prior studies whereby the constituents from developed market often contributed most of the submissions compared to the ones based in developing market (Chatham et al., 2010; Holder et al., 2013). However, the revision of *IAS 41* also observes a relatively high participation from the constituents in developing market by contributing a great amount of submissions (42.25%). Positive accounting theory may again explain this anomaly, that companies which belong to a specific industry that are more affected by a regulatory change tend to lobby more actively than others. Specifically, the revision of *IAS 41* should affect the agricultural firms more than other firms in other industries, and most of these firms happened to be based in developing market. This unique combination gives rise to such anomaly that a great number of submissions is contributed by constituents from developing market.

Supported by another perspective by benchmarking the number of submissions for this ED on bearer plant to the average of 98 comment letters (per ED) following the work of Jorissen et al. (2012), the 72 comment letters received were 26.53% lower than such average³⁰ in their study. Considering the proposed changes in the ED on bearer plant would affect only one specific industry – the agricultural industry and, moreover, this ED only proposed minor changes to the existing *IAS 41*, therefore, not all agricultural business is to be affected to the same degree. Hence, in line with the prediction of positive accounting theory, these considerations further lowered down the number of participations in this ED compared to Jorissen's average – as the proposed changes are mainly relevant to some specific plantation firms in the agricultural sector only.

An additional insight is obtained when the preparers and accounting profession were regrouped under the same category named as 'corporate' based on agency theory. The

³⁰ This average is derived from dividing the total number of IASB's comment letters by the number of respective exposure drafts between 2002 and 2006.

revision of *IAS 41* observes that corporate groups submitted the most comment letters, which is 57.75% (41/71) of all the responses whereas the regulator group submitted 35.21% (25/71) of all the responses. This finding is consistent with the past studies whereby the corporates are often the main contributor of comment letters to the accounting standard-setting process. In contrast with the observation above, however, the user group is under-represented in the revision of *IAS 41* with only one submission. This finding is again supported by many other previous studies where users submitted relatively few comment letters than the preparers (Chatham et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Saemann, 1999; Stenka & Taylor, 2010). Therefore, the users may have comparatively smaller negotiating power compared to the corporate group in such standard-setting process.

5.2 Lobbying position of respondents by constituent group

Next, this section discusses about the lobbying position of the respondents regarding to ED Q2 and Q4 of which the statistics have been presented in the sub-chapter 4.2. To recap, all biological assets are required to be fair-valued since 2003 and both ED Q2 and Q4 proposed to limit the application of FVA on bearer plant before and after its maturity, respectively. As both proposals closely relate to FVA debate or issues, thus, the respondents' lobbying positions for these proposals will be discussed in relation to the relevant past studies examining lobbying behaviour for proposed requirement with specific characteristics connected to FVA. The implication of FVA, according to many past studies, is that it may increase the volatility or uncertainty of the accounting numbers (Elbannan & McKinley, 2006; Jorissen et al., 2012; Saemann, 1999). The application of FVA may also increase disclosure and information processing cost. These are commonly the attributes relates to FVA proposal which influence the lobbying positions of various constituents. Thus, this section will discuss these aspects in the context of revision of the *IAS 41*.

As an overview, a great majority of respondent supported ED Q2 and Q4 which proposed to limit the application of FVA on bearer plant before and after its maturity, respectively. In particular, this study noted that the corporates were most favourable³¹ to both ED questions. This finding is generally consistent with many past studies which also observed that the preparers opposed strongly to fair-valuing the accounting information in a wide array of settings. For example, Chatham et al. (2010) and Saemann (1999) found that the preparers lobbied strongly against the proposal which may lead to increase in uncertainty or volatility around the accounting numbers. Further, another implication of ED Q4, is that it introduces more flexibility to measure the bearer plant after its maturity at either cost or revaluation model. Such requirement allows for dual accounting options, thus less restrictive than the previous measurement model with only FVA is permitted. Saemann (1999) showed that the preparers opposed to the proposals which restrict alternative methods (less flexibility), which is validated by this study in that the corporates supported the dual-measurement options as proposed in the ED Q4. Next, both ED Q2 and Q4 proposed to replace FVA with cost model for measuring the bearer plant before and after its maturity which may also subsequently result in reduced disclosure and information processing cost. In line with the empirical findings of Saemann (1999), this study also noticed that majority of the corporates to support abolishing the requirements which may increases disclosure and reporting cost.

Next, this study also observes that the accounting professions to align their position closely to the preparers in which they also supported both ED questions. Thus, agency theory should be a more appropriate explanation (compared to other alternatives) for the behaviour of accounting profession in the revision of *IAS 41*. However, past studies often noted that the accounting profession to act rather neutrally to proposal relates to FVA (Chatham et al., 2010; Saemann, 1999) and proposal relates to increased

³¹ Including favourable without reservation and favourable with condition

disclosure and information processing cost (Saemann, 1999). Anyway, Jupe (2000) found evidence of alignment in positions between the preparers and their auditors (accountancy firms) in a different context, indicating that the possibility of such alignment to be extended to other accounting issues. Surprisingly, consistent with the position of both preparers and accounting profession, most national regulators are also found to expressed favourably to both ED Q2 and Q4. This observation is in sharp contrast to the past studies (Chatham et al., 2010; Saemann, 1999) in which the national regulators are often empirically found to support the call for FVA (or opposing to the proposal to eliminate FVA). The result shows that both the accounting profession and national regulators favoured the position of the preparers over the 'public interest' – or commonly known as the interest of the financial statement users in the accounting literature. This finding provides new insights into national regulators' lobbying behaviour as very few previous studies (Chatham et al., 2010; Jorissen et al., 2012) focused on this aspect, possibly due to the reason that regulators were among the least active participants in the IASB's standard-setting process.

Specifically, a close alignment in lobbying position with regards to FVA issues has been observed between the corporates and regulators. Consistent with the prediction of H 2(a)(i) and H 2(a)(ii), both Mann-Whitney and Chi square test shows that the lobbying position between the corporates and regulators is statistically indifferent. Extending Cortese's approach in interpreting the result, the close alignment in lobbying position between these two powerful groups is indicative of aligned or overlapping interest between them, suggesting the evidence of regulatory capture. This evidence supports the notion that national regulators back up the interest of their regulatees in the arena of the international standard-setting process, as also observed from the finding of Bengtsson (2011) in the context of financial industry. These findings, interpreted along with the implementation of the outcome (revised IAS 41) preferred by certain preparers,

implying that both the international and national regulators have been captured by such special interest. However, past studies often found that the national regulators to align their position more to the users' perspective rather than the preparers' perspective in terms of proposal(s) which may lead to increased uncertainty (Chatham et al., 2010), and increased disclosure or reporting cost (Saemann, 1999). Thus, these studies indirectly support the view that the national regulators behaved unusually in the revision of IAS 41 through their support to the stance of the corporate's positions.

On another note, only few corporates did not reveal their position regarding the proposed measurement model for bearer plant but question the logic underlying the proposed changes. One of the possible explanations for this observation is that the ED only addressed the valuation issue of bearer plant but not the bearer animal and the seed-producing business model, which led to dissatisfaction among these minor group of corporates. They may resort to using the IASB's due process as a medium to channel their grievance regarding the selective basis of the IASB. Similarly, none of the national regulators expressed neutrally to both ED Q2 and Q4; while only an insignificant number of regulators were unfavourable to both questions (4% to ED Q2 and 12% to ED Q4). Thus, based on this observation, it appears that the national regulators were not captured by this minor group of corporates with a different agenda. Indirectly, this finding also strengthens the view that the national regulators prioritised the special interest of some key preparers, rather than all preparers, over the information need of the public (financial statement users).

Next, the finding from inductive approach to content analysis also revealed that a national regulator [R1] explicitly stated in its comment letter that it represents the interest of its regulatees. One of the possible reasons for this observation, suggested by another letter [A1], is due to the great contribution of tax from these local corporates to

the country especially when the national economy is mainly supported by agricultural activity. This view is in line with the argument of Cortese et al. (2010) that a close financial or (and) non-financial tie between the regulator and regulatees indicates of regulatory capture.

A more convincing evidence is from the CFA institute [U1], emphasizing the great importance of FVA information to the users and that the application of such accounting model should not be limited. The position of the CFA institute regarding the FVA issues as observed in the revision of IAS 41 is consistent with past studies (Chatham et al., 2010; Saemann, 1999). However, majority of the national regulators were observed to not supporting the users' position in the revision of IAS 41, which is a contrary to the findings in the past (Chatham et al., 2010; Saemann, 1999). The letter of the CFA institute, thus, confirms the national regulators to align more to the position of the special interest rather than the users.

Further, the IASB's move to propose this ED on bearer plant is also perceived to be of questionable by certain respondents [C2]. This limited scope of revision in the *IAS 41* is perceived to be addressing the main concern of certain interest group who lobbied the IASB extensively – the plantation firms, with the help of their respective national regulators. Bizarrely, bearer animal which has the similar economic characteristic as bearer plant are to be treated differently within the scope of *IAS 41*. One of the possible explanations is that the animal-farming firms did not take part in the extensive lobbying activities prior to the publication of the exposure draft. Certain respondents [C1][A2][A3] from the corporate category also strengthen the view above in their respective comment letter that the revision of *IAS 41* predominantly concerned about the information needs and practical difficulty of some special interests in complying with the agricultural accounting standard.

Eventually, the amendment to the *IAS 41* was issued in accordance to the majority views as in the ED Q2 and Q4, whereby the fair value model which had previously applicable to the bearer plant before and after its maturity was to be abolished. The outcome of the process (revised standard) reflected the preferred method of the coalitions between the corporates and national regulators. This is to be interpreted as a successful lobbying, as supported by Cortese et al. (2010) approach to regulatory capture.

5.3 Lobbying arguments of respondents by constituent groups

Next, this section discusses the lobbying argument of the respondents of the ED on bearer plant. Consistent to the previous findings, both corporates and regulators often use conceptual rather than practical argument to justify their stance. One of the possible reasons that the corporate favours the conceptual arguments more is the perceived effectiveness of these type of arguments in influencing a regulator. (Sutton, 1984; Watts & Zimmerman, 1986; Weetman, 2001). Further, when respondents justify their position by practical arguments which commonly seen as self-serving (Jupe, 2000), it might lead to lower chance of influencing the regulator. However, the result reports that some corporate respondents still support their stance with practical arguments, 12.2% in ED Q2 and 14.63% in ED Q4 respectively. Consistent with the lobbying behaviour of the corporations, the regulators were observed to favour for conceptual argument more than practical argument as well.

Generally, there may be a close alignment in the lobbying argument of the corporates and national regulators in both ED questions. The evidence is consistent with the prediction of H 2(b)(i) and H 2(b)(ii). Therefore, under the lens of regulatory capture, it could be interpreted that the regulators not only support the lobbying position of the corporates, even the lobbying arguments they used are statistically indifferent. This

close alignment in lobbying arguments further strengthen the view of hidden coalition among the local corporates and national regulators, which is considered as an indicator of regulatory capture (Cortese et al., 2010). These findings support the view that the national regulators mainly relied on the information provided by the corporate, as reflected in the lobbying arguments of these two parties.

Overall, the respondents commonly defend their position by conceptual argument such as “reliability” or (and) “relevance”; economic similarity of bearer plant with self-constructed property, plant and equipment and others³². Some respondents cited “reliability” with supporting facts such as difficulty in arriving the fair value due to lack of active market for immature plant, hence the firms rely on subjective valuation technique which affects the reliability of the financial statement. While some cited “relevance” coupled with the lack of interest of the users or the firm in the FV of the biological assets. However, when the preparers cited “measurement difficulty” or “reliability issues”, it could be viewed as a disguise for the underlying economic-based motives (Stenka & Taylor, 2010) – i.e., to lessen the administrative burden. The rationale for framing their argument in the conceptual context is associated with the believe that such argument is to be more effective in influencing a regulator. (Sutton, 1984; Watts & Zimmerman, 1986; Weetman, 2001)

For the practical arguments, respondents often cited the issue of “preparation cost outweighs the benefits to users” and “practical challenges”. Surprisingly, this ED has observed a high number of respondents (47.89% for ED Q2; 43.66% for ED Q4) giving no justification or raising other issue with regard to their lobbying position. Many of the issues being raised by these respondents are related to the inconsistency in the accounting treatment of bearer animal and agricultural produce compared to bearer

³² For example, mature plant does not undergo any further biological transformation; management intent or business model (not intended to be sold but are held for produce).

plant. For example, several respondents argued that the IASB failed to provide a strong justification as to why bearer animals and agricultural produce should be treated differently than bearer plant while they are having similar economic characteristic. Few respondents which operated in the animal-farming business, or non-traditional agricultural business for instances seed-producing business, urging the IASB to expand the scope of amendment or to revisit the *IAS 41* fully instead of just a partial amendment targeting only on the bearer plant.

Further, content analysis shows that some corporates and regulators argued that fair valuation for bearer plant is not relevant (or less relevant than cost model) to the investors or users of financial statement. It appears that these corporations and regulators attempted to voice up “on behalf” of the users whereby their real intention might be questionable. Interestingly, users are the most under-represented group in this due process concerning the revision of *IAS 41*; while the CFA institute which represents the highest standard of investor/analysts, strongly emphasized the otherwise in their comment letter that fair valuation is considered particularly important to the users of financial statement. The institute argued that eliminating the fair value information of bearer plant “*will result in the loss of decision-useful information, and (because of increased optionality for preparers) decreased comparability for investors in entities engaged in agricultural activities*”.

Moreover, The CFA institute [U1] interpreted the outcome of the IASB’s user outreach differently than the rest: the users of financial statement did not deny the relevance of fair valuation in the context of bearer plant, that in fact, they required the fair valuation of both bearer plant and the associated land. However, many of the respondents concurred with the feedback the IASB received in their outreach that the fair value information is either of limited or no use to the users. In short, a strong contrast in terms

of lobbying behaviour has been observed in the comment letters responding to the ED on bearer plant between a group of financial analysts, against the majority – the preparers, accountancy firms and regulators. The majority, with aligned lobbying positions and arguments, dominated the standard-setting process by significantly outnumbering the CFA institute in terms of the number of submissions of comment letter.

In line with past studies (Stenka & Taylor, 2010; Watts & Zimmerman, 1978; Weetman, 2001), this study also show that conceptual argument is more effective in persuading the IASB for specific changes in the accounting standard. This study also provides contradicting evidence to the past studies which also focus on the fair valuation issues in different contexts such as *IAS 39 Financial instruments* (Chatham et al., 2010); and *SFAS 141 business combination* (Anantharaman, 2015). These past studies found that the standard setter was not affected by the positions and arguments of the majority – whereby the participants were observed to support their positions with the arguments relate to the economic consequences of the proposed standard. This study noted that the revised *IAS 41* in the fair valuation aspect aligned to the majority views of the stakeholders who mainly support their positions with the conceptual arguments, implying that the conceptual argument is more effective in the lobbying process.

Further, as indicated by the revised *IAS 41*, the aligned views and arguments between the national regulators and corporates may have a greater impact on influencing the international standard-setting process. The potential reason is that the IASB is dependent on the national regulators for the endorsement of its IFRS and IAS. This finding provides insight into the possibility of collusion in responses among the participants, and also, contributes to the past studies which examine the influence of respective stakeholders on the standard-setting process (Giner & Arce, 2012; Weetman,

2001; Winston & David, 2005). In contrast to Giner and Arce (2012) who found that the IASB is unaffected by the views (influence) of the preparers and national regulators, this study shows otherwise that the IASB responded to the aligned positions and arguments of the majority which consists of the preparers, accounting professions and national regulators.

Next, the following sub-chapter discuss about the findings when the respondents are further classified into ‘developed’ or ‘developing’ nation.

5.4 Country Status

This section discusses about the effect of country status on the respondents’ lobbying behaviour of which statistic has been reported in the sub-chapter 4.4. Consistent with the prior studies (Chatham et al., 2010; Holder et al., 2013; Jorissen et al., 2012; Stenka & Taylor, 2010), the result shows that the corporates contributed significantly more comment letters than other interest groups but interestingly, only limited to those based in developed nations. However, in the context of developing countries, the opposite has been observed that the regulators contributed more submissions than the local corporates in the revision of IAS 41.

This finding provides some insight as to why the participation level of regulators is unusually high in the revision of IAS 41. One of the possible reasons is due to the active participation from an uncommon group – the national regulators from the developing nations, which is not commonly observed in the past (Chatham et al., 2010; Holder et al., 2013). It appears that the regulators in developing nations are more concerned with the agricultural accounting standard, possibly because their economy is mainly supported by local agricultural activities. Standard setter from Indonesia even go to the extent that expressively stated in their comment letter [R1] that their main concern is the need of

the stakeholders in Indonesia and would consider to issue a local practice guidance if the IASB failed to deliver one which they think, is beneficial to their stakeholders.

Further, mix results has been found for the association among the variable of interests, as hypothesised that there is no association in the lobbying position – H 2(a)(iii) and lobbying arguments – H 2(b)(iii) between the national regulators and corporates based on their country status (developed or developing nation). The results show that the corporates and national regulators in developing country acted more in line to each other in terms of lobbying position (ED Q2). Under the lens of regulatory capture, and consistent with the result of RQ 2(a)(i) and RQ 2(a)(ii), this finding provides additional insight that mainly and most probably, the national regulators in developing country have been captured by the local corporates. However, in terms of ED Q4, the findings suggested that both national regulators and corporates have similar lobbying position regardless of their country status.

In terms of lobbying argument, however, it appears that both national regulators and corporates commonly used similar argument to defend their lobbying position regardless of their country status. Regulatory capture theory may provide insight into this that the corporates may possibly have captured the national regulators by influencing them with mainly conceptual arguments, thereby giving rise to the consistency in the type of arguments in their respective comment letters submitted to the IASB. These findings are generally consistent with the hypothesis 2(a)(iii) and 2(b)(iii). However, the past findings commonly showed that there is a difference in the lobbying behaviour among the respondents by geographical factors (Chatham et al., 2010; Kenny & Larson, 1993; Larson, 2007); or characteristic of their countries (Holder et al., 2013; Larson & Brown, 2001).

Inductive approach to content analysis further reveals that a specific group of lobbyists has possibly captured the IASB in the context of *IAS 41*. One letter [C2] implies that the revision of *IAS 41* is to address the concern of the counterparts in developing countries³³, particularly the plantation firms and national regulators in these nations. One of the possible explanations under regulatory capture is that the plantation firms first captured their respective national regulators (especially for the counterparts in developing countries), forming a larger group of corporates and national regulators with a concentrated interest. This larger group of stakeholders, with a greater negotiating power, pressured the IASB collectively for the revision of *IAS 41*. As evidenced by the ED on bearer plant, it appears that the IASB's proposal is aligned to the interest of this large group – that the IASB only proposed to scope out bearer plant from *IAS 41*.

Moreover, few securities regulators and a ministry of finance from developing market also expressed deep concern regarding the valuation issue of bearer plant and they generally supported the proposal of the IASB as the corporates did in their comment letters, respectively. Further, European Financial Reporting Advisory Group (EFRAG) also highlighted in their comment letters that the India and Malaysia regulators were the ones which led and co-led the project for revising the fair value aspect of bearer plants, implying that the constituents from developing market has greater influence on such revision of *IAS 41* whereby they initiated the lobbying in the early stage.

In conclusion, it appears that the national regulators and corporate generally has the aligned lobbying behaviour despite of their country status which implies that the regulatory capture has occurred both in the setting for developed and developing nation. However, qualitative insights show that the main forces behind the revision of *IAS 41* may be the constituents from developing market, who appears to be more affected by the accounting standard for agricultural sector.

³³ these jurisdictions are currently converging its national standards toward IFRS Standards

CHAPTER 6 : CONCLUSION

The first objective of this study is to examine the perceived fair valuation issues of the *IAS 41* through analysing the comment letters. By exploring the lobbying position and arguments of the respondents of ED on bearer plant, this study provides deeper insight into the issues of *IAS 41* from the lens of various stakeholders. Further, this study also examines the interplay between national regulators and local corporates in influencing the development of the *IAS 41* under the theoretical lens of regulatory capture. This theory indicates that the regulation is formed to protect the interest of the businesses (preparers), instead of the user of financial statement.

With regards to the participation level, this study observed that the preparers and the accounting professions dominated the submission of comment letter in response to the ED on bearer plant. The national regulators were also noted to take part actively in such process. However, it appears that the national regulators from developing market are more concerned with the accounting treatment of biological asset compared to their counterparts in developed market. The possible reason, as the cost-benefit model of Sutton (1984) may suggest, is that these constituents in developing market are likely to be more affected by the accounting standard for agricultural sector. Moreover, securities regulators and a ministry of finance from developing market also took part in the revision of *IAS 41* which further strengthen the view that agricultural accounting standard is particularly important to them and it has a great impact on their economy and financial system. Hence, these regulators may have a greater incentive to promote the interest of the local corporates under their governance, thereby the higher participation or submission of comment letters from these parties in the revision of *IAS 41*.

In general, a great majority of respondents agreed to abolish the fair value accounting associated to bearer plant; while only a few opposed to such proposal of the IASB. Few respondents opposed strongly to the ED, especially the CFA institute who represents the interest of financial statement users. These findings extend the past literatures examining the lobbying positions of various stakeholders in respect of fair valuation issues in different contexts such as fair valuation for financial instruments (Chatham et al., 2010), business combination (Anantharaman, 2015), share-based payment (Giner & Arce, 2012) or involving multiple accounting standards (Saemann, 1999). In line with these past studies, most preparers are found to support eliminating (or limiting) the application of FVA on bearer plant both before and after its maturity. Further, this study also noted that the accounting profession and even the national regulators, supporting such position of the preparers which is in a sharp contrast to the past literatures (Chatham et al., 2010; Saemann, 1999). Regulatory capture theory is thus, used to explain such findings that the national regulators may have been captured by the corporate for advancing the positions of those they regulated in the international standard-setting process.

Most of the respondents either supported their position with conceptual argument; or gave no argument by just writing a simple “Yes” or “No” without further explanation. There are also many respondents did not justify their lobbying position but instead raising other issues related to the limited amendment of *IAS 41*. Specifically, inconsistency in accounting treatment between bearer plant and other biological assets, and limited revision instead of a comprehensive revisit of the *IAS41* are the main issues raised by these respondents. Content analysis reveals that some constituents perceived this ED on bearer plant as one of the IASB’s initiatives to specifically address the concern of certain interest groups – the plantation business, accounting firms and national regulators. Some stakeholders questioned the selective approach of the IASB

for not applying the same valuation approach to all biological assets, rather than just a limited application to the bearer plants. This might lead to inconsistency in accounting treatment among the biological assets between the biological plants and animals. Further, such action of the IASB has opened the door to criticism of preferences, an indication of successful lobbying by certain interest group – especially the plantation firms. Ironically, the IASB argued in the past that biological transformation is best reflected by fair value measurement to reflect the changes in expected future economic benefits to the entity. Allowing an exception to this concept is questionable, as the bearer plant seems to have similar economic characteristic as other bearer biological assets.

Next, this study also examines the interplay between national regulators and corporates in influencing the revision of *IAS 41* through the lens of regulatory capture. Results indicated that there is a collusion in responses between these two groups as observed from their comment letters. In particular, the close alignment in lobbying behaviour between the national regulators and corporates is interpreted as a hidden coalition among these interest groups, which is an indication of regulatory capture. Such close connection between these groups arguably influenced and shaped the outcome of the international standard-setting process, whereby the preferred accounting basis of such coalition has been incorporated into the revised *IAS 41*. It appears that the national and international regulators are backing the interest of the key players in the specific industry, rather than protecting the interest of the financial statement users at large. The possible reason is that the national regulators may be fed with the information provided by their regulatees alone and they rely significantly on such information for their policy-making process. Further, the close ties between them due to the regulatory process, may also give rise to bias to the positions of the preparers who they supposed to regulate or supervise. However, the IASB is one-step closer to the ‘universal acceptance’ of their

accounting standards with the revised *IAS 41*. Further, this observation also contributes to the literature of effective lobbying, whereby the interested parties may consider connecting well with the national regulators for a greater influence on the development of the international accounting standard. Given of other pending issues as in the *IAS 41* highlighted by various parties, interest groups may adopt this strategy in conjunction with the effective use of conceptual arguments, the chance of successful lobbying may be further increased.

Apart from these, relatively few studies have examined the international standard-setting process in the context of the emerging market. This study extends the lobbying literature by examining respondents' lobbying behaviour in a richer context with a focus on both the developed and developing market. This opportunity arises possibly due to a greater impact of the *IAS 41* on the constituents from developing market, thereby a higher participation level from these parties in accordance with the cost-benefit model of Sutton. Further, many of the prior studies focus on the preparers' incentive to lobby, rather than the national regulators' one. This study provides insights into this aspect – that the national regulators may represent the interest of those they regulated in the international standard-setting process. This study generally finds collusion in responses between both national regulators and corporates regardless of their country status (developed or developing country), which indicates that regulatory capture may occur in the context of both developing or developed market.

This study is expected to provide valuable insights to the IASB regarding the perceived issues of the *IAS 41*. A fuller revision, rather than a limited amendment to the *IAS 41*, should be initiated for a more comprehensive accounting standard for the agricultural sector. The *IAS 41* is perceived particularly important to the counterparts in developing

market and it is important to the IASB for strengthening its legitimacy as the supranational standard setters in the context of emerging market.

6.1 Limitation and suggestion for future research

This study has several limitations. This study focuses on the bearer plant instead of the issue of all biological assets. Future research might explore one of the particular areas deemed important by many of the respondents, which is the accounting treatment of the agricultural produce. Further, this study considers only a single aspect of the due process – the comment letters. However, there are other means through which lobbyist might use to influence the international standard-setter prior to the publication of exposure draft. Future research might extend the examination on other covert means of lobbying such as roundtable discussion.

Further, as this study focus only on a single issue (IAS 41), thus generalisation of the findings of this study to another setting may be limited. Thus, more single issues, or multiple issues should be explored for confirming the findings of this study. However, this study may also provide initial insight for the regulatory capture effect within the international standard-setting process which the future research may base upon.

Next, as this study uses content analysis for analysing the comment letters, the shortcoming of this approach should apply to this study as well. For example, the level of subjectivity involved in the coding process despite the guidance from the past literatures. Some researchers consider content analysis is a simplistic approach which does not provide deep insight into the subject of study. At last, describing the whole process of content analysis comprehensively and entirely is the most challenging part as not all process is translatable into words.

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