

UNIVERSIDAD COMPLUTENSE DE MADRID

FACULTAD DE CIENCIAS ECONÓMICAS Y EMPRESARIALES
Departamento de Economía Financiera y Contabilidad II
(Contabilidad)



TESIS DOCTORAL

Análisis del comportamiento de los participantes en el proceso de elaboración de la norma contable: el proyecto de NIF de arrendamientos

Analysis of the behaviour of participants in the accounting standard-setting process : the IFRS lease project

MEMORIA PARA OPTAR AL GRADO DE DOCTOR

PRESENTADA POR

Lucía Mellado Bermejo

Directores

Enrique Villanueva García
Ángel Muñoz Merchante
Laura Parte Esteban

Madrid, 2016

UNIVERSIDAD COMPLUTENSE DE MADRID
Facultad de ciencias Económicas y Empresariales
Departamento de Economía Financiera y Contabilidad II
(Contabilidad)



Tesis Doctoral

Análisis del comportamiento de los participantes en el
proceso de elaboración de la norma contable:
el proyecto de NIIF de arrendamientos

Analysis of the behaviour of participants in the
accounting standard-setting process:
the IFRS Lease project

MEMORIA PARA OPTAR AL GRADO DE DOCTOR PRESENTADA POR:
Lucía Mellado Bermejo

BAJO LA DIRECCIÓN DE LOS DOCTORES:
Enrique Villanueva García
Ángel Muñoz Merchante
Laura Parte Esteban

Madrid, 2015

UNIVERSIDAD COMPLUTENSE DE MADRID
Facultad de ciencias Económicas y Empresariales
Departamento de Economía Financiera y Contabilidad II
(Contabilidad)



PhD Thesis

Analysis of the behaviour of participants in the accounting
standard-setting process: the IFRS Lease project

Análisis del comportamiento de los participantes en el
proceso de elaboración de la norma contable:
el proyecto de NIIF de arrendamientos

Author:

Lucía Mellado Bermejo

Directed by:

Enrique Villanueva García
Ángel Muñoz Merchante
Laura Parte Esteban

Madrid, 2015

*A mis abuelas, a mis padres,
a mi hermano y a Álvaro.*

Agradecimientos

Estas merecidas palabras de agradecimiento, aunque situadas al inicio de la tesis, sirven para poner punto final a este proyecto que empezamos hace ya cuatro años con ilusión. En esta tesis he invertido mucha energía y horas de trabajo, esfuerzo que se ha visto recompensado no sólo por el resultado sino por el aprendizaje y el enriquecimiento personal que ha supuesto el propio proceso. Espero con ello haber plantado una semilla que crezca y se transforme en futuros trabajos de investigación. Durante este camino, en el que he encontrado tramos rectos pero también curvas, bifurcaciones y ramales sin salida, me han acompañado muchas personas cuya presencia e inestimable ayuda me ha permitido avanzar y así hacer posible la realización de esta tesis doctoral.

Quiero comenzar transmitiendo mi más sincero agradecimiento a mis directores de tesis por haber depositado su confianza en mí y en este proyecto. Gracias a su buena labor de dirección, a su paciencia y a su compromiso conmigo. Al doctor Enrique Villanueva García que ha sabido orientarme desde el principio gracias a su conocimiento profundo de la normativa contable internacional y a su mirada crítica en la revisión de los aspectos fundamentales de la tesis. Al doctor Ángel Muñoz Merchante por sus buenos consejos fruto de su experiencia en la dirección de tesis, por su exhaustiva revisión de la redacción de los capítulos y por saber escuchar y ayudarme en los momentos de desánimo. A la doctora Laura Parte Esteban, entusiasta de la investigación y trabajadora incansable, que me ha transmitido su forma de trabajar con los datos, ayudándome a repasar los trabajos empíricos y a presentar los resultados de la tesis, por su implicación y por sus ánimos durante todo el proceso.

Extiendo mi agradecimiento al doctor Enrique García Pérez por su colaboración desinteresada al leer el planteamiento estadístico y darnos su opinión. Igualmente, reconozco el trabajo de los especialistas que generosamente han leído la tesis y cuyo informe ha sido necesario para optar a la mención de doctorado europeo.

Agradezco al Departamento de Economía Financiera y Contabilidad II (Contabilidad) de la Universidad Complutense de Madrid el apoyo recibido en el marco de su programa de doctorado que me ha facilitado el desarrollo de esta tesis. Gracias por las recomendaciones de la Comisión de Doctorado del Departamento.

Asimismo, me gustaría mostrar mi gratitud a mis compañeras y compañeros del Departamento de Economía de la Empresa y Contabilidad de la UNED por varias razones. La primera, por darme la oportunidad de formar parte de este excelente equipo de profesores. La segunda, por emprender, desde la dirección, acciones orientadas a promover la carrera académica de los que estamos dando los primeros pasos en ella. Y la tercera, por el compañerismo, interés, ayuda y cariño recibido de todas y de todos durante estos años de trabajo.

Dentro del departamento, me gustaría dedicar un agradecimiento especial a los profesores de los equipos docentes de los que formo parte: Francisco Javier Martín Garrido, Paloma del Campo Moreno y Eva María Ibáñez Jiménez. Mi reconocimiento más sincero pues, además de enseñarme todo lo relativo a las asignaturas y a los métodos de enseñanza a distancia, han tratado de liberarme de las tareas docentes, en la medida de lo posible, para que pudiera dedicar mi tiempo a la investigación. Gracias a su esfuerzo, en el último período he podido estar centrada para terminar esta tesis.

También deseo expresar mi gratitud al profesor Roberto Di Pietra del *Dipartimento di Studi Aziendali e Giuridici de la Università degli Studi di Siena* en Italia, que me recibió durante tres meses en su equipo de trabajo para la realización de una estancia de investigación. Su ayuda, tanto durante el tiempo que estuve allí como después, ha sido muy importante. Hago extensiva mi gratitud a los profesores y doctorandos de su departamento que me hicieron sentir como en casa, principalmente a Jonida y a Sebastiano.

Me gustaría dar las gracias también al profesor Alejandro Barbei de la Universidad de la Plata en Argentina, que me recibió al principio de esta andadura. Así como a Liliana Freire, profesora y amiga de la misma universidad, por su ayuda.

En esta lista de agradecimientos, dedico esta última parte a mi familia y a mi círculo de amigos, que han sabido escucharme pacientemente y alentarme durante estos años de trabajo. Agradezco a mis padres, Marisa y Vicente, que con su ejemplo me inspiran y a quienes debo lo que soy. Gracias por creer en mí, animarme siempre y ayudarme en la persecución de mis sueños. Y también a mi hermano Emilio. Para terminar y en especial, quiero dar las gracias a Álvaro, quien ha estado a mi lado acompañándome todo este tiempo, por su apoyo incondicional, amor y comprensión.

Table of contents

Executive summary	1
Resumen	7
Introduction	15
Interest of the research topic	17
Purpose.....	19
Thesis structure	20
Chapter 1 The new challenges of lease accounting	23
1.1. Introduction to the chapter	25
1.2. The lease contract as a source of financing	27
1.2.1. Lease versus buy	27
1.2.2. The relation of lease debt and other type of debt.....	28
1.2.3. The presence of leases in the economy	30
1.3. The evolution of lease accounting regulations.....	31
1.3.1. Existing standards – IAS 17 and ASC topic 840	32
1.3.2. Proposal of a new lease standard in the IASB-FASB convergence project	33
1.4. Critical issues for lease accounting	35
1.4.1. Definition of a lease	35
1.4.2. Balance sheet - Lessee accounting	36
1.4.3. Income statement - Lessee accounting	37
1.4.4. Lessor accounting	38
1.4.5. Evaluation and registration of the lease term and contingent payments... 40	
1.4.5.1. Renewal or termination options	40
1.4.5.2. Variable lease payments.....	41

1.5.	Practical implications of the lease proposal.....	42
1.5.1.	Direct effects of the lease proposal on financial statements and ratios	42
1.5.2.	Consequences of the changes in financial figures due to operating lease capitalization from the investor's and the lender's perspective.....	46
1.6.	The assessments of groups interested in the lease proposal	50
1.7.	Conclusion of the chapter	53
Chapter 2	Overview of lobbying literature in the accounting standard-setting process	57
2.1.	Introduction to the chapter	59
2.2.	Theoretical background.....	61
2.3.	Literature about participation.....	63
2.3.1.	The decision to submit a comment letter.....	63
2.3.2.	Participation according to geographical location	66
2.4.	Literature about the content of comment letters: positions and arguments	69
2.5.	Insights for standard-setters: the usefulness of comment letters	71
2.6.	Conclusion of the chapter	74
	Appendix 2.1. Summary tables of recent articles about lobbying in the main standard-setting process	76
Chapter 3	Country-level determinants of the geographical intensity of lobbying	85
3.1.	Introduction to the chapter	87
3.2.	Theoretical framework and country-level hypotheses.....	91
3.2.1.	Institutional factors.....	92
3.2.2.	Economic factors	93
3.2.3.	Cultural factors	94
3.2.4.	Other social factors.....	97
3.3.	Definition and measurement of variables	100

3.4. Sample and descriptive statistic	104
3.5. Results.....	108
3.5.1. Institutional factors.....	108
3.5.2. Economic factors	111
3.5.3. Cultural factors	113
3.5.4. Other social factors.....	116
3.6. Sensitivity analysis	119
3.7. Conclusion of the chapter	125
Appendix 3.1. Additional detailed sample distribution	128
Chapter 4 Determinants of corporate lobbying intensity in the lease standard-setting process	129
4.1. Introduction to the chapter	131
4.2. Theoretical framework and hypotheses.....	135
4.3. Model specification and definition of variables	143
4.4. Sample and descriptive statistics	147
4.4.1. Data collection.....	147
4.4.2. Sample composition by consultation project, country origin and industry.....	148
4.5. Results.....	151
4.5.1. Descriptive statistics, bivariate correlation analysis and univariate tests	151
4.5.2. Multivariate results.....	155
4.5.3. Sensitivity test	157
4.6. Conclusion of the chapter	160
Appendix 4.1. Comment letters' content analysis.....	162
Chapter 5 Conclusions and final thoughts	163
References	173

List of tables

Table 1.1. Reflection of leases in the income statement by the lessee (new dual model proposed by FASB)	37
Table 1.2. A random sample of the general comment by companies in response to the ED/2013/6.....	51
Table 2.1.A. Studies about determinants of the decision to lobby: mainly focused on firm level factors	76
Table 2.1.B. Studies about determinants of the decision to lobby: mainly focussed on country level factors.....	78
Table 2.2. Studies about the content of comment letters: positions and arguments	80
Table 2.3. Studies about the relationship between the inputs (comment letters) and the outputs (final standards)	82
Table 3.1. Description of the country-level variables	103
Table 3.2. Distribution of geographical origin	107
Table 3.3. Results of participation intensity by institutional factors: rule of law	110
Table 3.4. Results of participation intensity by institutional factors: shareholder rights	110
Table 3.5. Results of participation intensity by economic factors: income	111
Table 3.6. Results of participation intensity by economic factors: level of development of the country's capital market	113
Table 3.7. Results of participation intensity by cultural factors: professionalism.....	114
Table 3.8. Results of participation intensity by cultural factors: conservatism.....	115

Table 3.9. Results of participation intensity by cultural factors: secrecy	116
Table 3.10. Results of participation intensity by other factors: reliance on the IFRS..	118
Table 3.11. Results of participation intensity by other factors: perception of corruption	119
Table 3.12. Sensitivity analysis: results of the geographical intensity of lobbying in absolute terms by all factors considered	122
Table 3.13. Sensitivity analysis: results of the geographical intensity of lobbying removing non submitter countries.....	123
Table 3.14. Sensitivity analysis: results of the geographical intensity of lobbying removing the United States	124
Table 3.15. Sample distribution by country	128
Table 4.1. Description of the firm-level variables.....	146
Table 4.2. Sample selection.....	147
Table 4.3. Sample composition by consultation project.....	149
Table 4.4. Sample composition by country.....	150
Table 4.5. Sample composition by industry.....	151
Table 4.6. Descriptive analysis of independent variables	152
Table 4.7. Pearson and Spearman correlations	153
Table 4.8. Univariate results	155
Table 4.9. Results of ordered probit	156
Table 4.10. Results of ordered probit controlling for countries.....	158
Table 4.11. Results of probit using an alternative dependent variable.....	159

Table 4.12. Pages and percentage of answered question by respondent groups (all documents)..... 162

List of figures

Figure 1.1. Project stages 34

Figure 3.1. Cultural framework applicable to financial reporting rules..... 96

Abbreviations and acronyms

API	American Petroleum Institute
ASB	Accounting Standards Board
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
BC	Basic for Conclusions
CDA	Critical Discourse Analysis
CDS	Credit Default Swap
CEO	Chief Executive Officer
CHAID	Chi-squared Automatic Interaction Detection
CI	Comprehensive Income
CIG	Coalition and Influence Group
CLs	Comment Letters
DP	Discussion Paper
EA	Extractive Activities
ETDG	Economic Theory of Democracy
ED	Exposure Draft
e.g.	For example
et al.	et alii
etc.	Etcetera
FASB	Financial Accounting Standards Board
FY	Fiscal Year
G4+1	National Standard-Setters of Australia, Canada, New Zealand, United Kingdom and the United States + IASC
G20	The Group of Twenty (major economies)
GAAP	General Accepted Accounting Principles
GDP	Gross Domestic Product
GNI	Gross National Income
H	Hypothesis

IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
i.e.	id est
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILW	Imhoff, Lipe and Wright Method
MBA	Master in Business Administration
MSCI	Morgan Stanley Capital International
NIC	Normas Internacionales de Contabilidad
NIIF	Normas Internacionales de Información Financiera
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
p.	Page
PAT	Positive Accounting Theory
PwC	PricewaterhouseCoopers
SD	Standard Deviation
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SIC	Standard Industrial Classification
SMEs	Small and Medium-sized enterprises
UK	United Kingdom
US	The United States
USA	The United States of America
Vs.	Versus

Executive summary

Executive summary

Analysis of the behaviour of participants in the accounting standard-setting process: the IFRS lease project

Introduction

This dissertation examines participants' behaviour in the lease standard-setting process –conducted jointly by the IASB and the FASB as part of the convergence agreement to replace current standards. The proposed standard has attracted international attention due to the introduction of the full capitalization model (The Economist, 2013), which will have significant economic consequences on financial information of companies (PwC, 2010; Fito et al., 2013). Additionally, the over-average comment letters submission, 1,745, most of them opposed (Barral Rivada, 2014) and the long process show the high controversially of the proposal. For these reasons, the lease proposed standard is suitable for this research.

Comment letters submitted to the formal discussion are public and accessible, more than other participation method, and are used as a proxy for lobbying, supposing no hidden activities. Lobbying theories assume that constituents participate shaping to persuade regulators seeking to affect accounting rules for self-interest reasons (Watts and Zimmerman, 1978; Sutton, 1984; Watts, 2006). However, the constituents' participation is also a signal of the regulators' legitimacy and the standards' quality (Durocher and Fortin, 2011). In this context, the academic knowledge about participants' opportunistic behaviour – lobbying – may increase transparency around standard-setting process, which may help the regulators' decision-making to be monitored, necessary to guarantee users' confidence in final standards.

This dissertation attempt to add a new perspective by examining the factors that determine the decision to submit comment letters in the lease accounting standard-setting process. All documents published and comment letters submitted are included, even those received after the most recent draft. The study also reveals that previous findings, which have identified the factors that influence a firm's decision to lease (Morais, 2013) and the characteristics that explain preferences for off-balance-sheet financing (Barone et al., 2014) may be connected with constituents' lobbying attitude.

Purpose and structure

The general purpose of this dissertation is the explanation of the lobbyists' behaviour in the lease standard-setting process based on country level and firm level variables.

To address this goal, we raised four specific objectives that correspond to the chapters in which the thesis is divided:

Chapter 1 gives an analysis of the lease accounting proposal from a critical perspective. The study include a comparative analysis between the current standards and the new lease projected standard (DP2009, ED/2010/9 and ED/2013/6), a review of proposed changes from conceptual and practical perspective and the identification of critical issues in the proposal. Moreover, the positions expressed by regulators, participants and academic research are reviewed to understand the ongoing debate.

Chapter 2 provide an overview of lobbying literature. That is, the theoretical framework that explain how political forces influence the regulatory process, the empirical researches about of behaviour of lobbyists and the potential of comment letters as a tool to participate in the lobby accountant standard process.

Chapter 3 introduces an empirical analysis to test the influence of institutional, economic, cultural and other social factors on the geographical intensity of participation in the lease standard-setting process. The study examines 1,630 comment letters submitted from more than 45 countries.

Chapter 4 presents an empirical study to identify explanatory factors that predict the behaviour of non-financial listed companies with respect to the lease standard-setting process by distinguishing three different degrees of intensity in lobbying activities, depending on the level of participation in the different discussion periods. The study include quantitative and qualitative factors.

Sample and methodology of empirical analysis

First, for the analysis of determinants of the geographical lobbying intensity in chapter 3, the sample is composed by the comment letters submitted to the three published documents: 302 comment letters corresponding to the DP 2009; 788 and 655 comment letters corresponding to the ED/2010/9 and to the ED/2013/6 respectively. They have

been categorized by country of origin. After excluding indeterminate and supra-national respondents, the final sample includes 1,630 comment letters. To test the hypothesis we use non-parametric univariate tests (Mann-Whitney-U test and Kruskal–Wallis test) to detect statistically differences among countries. The analysis have been repeated for the sample of comment letters corresponding to each of the three documents separately. We also examine the comments letters submitted considering all the consultation periods together (named pool sample).

Second, to examine the corporate lobbying intensity in chapter 4, we focus in 306 non-financial listed companies that have participated during the lease standard-setting process. To test the hypothesis, we conduct several statistical analysis: (1) Pearson and Spearman correlations (2) non parametric univariate test (Kruskal-Wallis test) and (3) multivariate discrete choice model to explain the decision to submit a comment letter with three levels of lobbying intensity.

Main results

1st) Doctrinal positions' analysis has shown a lack of consensus on the lease accounting criteria. Despite historical differences among the IASB and the FASB, the common new proposed standard, introduces the right of use, rather than the current ownership one which generates polemic. This change will have strong economic consequences exposed *ex ante* by academics. Other detected critical issues are: 1) the definition of lease; 2) and 3) the reflection of leases in the lessees' balance and the income statement; 4) lessor accounting; 5) renewal periods and contingent payments.

2^o) There is an extensive theoretical framework for the study of accounting lobby, based on three widely accepted theory: the positive accounting theory, the economic theory of democracy and the coalition and group influence theory. In the overview of empirical application we identify three primary approaches focused mainly on: 1) understanding participation, 2) content analysis 3) examining influence on regulators.

3rd) Empirical evidence shows that the country's characteristics may influence the decision to lobby by their memberships. These factors are: institutional enforcement – rule of law and investor protection; economic factors –country's wealth and capital market development –; cultural values –professionalism, conservatism and secrecy – and corruption perception.

4th) The findings reveal that the level of participation intensity is determined by the length of the comment letters and some business characteristics such as size, profitability, age, industry and managerial ownership (when directors own more than 5% of the shares).

Conclusions

Lease accounting has evolved from a complete lack of registration of assets and liabilities in the balance sheet to the current partial capitalization model and is moving towards to the full capitalization model in the new approach. Antagonistic positions have been expressed by regulators, companies, professionals, and academic research, showing the strong polemic about the pertinence of the standard and the existing pressures around the process. The publication of the final standard has being postponed several times, therefore the process is being particularly long compared with other projects.

This thesis empirical evidence suggests that constituents behave in an opportunistic manner according to Watts and Zimmerman (1978) postulates, consistent with previous findings in other projects. More active lobbyists have intensively participated throughout the lease standard-setting process to protect their own interests and influence the outcome defending the *status quo*. Resources, needs, experience, credibility, expected influence, peer pressure, etc., are important factors to lobby decision bases in a rational choice (Sutton, 1984). We observe lobbying behaviour is not only motivated by particular interest parties' circumstances but also influenced by countries' traditions and conditions. Differences in institutional, economic and cultural environment creates participation biases and different entry barriers among countries.

In the lease standard-setting process, constituents from wealthy countries with higher enforcement level, less corrupted, more transparent, less conservatives and with a preference for the professional judgement are more likely to lobby in this process. Additionally, large and experienced business groups belonging to more affected industries are those who lobby with more intensity. Also, the evidence suggests when they invest more in the reasoning of comment letters they are lobbying intensively. These findings contributes to predict the intensity of pressure from constituents, mainly in particularly controversial projects as the lease one.

Resumen

Resumen

Análisis del comportamiento de los participantes en el proceso de elaboración de la norma contable: el proyecto de NIIF de arrendamientos

Introducción

Esta tesis analiza el comportamiento de los participantes en el proceso de elaboración de la norma internacional de arrendamientos. Consideramos este proyecto idóneo para nuestro estudio por varias razones. 1) Su carácter global: el IASB y el FASB están trabajando conjuntamente para obtener una norma común que sustituya a los estándares actuales. 2) Su carácter enormemente controvertido (The Economist, 2013): la propuesta supone un cambio sustancial de modelo basado en la capitalización del derecho de uso y tendrá un efecto muy relevante en la información financiera de las empresas (PwC, 2010; Fito et al., 2013). 3) Las circunstancias del largo proceso de elaboración - la polémica se refleja en las 1.745 cartas de comentario enviadas por los interesados, número superior al de otros proyectos (Barral Rivada, 2014) – que nos permiten estudiar la participación en los tres documentos publicados.

Las cartas de comentarios son un método público de participación, accesible y formal y se utilizan como proxy de lobby, suponiendo el reflejo de otras actividades invisibles. La literatura previa (Watts and Zimmerman, 1978; Sutton, 1984; Watts, 2006) sostiene que la participación está motivada por intereses egoístas de determinados grupos de poder que pretenden influir en los reguladores. Sin embargo, la participación de las partes interesadas también es necesaria para obtener legitimidad procedimental y mejorar la calidad de las normas (Durocher y Fortin, 2011). Por lo tanto, el conocimiento académico sobre el comportamiento oportunista de los participantes - lobby - puede aumentar la transparencia en torno al proceso de normalización, así como su control, necesarios para garantizar la confianza de los usuarios en las normas finales.

En este trabajo pretendemos agregar una nueva perspectiva mediante el examen de los factores que determinan la decisión de enviar cartas de comentarios para la discusión pública de la norma de arrendamientos. Además, se analiza la participación durante todo el proceso, incluyendo el último borrador publicado. Adicionalmente, conectamos los factores relacionados con la decisión de arrendar (Morais, 2013) y las

preferencias por la financiación fuera de balance (Barone et al., 2014) con la decisión de hacer lobby.

Objetivos y estructura

El **objetivo general** de esta investigación consiste en la explicación del comportamiento de los grupos de presión en el proceso de elaboración de la norma contable de arrendamientos en función de variables a nivel de país y a nivel de empresa.

Cuatro objetivos específicos desarrollan este objetivo general y determinan la estructura de la tesis:

En el capítulo 1 se presenta un análisis crítico de la propuesta de norma internacional de contabilidad de arrendamientos. El estudio incluye un análisis comparativo entre las normas actuales y la nueva propuesta (DP2009, ED/2010/9 y ED/2013/6), una revisión conceptual y práctica de los cambios planteados en el nuevo estándar, así como la identificación de los conceptos controvertidos. Además, se estudian las posiciones expresadas por los reguladores, los participantes y la investigación académica para comprender el debate existente.

En el capítulo 2 se proporciona una visión general de la literatura previa sobre lobby en los organismos contables. Esto es, se analiza el marco teórico que explica cómo las presiones de grupos de poder influyen en el proceso de normalización, se examinan las investigaciones empíricas que analizan el comportamiento de los participantes y el potencial de las cartas de comentarios como una herramienta para participar en el proceso de normalización contable.

En el capítulo 3 se presenta un análisis empírico para verificar la influencia de los factores institucionales, económicos, culturales y otras características sociales de un país, en la intensidad de participación geográfica en el proceso de establecimiento de la norma de arrendamientos. El estudio examina 1.630 cartas de comentarios enviadas desde más de 45 países.

En el capítulo 4 se presenta un estudio empírico para analizar los factores que determinan la presentación de cartas de comentarios por entidades cotizadas no financieras para la discusión pública del proyecto de arrendamientos, teniendo en

cuenta diferentes niveles de intensidad de participación. El estudio incluye factores cuantitativos y cualitativos.

Muestra y metodología del análisis empírico

En primer lugar, para el análisis de los determinantes de la intensidad geográfica de lobby, la muestra está compuesta por las cartas de comentarios enviadas como respuesta a los tres documentos publicados: 302 cartas de comentarios correspondientes al DP 2009; 788 y 655 cartas de comentarios correspondientes a los ED/2010/9 y el ED/2013/6, respectivamente. Las cartas se han clasificado según el país de origen. Tras excluir las cartas de origen indeterminado y supranacional, la muestra final incluye 1.630 cartas de comentarios. Para probar la veracidad de las hipótesis, utilizamos los análisis univariantes no paramétricos (Mann-Whitney-U y Kruskal-Wallis) para detectar si existen diferencias estadísticamente significativas entre la intensidad de lobby de los países. Los análisis se han repetido para la muestra de cartas de comentarios correspondientes a cada uno de los tres documentos por separado. También examinamos las cartas de todos los períodos de consulta en conjunto.

En segundo lugar, para examinar la intensidad de lobby de las empresas, nos centramos en 306 sociedades cotizadas no financieras que han participado en el proceso de elaboración de la norma de arrendamientos. Las variables corporativas han sido extraídas de la base de datos OSIRIS para cinco años (2009-2013). Los métodos estadísticos utilizados para probar la veracidad de las hipótesis son los siguientes: (1) análisis de correlaciones de Pearson y Spearman, (2) análisis univariantes (Kruskal-Wallis), (3) desarrollo de un modelo de elección discreta multivariante (probit ordenado), en el que se identifican los factores que determinan las probabilidades de participar con mayor o menor intensidad durante el proceso de elaboración de la norma -distinguiendo tres grados de intensidad.

Principales resultados

1º) El análisis histórico y actual de las posiciones doctrinales expone una falta de consenso sobre el “deber ser” de la contabilidad de arrendamientos. Los cambios propuestos por el proyecto de norma, como la introducción del derecho de uso, genera polémica tanto desde una perspectiva conceptual como práctica. Los conceptos más controvertidos de la propuesta son: 1) la definición de arrendamiento; 2) el

reconocimiento contable en el balance y en 3) la cuenta de pérdidas y ganancias del arrendatario 4) la contabilidad del arrendador; 5) períodos de renovación y pagos contingentes.

2º) Existe un amplio marco teórico para el estudio del lobby, basado en tres teorías ampliamente aceptadas en contabilidad: la teoría positiva de la contabilidad, la teoría económica de la democracia y de la teoría de la coalición y la influencia del grupo. Además, en la revisión de los estudios empíricos identificamos tres enfoques principales: 1) los estudios que se centran en la participación, 2) los estudios que analizan el contenido de las cartas de comentario y 3) los estudios que analizan la influencia de los participantes en la norma final.

3º) La evidencia empírica sugiere que las características de los países influyen en la decisión de sus miembros de enviar cartas de comentario para discutir la propuesta de norma de arrendamientos. Los factores que influyen son: 1) los factores institucionales, como la fortaleza del imperio de la ley o el nivel institucional de protección del inversor; 2) el entorno económico, como el nivel de riqueza y el grado de desarrollo de los mercados de capitales; 3) los valores culturales (profesionalidad, el conservadurismo, el secreto) y 4) el nivel de percepción de la corrupción.

4º) La evidencia obtenida muestra que el grado de intensidad de participación de las empresas se ve influenciado por la longitud de las cartas de comentarios y las características corporativas como el tamaño, la rentabilidad, la antigüedad, el sector económico y la propiedad de participación accionariales por parte de los directivos.

Conclusiones

La contabilidad de arrendamiento ha pasado de una ausencia total de registro de los activos y pasivos en el balance al modelo de capitalización parcial actual. Ahora, con la nueva propuesta se plantea un modelo de capitalización total. La propuesta ha generado polémica desde un punto de vista conceptual y también desde la perspectiva de las consecuencias económicas. Las partes interesadas: los reguladores, empresas, profesionales y académicos han expresado sus opiniones sobre la pertinencia de la norma, la mayoría en desacuerdo. Esta controversia añade presión a la toma de decisiones de los reguladores y ha retrasado el consenso necesario entre las partes interesadas para la publicación de la norma final.

Esta evidencia empírica sugiere que los participantes se comportan de una manera oportunista en línea con los postulados de Watts y Zimmerman (1978), y en consonancia con los resultados anteriores en otros proyectos. Los grupos de presión más activos han participado intensamente en todo el proceso de elaboración de la norma de arrendamientos para proteger sus propios intereses e influir en el resultado defendiendo el *status quo*. Los recursos, las necesidades, la experiencia, la credibilidad, influencia esperada, la presión de grupo, etc., son factores importantes para la decisión de ejercer lobby de acuerdo una elección racional (Sutton, 1984). Observamos que el comportamiento de los grupos de presión no sólo está motivada por determinadas características e intereses propios, sino también la influencia de las condiciones, tradiciones y valores de los países de los participantes. Las diferencias en el entorno institucional, económico y cultural crea sesgos en la participación geográfica.

En el proceso de elaboración de la norma internacional contable de arrendamientos, los miembros de países ricos con mayor nivel de cumplimiento de la ley, menos corruptos, más transparentes, menos conservadores y con una preferencia por el criterio profesional son más propensos a ejercer presión en este proceso. Además, los grupos empresariales grandes y experimentados pertenecientes a sectores más afectados son los que participan con más intensidad. Asimismo, la evidencia sugiere que la realización de cartas más largas y elaboradas implica un esfuerzo que permite a las empresas participar durante todo el proceso de forma más intensa. Estos resultados contribuyen a predecir la intensidad de la presión que los interesados ejercerán en un proyecto, principalmente en aquellos proyectos particularmente controvertidos como es el de arrendamientos.

Introduction

Introduction

The international accounting harmonization process has recently intensified. The international accounting standard-setter, the International Accounting Standards Board (IASB) has made considerable efforts to improve the quality and comparability of financial statements internationally. In this sense, one of the IASB's main objectives has been the convergence of international accounting standards with those of the US in partnership with the US national standard-setter, the Financial Accounting Standards Board (FASB).

As part of this ambitious project, the IASB and the FASB included in the agenda the development of a common standard for leases to replace the current standards and introduces a substantial change in the accounting model based on the capitalization of the right of use. It is expected to have a material effect on firms' financial information, so it is generating a lot of attention and controversy.

In this dissertation, we have analysed the proposed standard for leases, considering both the content and the standard-setting process. This project is a special case study to examine participants' behaviour in the regulatory process.

Interest of the research topic

We study the intensity of participation and the factors considered determinants to understand the political force of interest groups in an accounting standard-setting process that may significantly modify financial statements. In our opinion, this study is of interest for academics, and especially regulators, as it can help them predict participants' behaviour. Standard-setters should improve the impartiality and efficiency of the process based on these predictions. Additionally, this study addresses the interesting question of why there is greater persistence in lobbying for a specific project, a certain group of countries, and a particular group of companies.

Having the FASB and IASB work together to develop a common standard makes the regulatory preparation process more interesting and international. The FASB's strength lies in its historical significance, its ability to implement accounting standards that affect companies in a single country, and its recognition as an authority to export

their proposals beyond its borders. The IASB, it is recognized for the high technical quality of its standards and their strong implementation after many countries have recently adopted IFRS (e.g., for listed companies in the European Union). National or supranational governments provide these private regulators with political legitimacy, so standards are imposed in their areas of control. However, regulators also need technical and procedural legitimacy. In the context of our work, there is a consensus in previous studies that the submission of comment letters brings legitimacy and quality to the standard-setting process.

According to institutional theory, there is pressure and political forces around the standard-setting process because accounting rules have an impact on business reporting, economic operations, and markets. Therefore, there are varying interests expecting diverse outcomes from the standard-setting process. In this context, there are constituents that participate in the standard-setting process, with the goal of persuading standard-setters to legislate according to their own-interests, and eluding the main objective of standards: enabling general, efficient decision making. This behaviour is called political lobbying (Zeff, 2002).

There are several reasons to study the lobbying behaviour around the process to revise the leases standard. This project introduces significant changes from both the conceptual and practical perspectives. The main innovation is that all leases that are non-cancellable freely by both parties would be reflected in the assets and liabilities of the lessee's balance sheet, with the exception of short-term leases. This is a change from the current partial capitalization model to a full capitalization model, one of the main points of disagreement.

There are different perceptions about the economic consequences of change. Some argue that the new lease accounting model would have international, industry-wide effects on firms' financial statements, increasing the assets and liabilities recognized. It would also impact some important financial ratios, such as the leverage ratio. However, these claims are mitigated by an impact assessment and the fact that analysts and professional investors currently consider this effect in their calculations.

There are other critical matters that present conceptual problems (e.g., the lease definition). The accounting approach for each of these has been modified and reformulated from the first to the last document issued by standard-setters, which gives

an idea of the changes made since the project was conceived. Additionally, while the initial goal of the project was the convergence between international and US standards, there are some critical matters where standard-setters have reached different solutions (for example, the choice of a dual or single model to recognize expense in the lessee's income statement).

During the three consultation periods opened after the publication of each draft (DP2009; ED/2010/9; ED/2013/6), the IASB and FASB have received one thousand seven hundred forty five comment letters, most of them against the proposal, exceeding the average number of responses from previous projects. In addition, the publication of the final standard has been postponed several times, so the process has been particularly long compared with other projects.

The ongoing debate about the merits and demerits of the new lease accounting standard has become an important issue attracting attention from scholars, professionals, and the media. For these reasons, we consider the lease project an appropriate case to analyse the lobbying behaviour through comment letters submitted during the standards-setting process, given the high level of controversy and debate.

Purpose

The **purpose** of this thesis is to explain lobbyists' behaviour in the accounting standard-setting process for leases using country and firm level variables. This general objective has four specific objectives.

The first objective is to understand the debate, both among academics and among professionals and regulators, around the proposed standard for leases. The controversy around the proposed standard makes it suitable for a lobbying study. We thus analyse the lease accounting standard-setting process by analysing the current and projected new lease standard (DP2009, ED/2010/9 and ED/2013/6), the changes proposed from the conceptual and practical perspectives, the critical matters, and the antagonistic positions expressed by regulators and academic researchers.

The **second objective** is to provide an overview of the recent literature on lobbying. Therefore, we establish three sub-objectives to develop an orderly review. First, we

present theories about how political forces influence the regulatory process. Second, we review the different lines of empirical research related to lobbying behaviour, depending on the objectives, methodology, and theories. Third, we examine the extent to which comment letters are perceived as a useful lobbying tool for interested parties.

The **third objective** is to obtain empirical evidence about how institutional, economic, cultural, and other social characteristics of the countries in which the parties are located influence the intensity of participation in the lease standard-setting process. This objective generally assumes that the behaviour of individuals and businesses is no stranger to the institutional, economic, and cultural context of the country they belong to. To achieve this empirical objective, we compile the comment letters submitted for the three documents issued by the IASB and FASB before the final rule is published, the discussion paper of 2009, and the first and second exposure drafts of 2010 and 2013. These projects have received 302, 788, and 655 comment letters, respectively, on the IASB and FASB websites.

The **fourth objective** is to find explanatory factors that predict firms' behaviour in the lease standard-setting process, distinguishing between three degrees of lobbying intensity based on participation during the three discussion periods. The sample is thus composed of comment letters submitted by 306 listed non-financial corporations in response to the discussion paper and the two exposure drafts provided jointly by the IASB and FASB. The explanatory factors include corporate variables and the qualitative characteristics of the comment letters.

Thesis structure

The thesis includes **five chapters**: two theoretical chapters, two empirical chapters and the last chapter outlining the conclusions. The first four chapters correspond to the specific objectives described above, and are summarized below.

The **first chapter** presents the study object of this thesis: the proposed IFRS for leases. Before analysing the standard, we describe the financial theories that establish the lease as a source of financing for assets, widely examined in earlier studies and used in business. After a brief review of accounting for leases, we explore why the IASB and the FASB were prompted to amend the current regulation (i.e. the deficiencies in the

current standards). We then discuss the change in the accounting approach proposed by the reform, identifying each critical matter related to the fundamental accounting concepts discussed from a conceptual point of view. Additionally, we provide an extensive review of the lease accounting literature that focuses primarily on empirical studies analysing the economic impact of capitalizing operating leases.

The discussion about the adequacy of the lease project as a conceptual framework and the evidence from empirical studies examining the negative consequences of the standard provide a basis for understanding some of the allegations made by some opponents. The reader should understand the importance of this standard, since its controversial character and circumstances make it ideal for a study of lobbying, both for its complex and innovative content and the long standards-setting process.

In the **second chapter** we present the theories that explain lobbying behaviour in the lease standard-setting process. The underlying theories in the lobbying studies are based on the main accounting theories. However, they have also their roots in other sources of knowledge, such as microeconomics, political science, or psychology. We dedicate a chapter to analysing the framework because it is a key to understanding the lobbying phenomenon and the empirical research questions.

This chapter divides the empirical studies into three main approaches: 1) a focus on analysing participation; 2) a focus on content analysis; 3) exploring the relationship between inputs (comment letters) and outputs (the final standards). This chapter emphasizes the extensive literature on lobbying activities that seek to influence standards-setter and providing a solid theoretical basis for assumptions. Moreover, among the existing methods to participate in the standard-setting process, empirical research mainly focuses on the formal methods considered necessary to provide legitimacy and quality, specifically, the comment letters submitted to the IASB and the FASB by stakeholders as a proxy to reflect lobbying.

Based on the theoretical framework established in the previous two chapters, the **third chapter** contains the first empirical analysis of the thesis from a positivist perspective. We examine the 1,745 comment letters submitted during the three consultation periods during the lease project to identify the country factors that influence geographic lobbying intensity. To understand the empirical research in this chapter, we provide a brief review of the cross-country accounting literature. Consecutively, we

propose several working hypotheses in four groups and present the variables. Additionally, we describe the selection of the sample of work and the methodology to test the hypotheses. Finally, we conduct a sensitivity analysis to verify the robustness of the evidence.

In the **fourth chapter**, we develop an empirical study examining the factors determining the submission of comment letters in the leasing project with different levels of intensity for non-financial listed companies. We review the literature analysing company participation in the accounting standard-setting process. After presenting the research design and hypothesis, methodology, and variables, we conduct a series of empirical tests that lead to a multivariate discrete model that explains the intensity of corporate involvement in the different consultation periods depending on company characteristics and the length of the comment letters. We then assess the robustness of the model using several sensitivity analyses.

The **fifth chapter** concludes the thesis and links the conclusions to the specific objectives, as well as offering a final reflection. This chapter also addresses the study's limitations and possible future lines of research related to the investigated topics.

Chapter 1

The new challenges of lease accounting

- 1.1. *Introduction to the chapter*
- 1.2. *The lease contract as a source of financing*
- 1.3. *The evolution of lease accounting regulations*
- 1.4. *Critical issues for lease accounting*
- 1.5. *Practical implications of the lease proposal*
- 1.6. *The assessment of group interested in the lease proposal*
- 1.7. *Conclusion of the chapter*

Chapter 1

The new challenges for lease accounting

1.1. Introduction to the chapter

Leases are one of the instruments most commonly used by companies to finance resources. The widespread use of the lease contract as a way to finance capital goods was introduced during the industrial revolution and is currently at its height. Therefore, lease accounting is a highly relevant area in financial statements, and it is logical that the development of lease accounting standards would attract the attention of most companies and those individuals who would use these standards as either preparers or users of financial statements.

In this chapter, we outline the evolution of lease accounting regulation, focusing principally on the common lease standard project; this project is being developed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to replace the existing rules. We describe the practical implications of the proposal as evidenced by prior literature and we also collect the primary reactions to it. The controversy generated around the lease accounting standard-setting process makes it a perfect issue with which to study the lobbying phenomenon.

Several reasons support our decision to select the lease standard as the subject of this thesis. First, the lease project model challenges how leases have been considered in accounting from a conceptual and practical perspective. Apart from the adoption of a “right of use” model, rather than the current ownership model (Biondi, Bloomfield, Glover, Jamal, Ohlson, Penman, Tsujiyama, and Wilks, 2011), there are some critical accounting matters that hinder reaching a consensus. Second, the new approach could have a significant impact on relevant accounting measures (such as debt, return on assets, operating net income), which would imply a major change in how investors assess the profile of a company. Finally, it is a highly debated standard generating strongly conflicting opinions among political forces and participants. During the three consultation periods held since 2009, the standard-setters have received more than one thousand

and seven hundred comment letters, and the lease accounting standard-setting process has not even been concluded.

Lease accounting treatment has evolved from a complete lack of registration for assets and liabilities to the current partial capitalization model: International Accounting Standard (IAS) 17 and Accounting Standard Codification (ASC) Topic 840. With this new proposal, standard-setters intend to go one step further and move towards a full capitalization model. All leases that are not freely cancellable by both parties would be reflected on the balance sheet with the exception of short-term leases. Both standard-setters show strong support for the “right-of-use” model. However, to date there have been some divergences about the recognition of expenses on the lessee’s income statement.

The new approach would affect the financial statements of companies across all industries. Authors such as Beattie, Edwards and Goodacre (1998), Fülbier, Silva and Pferdehirt (2008) and Fito, Moya and Orgaz (2013) and companies as PricewaterhouseCoopers (PwC) (2010) have examined the potential increase in assets and liabilities due to operating lease capitalization, and their results show that some financial ratios such as gearing ratios would be affected. Some business sectors are worried about the increase in companies’ risk profiles, which could affect credit and expenses as well as cause a possible loss of employment (i.e., see the report commissioned by the U.S. Chamber of Commerce and other trade groups, 2012). However, other authors demonstrate that the amount of off-balance sheet assets and liabilities proceeding from operating leases has been adjusted by analysts and is already included in stock prices and interest rates (see, for example, Moody’s, 2006; Boastman and Dong, 2011; Krische, Sander and Smith, 2012; Altamuro, Johnston, Pandit and Zhang, 2014), reducing concern about the recognition of assets and liabilities from lease contracts.

This project has been highly controversial from the beginning. It was introduced to the common agenda of IASB and FASB in 2006 after the SEC (2005) required a change in lease accounting upon finding \$US1.25 trillion of operating leasing off-balance sheet. During the lease standard-setting process, one discussion paper (March, 2009) and two drafts (August, 2010 and May, 2013) have been published for public discussion, receiving 302, 788 and 655 comment letters, respectively. The number of responses,

most of them objecting to the proposal, has surpassed the average number of comment letters for other projects (Barral Rivada, 2014), demonstrating strong polemics. Also the date of the final standard has been delayed several times, so that the due process for lease accounting has been particularly long as compared with other projects such as the Business Combinations standard (IFRS 3) or the Joint Arrangements standard (IFRS 11).

The structure of the chapter is established as follows: section 1.2 explains the presence of the lease as a source of financing for businesses; section 1.3 describes the evolution of lease accounting standards, including the current standards and the proposed standard to change the lease accounting standard; section 1.4 shows the critical issues in the proposed standard; section 1.5 describes the practical implications of the proposed lease standard focusing on its economic consequences; section 1.6 summarizes some of the main responses to the proposed new standard; and section 1.7 provides some final conclusions.

1.2. The lease contract as a source of financing

1.2.1. Lease versus buy

Almost every type of company needs resources to function. Some of these assets are considered core assets because of their importance to the business of the company. The lease contract is one way to finance these assets. People have understood the usefulness of lease contracts for business from the very beginning: the first evidence for the existence of lease agreements are found in Mesopotamia five thousand years ago (Ortúzar Solar, 1995).

In 1976, Myers, Dill and Bautista analysed cash flows based on the decision to lease or purchase, and they confirm that there are no differences in special conditions such as the absence of tax and transaction costs. They argue that the choice between leasing and buying depends on non-financial benefits (such as the maintenance or repair costs for the asset) because the purely financial costs of both options are equivalent, assuming that both parties are subject to identical interest and tax rates and that transaction costs are ignored.

The decision to lease versus buy has mainly been studied in the field of finance and specifically in the field of capital structure. Some important authors in this line of research are Myers et al. (1976), Smith and Wakeman (1985), Sharpe and Nguyen (1995), Eisfeldt and Rampini (2009).

For accounting, the determinants of operating and finance leases can differ due to different treatment by national and international lease standards. Morais (2013) summarizes the main lessee firm characteristics by investigating: (i) size; (ii) industry; (iii) nature of assets; (iv) leverage and financial constraints; (v) taxes; (vi) management compensation; (vii) ownership structure.

These studies are only mentioned to provide an idea of the extent and relevance of the field, but we do not delve into these theories because they could be highly developed, and this is not within the objective of this thesis. However, linked to these studies is the concept of complementarity or substitutability between lease debt and other types of debt, which is explained in the next section.

1.2.2. The relation of lease debt and other type of debt

Some authors question the relation between debt created from the lease contract and other types of debt, questioning whether they are substitutes or complementary. Representatives of these theories are found in the studies of, i.e., Ang and Peterson (1984), Lewis and Schallheim (1992), Yan (2006), Deloof, Lagaert and Verschueren (2007) and Eisfeldt and Rampini (2009).

The idea that lease and non-lease debt are substitutes is based on one of the fundamental statements of the lease valuation formula created by Myers et al. (1976): the assumption that lease debt displaces other types of debt. This statement implies that an increase in one leads to a decrease in the other. Authors such as Beattie, Goodacre and Thomson (2000), Yan (2006) and Deloof et al. (2007) studied whether non-lease debt and leases are substitutes with differing coefficients of substitution.

In this line, Beattie et al. (2000) distinguish three variants of the theory involving different magnitudes for the replacement rate: first, the most traditional financial theory maintains that cash flows from leases are equivalent to cash flows from debt (a ratio of one to one); second, a theory supports differences between nature and the conditions of

lease and debt contracts leading to a lease with less debt capacity than the equivalent debt from purchase (the replacement rate is less than one); finally, other researchers argue that when a company leases a core asset that must be specific to the company, moral hazard may be greater (the replacement rate may be greater than 1). The third theory is connected with the idea of the complementarity of lease liability and debt.

In the cited paper, Beattie et al. (2000) published an empirical analysis with the main objective of investigating the extent to which pure debt and a lease could be replaceable elements by analysing factors that include both debt and leases. The novelty of the study was its use of estimated debt from operating leases in addition to capital leases. They empirically demonstrate that leases and debt are partial substitutes: 1 British pound of lease debt moves about 0.23 British pounds of other non-lease debt. This finding is consistent with the argument that lessors have certain risks that are inherent in debt contracts.

In contrast, Lewis and Schallheim (1992) demonstrated analytically that lease and debt could be complementary elements and not exclusive. The antecedent of the study was the earlier work of Ang and Peterson (1984), who showed that companies with high debt levels may also have high levels of leasing. They presented a model making two assumptions: first, they consider that substitution occurs between tax deductions from debt and those from other elements that are not debt; second, they assume that leasing provides the opportunity to transfer or sell those tax deductions that are not from debt, i.e., if the lessee can find a lessor that has a high probability of using these tax deductions, the lessor would pay more for them than they are worth to the lessee (reducing the lease). Reducing the tax deductibility of the lessee motivated an increase of its proportion of debt relative to other similar companies that do not use the leasing.

In this sense Eisfeldt and Rampini (2009) present another model of greater borrowing capacity due to leasing. First, they assume that the ability to recover the asset is a major benefit of the lease. This ability to recover the asset implicitly allows the lessor to offer more credit than any other lender whose debt is guaranteed by the same asset. The borrowing capacity of the lease then exceeds the capacity of indebtedness via secured debt. Therefore, the lease will be more valuable for companies that are constrained to borrow. However, the agency cost of the separation of ownership and

control of the leased assets counteracts the above effect. The positive net effect allows lessors to offer leases to companies that have more limited credit.

Despite the previous debate, it has been demonstrated that companies consider leases to be a source of financing. The decision to lease and the reasons for increasing the lease portfolio depend on several variables such as tax rates, dividend policies, finance ratios and, also, accounting.

1.2.3. The presence of leases in the economy

The pervasive use of lease contracts as a common economic operation across all industries, primarily as a financing source, makes accounting for leases a sensitive issue for interested parties. The European Federation of Leasing Company Association¹, which represents the leasing and automotive rental industries in Europe publishes the figures for European leasing market (including financing and operating leases) every year. In 2013, data for the leasing market amounted to 256 billion of newly created leases and 734 billion in outstanding operating leases, which is very similar to the figures for 2012 (Leaseurope, 2013). These data give us an idea about the extent of the leasing market in Europe. Other parts of the world also have similar big data that support the extensive generalized use of leases.

There are some industries that are more intensive in using leases than others, particularly for operating leases. This is the case for the services sector, which includes the retail, hotel and commercial airlines subsectors. Another sector with a high demand for lease contracts is the industrial sector, which includes subsectors that extensively use leases, such as trucking or railway freight.

In 2005, the North American Securities and Exchange Commission (SEC) gauged that there was \$US1.25 trillion in off-balance sheet obligations arising from non-cancellable operating leases. The SEC warned of this issue in the economy and encouraged regulators to take action to avoid staggering off-balance sheet leases. Put in perspective, this figure is approximately 31 times that of the obligations recognized on

¹ It is estimated that Leaseurope represented approximately 92% of the European leasing market in 2012.

the balance sheet. The SEC finding has been supported by other research such as Franzen, Rodgers and Simins (2009), who show that from 1980 to 2007, the operating leases increased by 745%, while there has been a simultaneous decrease in leasing operations.

Cornaggia, Franzen and Simin (2013) document that the trend towards moving leases off-balance sheet occurs in all sectors and is not easily explained by the theoretical economic factors determining the decision to buy versus lease. They find that moving lease liabilities off-balance sheet 1) enables companies to better manage debt covenants that limit the costs of debt or equity and (2) decreases the scrutiny of institutional investors and that (3) the companies investigated by the SEC or the Department of Justice for financial misrepresentation have high levels of unexplained exposure to operating leases. These findings support the need to change the accounting policy for leases.

The existence of an enormous amount of off-balance sheet financing through lease contracts increases the motivation of regulators to reform the accounting principles applicable to leases. In the next section, we explain both the existing standards and the new approaches to the process of accounting for leases.

1.3. The evolution of lease accounting regulations

The method of accounting for leases has been considered in the accounting literature to be one of the fundamental issues of normative accountancy. “A lease involves the acquisition of resources in exchange for a commitment from the lessee to make lease payments to the lessor, and so, accounting for leases correctly is essential to gain an understanding of the financial situation and results of companies that use leases” (Villanueva and Mellado, 2013, p. 377). The following section analyses the existing principles applicable to accounting for leases and the primary proposed changes, taking into account the advantages and disadvantages of each.

1.3.1. Existing standards – IAS 17 and ASC topic 840

The existing standards, IAS 17 and ASC topic 840 agree in the definition of a lease. Current international and North American accounting standards follow a methodology based on a distinction between two types of leases: leases similar to purchasing an asset (finance leases) and leases similar to a service (operating leases). Despite agreement on the general principle, the methodology or regulatory approach used to implement this principle is very different.

IAS/IFRS focus on the economic substance of the lease transaction, i.e., on the economic effect, rather than on the legal form of the arrangement. US GAAP places less emphasis on the economic substance, defining many concepts based on quantitative breakpoints or bright lines. This difference in philosophy can also be appreciated in the extent of the guidance. US GAAP covers a much wider range of situations than IAS/IFRS (e.g., arrangements dealing with the construction and rental of an asset, leveraged leases, specific criteria for property leases, etc.).

The main criticism of the current accounting is that this classification allows tenants to not recognize the obligations under the lease on their balance sheets when leases are classified as operating leases. This phenomenon has worried the US and European authorities for some time, and concern was aggravated by the financial scandals in 2001 and 2002, such as Enron and Worldcom, which were related to off-balance sheet accounting (Mills, 2008).

The weaknesses of current legislation were identified by Biondi et al. (2011) in the following list: (i) small changes in a transaction cause large differences in accounting because of the classification criteria between operating and financial leases; (ii) the rules and numerical thresholds of US standards allow the company managers structuring transactions to achieve the accounting treatment they want; (iii) lessee and lessor accounting are asymmetric; (iv) scope exceptions create loopholes that can be used by managers to thwart the standard (Jamal and Tan, 2010); (v) the execution of service contracts is not reflected in the balance sheet; (vi) managers can use options, renewal terms and contingent payments to avoid the purpose of the rule (Jamal and Tan, 2010); and (vii) managers can use special purpose entities to record off-balance sheet leases.

These weaknesses are known by both regulatory authorities and academic research. However, in addition to improving the shortcomings of current legislation, the ideal is to achieve a high quality lease standard. As Thomson states in his doctoral thesis (2003), which in turn uses the reports issued by institutions and American accounting authorities, a high quality accounting standard for leases should address the deficiencies of current accounting regulations and improve decision making by reflecting the substance of the lease and economic reality; increasing consistency and comparability by limiting alternative accounting treatments; providing information that was not previously available; minimizing manipulation of the rules by adopting a treatment based on concepts and clear, understandable and practical principles; and presenting information on a cost-benefit basis.

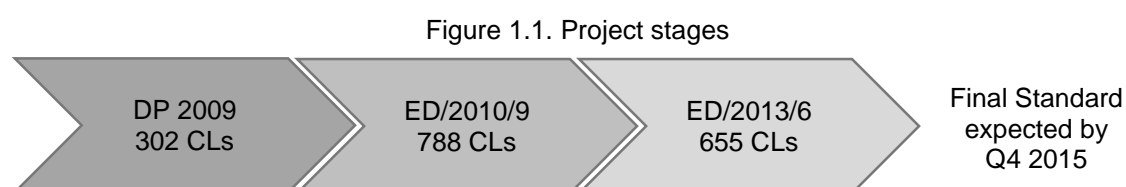
Therefore, the IASB and the FASB started the process of reviewing lease accounting with some primary objectives: to converge as much as possible to support comparability; to elaborate a coherent and consistent standard based on principles that could reflect the complexity in business operations; and to limit or eliminate the possibility for having off-balance sheet debt and assets from operating leases.

1.3.2. Proposal of a new lease standard in the IASB-FASB convergence project

The project began to take form within the G4+1 group, composed of accounting regulators from Australia, Canada, New Zealand, the United Kingdom, the United States and the IASC (the predecessor of the current IASB), which was set to begin a process of international accounting convergence. In 1996, the group issued *Accounting for Leases: A New Approach* (McGregor, 1996). This document examined the gaps in national and international accounting standards for leases and proposed to unify the accounting criteria for all leases to improve the comparability and utility of financial statements.

Later, in 2000, the UK Accounting Standards Board (ASB) published a discussion paper entitled *Leases: Implementation of a New Approach* (Nailor and Lennard, 2000), in which a working team of the G4+1 supported that all leases should be reflected in financial statements in a similar manner and following the usual requirements for fixed asset and debt accounting. The concept of the right of use as an asset thus arises.

Finally, in 2006, the boards of the IASB and the FASB decided to add the lease project to the agenda of the convergence framework. The project launched with the publication of Discussion Paper, Leases: Preliminary Views (March 2009). In August 2010, an exposure draft of the standard was published, and it proved to be highly controversial. During the comment period on the exposure draft, the IASB and the FASB received over 788 comment letters. After analysing the comments received and conducting fieldwork, the boards decided to substantially amend the initial proposal. In May 2013, a revised exposure draft was issued, which received 655 comment letters. A new re-deliberation period is currently underway. The definitive lease standard is expected in the fourth quarter of 2015 as showed in the figure 1.1. Project stages.



Under the convergence agreement, the IASB and the FASB are developing a common lease standard to replace those currently in force (IAS 17 and ASC 840). The ultimate aim is to develop new principles that allow the assets and liabilities associated with lease contracts to be reflected on the balance sheet. Under current standards, the assets and liabilities associated with lease contracts are not reflected on the balance sheet when the lease is classified as an operating lease. Furthermore, although the initial objective of the standard-setters was to converge, the last tentative decisions from the standards setters set out different proposals for some critical issues.

However, the IASB and the FASB converge on most of the subjects in this standard, especially in the main objective of the project, the balance sheet recognition of all leases. Further, the converged decision are the definition of a lease, lease reported on lessee's balance sheet, the measurement of lease liabilities and lessor accounting. The different decisions are lease expenses in income statement and cash flow statement (IASB, 2014, August).

1.4. Critical issues for lease accounting

We have selected some critical issues that present conceptual inconsistencies: 1) definition of a lease; 2) balance sheet – lessee accounting; 3) Income statement – income statement; 4) lessor accounting; 5) evaluation and registration of the lease term and contingent payments. The selection have been made through a deductive logical analysis, examining the three documents published by regulators and considering the comment letters' conceptual arguments in response to the standard-setters' questions during the process.

1.4.1. Definition of a lease

In ED/2013/6, a lease is defined as “*a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration*” (IASB, 2013, p.13). Under current standards, the accounting for an operating lease and a service contract is the same broadly speaking, so differentiation is not significant. However, this situation changed with the new lease standard. Therefore, the distinction between a lease and a service is now critical because it determines whether a lessee recognizes assets and liabilities. The line of off-balance sheet accounting is displaced from operating leases to services.

The two conditions imposed by the proposed standard are the use of an identified asset, either explicitly or implicitly specified, and control over its use for an agreed period (directing the use of the asset and obtaining substantially all of the economic benefits from directing its use). This approach is in line with that established by Interpretation Standard IFRIC 4 *Determining whether an arrangement contains a lease*, which addresses agreements that do not have the legal form of a lease but convey the right to use an asset (or assets) in exchange for a fee. Therefore, the definition does not present conceptual problems; however, attention is focused on the two required conditions that have been clarify to reduce the risk of inconsistent application (IASB, 2015, February).

The service components of contracts would be separated from the lease components, allowing lessees to use estimations to separate payments between lease and service components in a contract. The new standard would apply only to the lease components.

1.4.2. Balance sheet - Lessee accounting

Under the proposal, lessees should recognize the rights and obligations derived from lease contracts on the balance sheet. An entity may opt to account for short-term leases (up to a maximum of 12 months) by applying current operating lease accounting. The choice of accounting treatment for operating leases must be consistent for each class of asset.

De Martino (2011) studied the practical effects of the DP published in 2009. As a critical point, he disapproved of the exclusion of leases as a function of the period – short-term leases – as it could generate a preference for contracts with shorter maturities accompanied by implicit and flexible renewal clauses. This adaptation of contracts for accounting manipulation can generate inefficiencies in contracts. He prefers the criteria based on the relevance.

The boards continue to support the criteria of short-term leases, although they would be disclosed in notes (IASB/FASB, March 2014). However, the IASB is considering an exemption for the lease of small assets (for example, laptops) to address worries of the preparers of financial statements about the increase in costs to apply the new approach to large volumes of small items.

The asset and liability is initially recognized at the present value of the minimum lease payments using the rate charged by the lessor. If this rate is not known, the lessee's incremental borrowing rate shall be used. An expense directly associated to entering into the contract is included in the initial amount of the asset. Furthermore, the boards also decided to apply the lease accounting at a portfolio level, considering similar leases' contracts (IASB/FASB, March 2014).

This approach, in which all leases are accounted for under the same principles (apart from some limited exemptions for expedience), tries to prevent small differences in the form of the transaction from resulting in major differences in how it is accounted for. Under the existing “all or nothing” approach to lease accounting, there is almost no real difference between two leases, for instance, committing companies to pay 89% and 90%, respectively, of the leased assets' values, yet that 1% difference can mean that one lease must be placed on the balance sheet and that the other can be kept off (Biondi et al., 2011). García Suárez (2011) argues that this simplifies the comparability of

financial statements globally. Regulators hope to improve the quality of accounting standards.

1.4.3. Income statement - Lessee accounting

After the problems posed by the latest draft (2013), where a dual model had been suggested (depending on whether the consumption of the asset was insignificant or not), the IASB and the FASB have maintained different positions concerning the recognition of lease expenses on a lessee's income statement. The IASB has tentatively decided to go back to a single lessee model that would require the recognition of interest and amortization for all leases recognized on a lessee's balance sheet. To the contrary, the FASB preserve the dual model. This latter implies two expense recognition methods for the lessee's income statement, depending on the existing classification between finance leases and operating leases. The table below shows the treatment for each case.

Table 1.1. Reflection of leases in the income statement by the lessee (new dual model proposed by FASB)

Type A. Finance leases (single model proposed by the IASB)	Type B. Operating leases
Two expense components are recognised: amortisation and interest.	A single lease expense is recognised.
Declining total expense: the interest expense falls as the debt is repaid.	The expense is recognised on a straight-line basis over the lease term.

The consequences of this classification proposed by the FASB lead to a different accounting treatment for lessees' income statements. The FASB maintains this solution for practical considerations, but this difference increases the difficulty of comparability. Moreover, the type B operating lease requires a method for increasing depreciation to offset the decreasing interest expense that would be reflected in a linear leasing expense. Straight-line depreciation has been discussed by the accounting literature; it presents some conceptual problems.

Jennings and Marques (2013) compare straight-line depreciation with present-value depreciation. They demonstrate that present-value depreciation affords information that more faithfully reflects the economic substance of the transaction. Furthermore, they find that investors value firms as if the operating lease assets were capitalized and

depreciated using a present value approach. As for financial ratios, they perceive that comparability is further increased with the present-value method. Consequently, there is no evidence favouring straight-line over present-value depreciation.

Zeff (2014, p.55) calls this method of depreciation the *annuities method* or the *compound interest method*, as it leads to an increase in depreciation expense and is compatible with capital budgeting methods for evaluating investment decisions. Another way to look at it is that the depreciation expense each year represents the implicit repayment when the present value of the stream of annual cash flows is calculated. This current value becomes the cost that the company is willing to pay for the asset to achieve the required return on investment.

However, as Zeff (2014, p.55) argues, the *annuity method* is not acceptable in the United States, mainly because it is too subjective. Regulators are aware of this prohibition, as document ED 2013 paragraph BC36 (a) explains the rejected the use of this method. However, whether or not aware of the coincidence, this method is proposed for the real estate industry (type B); therefore, we again find a contradiction in its preamble.

The conceptual weakness with the use of this method of amortization is that it is not proposed as a better method of depreciation for operating leases: in that case, he would have considered this method of depreciation for accounting for all leases. However, it has been proposed out of necessity only to leases relating to real estate to achieve the objective of periodic linear expenditure.

The IASB approach (a single model for lease accounting) is more consistent with the general accounting criteria of fixed assets and normal debts and, in consequence, is sounder conceptually.

1.4.4. Lessor accounting

Since the commencement of the revision of the lease standard, lessor accounting has suffered different changes, every one of them highly criticized by interested parties. The first draft (ED/2010/9) proposed a dual model whereby the lessor had to recognize an asset representing its right to receive payments from the lessee. In that approach, there were two possibilities for the credit side depending on the contract and the

approach: (i) recognize a lease liability while also recognizing the underlying asset (transaction recording approach) and (ii) derecognize the asset corresponding to the underlying asset transferred to the lessee and continue recognizing a residual asset representing the rights to the underlying asset at the end of the lease period (approach focusing on the disposal of assets).

In the second draft (ED/2013/6), the proposed standard establishes a treatment for lessors symmetrical to that for lessees. The treatment is dependent on whether an insignificant part or more than an insignificant part of the asset has been transferred to the lessee. Type A, in which more than an insignificant part of the asset is transferred (assets other than a building, i.e., a machine), follows the "receivable and residual" model: a profit is immediately recognized on the portion of the asset considered to have been transferred. This amount is the difference between the present value of the lease payments receivable and the carrying amount of the portion of the asset transferred; no income from the residual portion of the asset is recognized (until the residual asset is sold or re-leased). For type B, where an insignificant part of the underlying asset is transferred (typically a building), the lessor accounting proposed was similar to the current treatment of operating leases.

However, the feedback received for these two proposals indicated that the costs associated with the changes in lessor accounting at this time would outweigh the benefits. Finally, after a period of reflection, the IASB and the FASB have tentatively decided to leave current lessor accounting unchanged for the new Lease Standard and to return to it in the future.

The accounting literature has shown less interest in studying lessor accounting. However, there are some studies that address it. Thus, we observe publications related to the registration and assessment of residual value (Powers and Revsine, 1989; Bauman and Francis, 2011) and to the value of the creditors' right. In fact, the memorandum prepared jointly by the IASB and FASB for the international meeting of the Joint Working Group on International Leasing, held in London on February 15, 2007 (IASB/FASB, 2007), summarizes the state of art in lease accounting and emphasizes some areas of lease accounting that have not been enough investigated, such as lessor accounting.

An important facet of the leases is the inverse relationship between rent payments and residual values. All else held constant, leases with large residual values allow the lessor to offer more competitive prices than contracts with smaller residual values. However, companies with large residual values require payback from the sale or the re-lease of the asset. Therefore, lessors may have incentives to report inflated residual values. In this case, essentially, inflated residuals mask dependent losses (Bauman and Francis, 2011). Uncertainty about residual values is usually one of the biggest risks to the lessor and can be solved with residual value guarantees. Therefore, the information provided in the report on the residual value and the guarantees associated with it is essential for users of financial statements, such as lenders or investors.

1.4.5. Evaluation and registration of the lease term and contingent payments

Many leases include contingent variables whose future realization is uncertain, for example, clauses with options for renewal or termination, contingent rents or residual value guarantees. To address such clauses, regulators face two opposing problems. On the one hand, both renewal or termination options (Jamal and Tan, 2010) and contingent rents (Song, 2014) are a tool for structuring contracts. In addition, consistent with agency theory, evidence shows that auditors usually agree with clients in managing these clauses (Kadous, Kennedy and Peecher, 2003). On the other hand, both renewal or termination options and contingent payments are not present obligations. Therefore, the requirement to register them at the beginning of the contract contradicts the definition of liabilities in the conceptual framework.

In a practical sense, Biondi et al. (2011) argue that if the standard requires capitalizing all contract options, there is a high probability that companies only include in contracts those clauses that will certainly occur.

1.4.5.1. Renewal or termination options

The initial consideration of renewal options within the lease period has been discussed. Some evidence suggests that renewal options are used to move a portion of lease financing out of balance (Hyatt and Reed, 2007).

The 2013 draft stipulates that renewal options or termination of the contract shall be included if there are significant economic incentives to exercise these options,

considering factors based on the contract or on the asset, factors that are specific to the entity and the market (IASB, 2013, p.17). IAS 17 and ASC 840 make mention of the terms "*reasonably certain*" or "*reasonably assured*". The introduction of the term "*significant economic incentives*" adds a high level of subjectivity to the standard but includes a wider range of action than the term "*reasonable certainty*".

The final tentative decision of the boards to date is that "*when determining the lease term, an entity should consider all relevant factors that create an economic incentive to exercise an option to extend, or not to terminate, a lease. An entity should include such an option in the lease term only if it is reasonably certain that the lessee will exercise the option having considered the relevant economic factors.*" (IASB/FASB, March 2014, p.1). The purchase options should be treated equally. In addition "*a lessee should reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee.*" (IASB/FASB, March 2014, p.1).

That represents a return to the origin, to the existing standards. This position simplifies the implications of the lease term in the future standard, sacrificing the goal of fighting against the use of renewal and termination options as a manner for hiding part of the debt of lease contracts. Perhaps regulators have made this concession to encourage the adoption of the final standard and so the main change proposed is the recognition of assets and liabilities for all long-term non-cancellable leases.

1.4.5.2. Variable lease payments

Initially, the lease proposal intended to recognize the debt of almost all contingent rent to avoid contract structuring. However, this measure was highly controversial because interested parties considered it to be conceptually inconsistent. The most recent tentative decision made by the boards confirmed that only variable lease payments that are in substance fixed payments and lease payments that depend on an index or a rate should be capitalized. Contingent rents based on performance or the use of an asset will not increase the asset or liability in any case. When they are generated, they will be recognized in the income statement.

Reassessments of contingent payments have raised larger doubts among interested parties. For example, KPMG (2013, CL199) is not in accordance with the revaluation of variable payments because they feel this should be limited to highly inflationary

economies. In the comment letter submitted to ED/2013/6, PwC (2013, CL301) considers it appropriate to re-measure the assets and liabilities generated by the variable payments based on the variability of an index or a rate, but they do not believe it should be required at each reporting date in the absence of a contractual change in cash flow. They feel this is an unnecessary burden for preparers if the amount is irrelevant.

As to this point, the IASB and the FASB arrived at different conclusions. The IASB establishes that *“a lessee should reassess variable lease payments that depend on an index or a rate when the lessee re-measures the lease liability for other reasons (for example, because of a reassessment of the lease term) and when there is a change in the cash flows resulting from a change in the reference index or rate (that is, when an adjustment to the lease payments takes effect) (IASB/FASB, April 2014, p.1).* In contrast, the FASB only permits reassessing variable lease payments when the lessee re-measures the lease liability for other reasons.

1.5. Practical implications of the lease proposal

Accounting literature establishes that changes in accounting standards may have real economic impact in different ways. Concretely, the economic consequences of changes in lease accounting have been well documented by researchers. These studies are considered to be *ex ante* research because the standards have been never implemented and the evidence is based on assumptions.

1.5.1. Direct effects of the lease proposal on financial statements and ratios

There is a specific body of accounting literature on leases that focuses on measuring the impact that off-balance sheet lease capitalization (operating leases under IAS 17 and ASC topic 840) would have on financial statements. These studies are based on estimations, that is, the authors calculate the total amount of the assets and liabilities that would be recognized on the balance sheet and also the impact on the income statement, cash flow and key ratios, considering the information available in companies' footnotes. Therefore, the method and the estimated data used to determine these amounts are critical to research.

Basically, we distinguish two methods of capitalization: the constructive capitalization method and the factor method. The constructive capitalization method developed by Imhoff, Lipe and Wright (1991, 1997) is the most widely used in academia and approaches the method for calculating the right-of-use proposed in the new standard. It requires estimating the initial amount of debt and assets at the present value of the minimum lease payments for every non-cancellable operating lease (long term). The minimum lease payment should be given in the notes under ASC topic 840 and IAS 17. In contrast, other figures must be estimated (i.e., the discount rate, lifetime, etc.). The different evolution of assets and debt is also considered.

The factor method uses a factor that multiplies the annual current rental costs depending on the industry sector; sectors differ regarding the intensity of the operating leases (8 is the most quoted number). This method is intended to simulate the purchase of all assets and not simply to capture the present value of contractual obligations. This method is much simpler than the capitalization method, and it is often utilized by analysts or international credit rating agencies (i.e., Moody's, 2006; Standard and Poor's, 2008; Fitch, 2011) to quickly calculate the capitalization amount. Academic studies prefer the constructive capitalization method because it is considered to be more accurate, and they only employ the factor method to contrast results. Thus, in the next paragraphs, we focus primarily on papers based on the first method.

Before the publication of SFAS 13 in 1976, in the decade of the sixties, Nelson (1963) conducted an analysis of eleven companies from North America in which operating leases were capitalized at the present value of future minimum payments. In this case, the author obtained the necessary data from voluntary corporate disclosure: lifetime, duration of the lease, interest rate and committed revenues. In addition, he considered a system of linear depreciation. The analysis of the variation of financial ratios led him to conclude that comparisons between companies could be inaccurate and misleading if leases were not capitalized. However, the sample was too small to extrapolate the findings; this paper set the basis for future works.

Later, Ashton (1985) used the same method as Nelson to capitalize the lease assets of twenty-three British companies. For every measure, he ranked the companies with and without the capitalization of leases. By analysing various measures, he concluded that the position of the company as related to the others did not change significantly after

the capitalization of finance leases. Although the sample was again too small to extrapolate the findings, the suggestion that including the capitalization of leases would lead to an unchanged relative standing of companies in the same industry was a contribution to the literature at that time.

As we explained earlier in this chapter, the publication of SFAS 13 in 1976 and IAS 17 in 1982 stipulated the partial lease capitalization model, where lease contracts were classified between finance and operating leases, and only the former type of contract was required to recognize assets and liabilities. Consequently, academic studies started to focus only on the simulated effects of operating lease capitalization because information for finance leases was included in the balance sheet.

The studies of Nelson and Ashton were precedents of the seminal articles in this research line. Imhoff et al. (1991) developed the constructive capitalization method (known as the ILW method) by analysing seven companies with a high level of operating leases matched with another seven companies with a low level of operating leases. They conclude that the capitalization of operating leases may materially affect the comparison of companies across key financial ratios such as return on assets and debt to equity, especially for those companies that have a large portfolio of operating lease contracts, for example, airlines and the grocery industry.

In the UK, Beattie et al. (1998) developed a similar study using the method of constructive capitalization over 232 UK listed companies. The authors examined nine different performance and balance sheet ratios. They improved upon the previous works by using a larger sample of companies from different industry sectors. As a contribution to the model, they included a specific estimation of the weighted average for the ratio of the remaining lifetime to the total lifetime of the contract for each industry sector and also an effective tax rate. They concluded that long-term debt was undervalued by 39%, while assets were undervalued by only 6%. The evidence showed that capitalization had a significant effect on the sales margin, return on assets and debt measures. These authors also found differences in the ranking of firms for the gearing ratio based on the recognition of the operating lease, in contrast to the finding of Ashton (1985). The changes were more significant in the more intensive service sector operating leases.

Similar results have been obtained in subsequent studies developed in different countries over the world. Studies conducted in New Zealand, Canada, Germany, the UK

or Spain, among others, are addressed in the following paragraphs. For example, Bennett and Bradbury (2003) selected a sample of 38 companies quoted on the New Zealand Stock Exchange in 1995. They found that operating lease capitalization also decreases profitability and liquidity added to the negative impact on leverage ratios demonstrated by previous papers.

In the UK, Goodacre (2003) analysed 102 retail firms for the period 1994-1999. The evidence showed that the capitalization of operating leases would increase the operating profit of approximately 23% of firms because depreciation would be less than the operating lease rentals. The estimated impact on profit after tax is projected to experience approximately a 7% reduction. They noted the negative impact over nine key performance ratios that include gearing, profitability, interest coverage and asset turnover. They conclude that this method of capitalization would not be well accepted by the retail industry because they would try to avoid the effects by changing long-term lease contracts to short-term lease contracts.

Regarding the US economy, Mulford and Gram (2007) also concentrate on the retail industry by analysing 19 companies in 2006, and for Canada, Durocher (2008) applied the constructive capitalization method over 100 Canadian companies for the period 2002-2003, arriving at the same conclusions as their predecessors.

Fülbier, Pferdehirt and Silva (2008) created a simulation of 90 German listed companies in 2004. They used the constructive capitalization method, which adds a geometric regression model in which the lease descends at a constant rate. Unlike previous studies, they do not use a fixed discount rate but employ the discount rate used to calculate pensions and other provisions and, in their absence, other discount rates reported in memory. The results showed remarkable changes in a variety of financial ratios. However, according to these authors, the effects should not be overestimated because only minor effects can be observed for the profitability ratios and market multiples frequently used for evaluation. In addition, some industry sectors will be hardly affected at all compared to the retail industry sector, which would be one of the most affected.

In Spain, Fito et al. (2013) conducted a study on a sample of 56 Spanish listed companies using the ILW method of capitalization for the period 2008 to 2010. The results showed that the impact on financial ratios is statistically significant. They find a

positive relationship between the size variation ratio and membership in the retail sector. Another affected sector is energy. Applying both the constructive capitalization method and the simplified factor method, they obtained similar conclusions because the impact of the method of constructive capitalization over the benefit and profitability ratio is very small.

There is another study in Spain performed by Barral Rivada, Cordobés Madueño and Ramírez Sobrino (2014). They examined a sample of listed companies in the UK and a sample of 105 listed companies in Spain in 2005. The results clearly showed that operating lease capitalization lead to a decrease of 13% in the return on assets and to an increase of 58% in the leverage ratio.

Some audit firms have conducted studies about the impact that recognizing the right of use proposed in the new lease standard would have on business. For instance, PwC (2010) conducted a study based on the financial information (fiscal year 2008) of more than 3,000 listed companies in 54 countries worldwide that assesses the impact of the capitalization of operating leases in the financial statements and financial ratios of the same, given the industry sector.

All of the previous studies reviewed confirmed the expected impact that the capitalization of operating leases would have on reporting figures and financial ratios. However, it is important to know whether there are adverse effects in the market from these changes, a theme that will be discussed in the next section.

1.5.2. Consequences of the changes in financial figures due to operating lease capitalization from the investor's and the lender's perspective

Previous evidence has shown that the new lease approach will likely have a quantitative effect on financial statements and key financial ratios due to operating lease capitalization. However, the evidence is mixed regarding the relevance of the impact from these changes in reporting figures for credit ratings and investors' perceptions. Therefore, from the capital market perspective, there are studies that report differences in the market perception of on-balance sheet debt compared to off-balance sheet lease debt and other papers that do not, as Barone, Birt and Moya (2014) confirmed in their overview of the literature.

There are authors that support the belief that the market has already integrated the effect of off-balance sheet leases. They argue that users of financial statements can easily calculate the expected impact using information disclosed in notes (Lindsey, 2006; Sakai, 2010; Sengupta and Wang, 2011; Altamuro et al., 2014). This argument only holds if certain axioms (Arimany, Fito, Moya and Orgaz, 2013) are assumed. First, it is assumed that the required information is disclosed in the notes and that this information is reliable. Second, it is assumed that any user is able to assess the potential impact of operating leases from the information disclosed in the notes. There are other researchers that have presented objections to these assumption (i.e., Arimany et al., 2013). They usually support the opposite position: the market perceives off-balance sheet leases in a different manner than on balance sheet leases (Andrade, Henry and Nanda, 2011; Dhaliwal, Lee and Neamtiu, 2011).

It is true that professional analysts, such as all large credit rating firms (Moody's, Fitch and Standard and Poor's), adjust financial statements to incorporate the resources and obligations under operating leases, seeking to achieve improved comparability of results and to better assess the magnitude of debt for entities. For operating leases, some analysts, such as Moody's (2006), use factor techniques, multiplying the amount recognized as an expense for the lease period by a figure close to the number eight; this number can vary depending on the sector and the characteristics of the company. The factor method has been used in the literature as a contrast method. For example, the results of the study of Fito et al. (2013) show no significant difference between the constructive capitalization method and the factor method despite the simplicity of the former.

This evidence reduces concern about possible negative consequences from the existing accounting methods for operating leases and raises concerns about the accounting proposal, which capitalizes all leases regardless of their economic characteristics. Krische et al. (2012) study the perception of analysts; although operating leases often act as the prototypical example for structuring transactions, responses from their survey of 24 analysts suggest that structuring leases and related voluntary settlements do not pose the same problems for them as do other earnings management activities (which decreases the perception of the credibility of management analysts). Additionally, defending the first position, Altamuro et al. (2014), based on their predecessors' work (Lindsey, 2006; Sakai, 2010; Sengupta and Wang, 2011), confirm

that banks and rating agencies adjust for the display of off-balance sheet operating leases and, at least in the case of banks, try to reflect the underlying economics of the leases.

Relating to the equity value, Boastman and Dong (2011) demonstrate, through a case study, that financial statements, adjusted for errors in accounting for operating leases, do not have an effect on the value of the company as estimated through three models of equity valuation. This finding is consistent with the assessment made by the IASB/FASB working group (2007, p.14): "*the market's assessment of firms' equity risk did not change following the adoption of Statement 13*" in 1976.

Relating to the objection to the two assumptions, we review several papers that argue from different points of view. For the first assumption, Arimany et al. (2013), in line with the existing literature, analyse the degree of compliance in the UK and Spain to IAS 17 issued by the IASB, in particular, as regards the notes on operating leases. In their study, the evidence shows that in the first year in the implementation of IFRS (2005), most Spanish companies did not disclose the required information about operating leases (82%). However, the number of companies complying with requirements increased over time and, in 2011, 66% of companies provided information in their notes on operating leases. These percentages are significantly higher for British companies. In the first year of analysis, 82% of UK companies provided this information, with a slight increase over the period of analysis. In 2011, only 16% of UK companies analysed did not disclose this information. In conclusion, there are different levels of non-compliance with the required disclosure depending on the country (Arimany et al., 2013).

In relation to the assumption of reliability for the information provided in the notes, prior literature has demonstrated that in some cases, the quality and reliability of information recognized in the balance sheet or income statements is higher than the information only disclosed in notes. For example, Libby, Nelson and Hunton (2006) conducted a controlled study with 33 partners of Big Four audit firms. In this experiment, researchers manipulated the information provided in the balance sheet and that disclosed in notes about lease portfolios. The result provides evidence that auditors are more willing to allow errors in the information provided in the notes than in the amounts recognized in the balance sheets. The same evidence is reported later by Strand, Rose

and Suh (2011): auditors give more importance to recognized information than to disclose information.

Regarding the third assumption, the IASB identifies users of financial statements as any current or potential lender or investor, which reflects professional and non-professional users. The question we ask here is whether non-professional users are able to interpret the information disclosed in the same way as professional investors or lenders. There are some authors that believe non-professional users have a comparative disadvantage to professional users. Hales, Venkataraman and Wilks (2012) perform a controlled experiment using MBA students as a proxy for non-professional investors. The experiment successfully responds to ex ante study notions of accounting policies. This paper concludes that non-professional lenders are less willing to lend money to a company that capitalizes optional renewal periods than to a company that reflects this information in the notes. Although this particular case refers only to renewal options, this experiment can be extended to the decision whether to capitalize or not as we try to evaluate the impact for non-professional investors. What Hales et al. (2012) show in their experiment is that in the case of non-professional investors or lenders, the capacity to interpret off-balance sheet data is lower.

In the opposite side, studies exist that focus on perception with and without capitalizing operating leases in terms of bond ratings; CDS prices (Andrade et al., 2011); and the perception of risk for a company (Dhaliwal et al., 2011), concluding that there are differences depending on whether the balance sheet did or did not include the debt of operating leases. Recently, an article was published that studied the effects of capitalizing operating leases on the immediacy of debt covenant violations performed by Lee, Paik and Yoon (2014), concluding that there are changes.

As observed, the consensus does not exist, under the perceptions of the market. In this case, we agree with the statement of Nailor and Lennard in 2000, who argue that because analysts, lenders and investors need to incorporate the value of the assets and liabilities related to leases, it would be much more transparent and less costly if capitalization was conducted by the companies using a unique method.

1.6. The assessments of groups interested in the lease proposal

The changes in lease accounting have been very controversial. On the one hand, it is assumed that the new accounting approach would help user decision making by increasing comparability, but on the other hand, there is a concern about cost and consequences for companies. There has been serious debate in both specialized and more general forums, such as the IASB/FASB environment, academic accounting reviews, and the economic press.

There is a body of accounting literature that, in the earlier stages of the project, documented differences in the point of view between users of financial reporting and preparers. For example, Beattie, Goodacre and Thomson (2006) published an empirical paper in which they demonstrate through a survey (apropos of the document published in 1996, "Accounting for leases: a new approach") that users believe that the lease information obtained from existing standards is less than they should obtain. To the contrary, preparers were only partially in favour in some respects.

Regarding the responses to the three documents published by the IASB and the FASB, there are several studies that documented reactions to the proposal by different collectives. In the works of Kort (2011), Mora and Molina (2014) and Barral Rivada (2014), which analyse the comment letters submitted by companies, auditors, national standards setters, academics and users addressing the lease project, it is observed there is great resistance to the change in the accounting approach, mainly from companies. Concerns focus on issues such as the unnecessary complexity associated with interpretations of the standard; excessive costs for implementing the standard that outweigh the benefits; lack of relevance of the information for most stakeholders; lack of benefits for small businesses; and lack of consistency with existing standards. They also possess other concerns regarding practical issues, such as the renegotiation of debt covenants.

We observe that financial directors who are considered to be preparers of financial statements for both lessees and lessors are primarily against the changes to the accounting for leases. The main reasons are the economic consequences referred to earlier in this chapter. There is a wish to preserve the status quo because they are used to it and have found the best manner of making efficient transactions under the present rules. If the standard changes, companies would need time to adapt to the new situation.

In the following table, we offer a random sample of general comments by companies to ED/2013/6.

Table 1.2. A random sample of the general comment by companies in response to the ED/2013/6

Company name	General comments
Koch Industries Inc.	<i>"Does not reflect economic reality"</i>
Beacon Rail leasing	<i>"Overly complex, operationally challenging, disconnected from reality"</i>
HSBC	<i>"No improvement, conceptually inconsistent, complex"</i>
Lafarge	<i>"No improvement, too complex, does not reflect reality"</i>
Union Pacific Railroad Co	<i>"Not cost effective"</i>
ConocoPhillips	<i>"Too burdensome"</i>
Exxon Mobil Corporation	<i>"No benefit, reduces comparability"</i>
General Electric Company	<i>"Agrees with FEI, drop the project, no improvement, too costly"</i>
Societe Generale	<i>"No conceptual basis, do not adopt"</i>
Wal-Mart Store Inc.	<i>"The cost to implement and the added complexities of the proposed standard significantly outweigh the benefits"</i>
Canadian National Railway Co	<i>"Overly burdensome, too costly"</i>
Volkswagen Group	<i>"Reduces comparability, cancel the entire project"</i>
PHH Arval	<i>"Too onerous on both lessees and lessors and would require additional costs that outweigh the benefits"</i>
Angel Trains	<i>"More complex, costly, confusing"</i>
Dow Chemical Company	<i>"Complex, costly"</i>
Remke Market	<i>"Again, overly burdensome to SME's with dubious benefit to the users of those statements"</i>
WestJet airlines LTD	<i>"Level of complexity will lead to a lack of comparability and understandability amongst issuers"</i>

However, for the preparers, the concrete reasons for being against or in favour of the new approach differ depending on the industry sector. One specific sector that will be affected is the oil and gas industry sector, but due to the existence of their special operative, they offer some doubts regarding the new proposal. For instance, will drilling contracts be considered leases? As PwC confirms, they would have to analyse each drilling contract to see if it fits the conditions of the lease definition and that will increase the cost, the uncertainty and the comparability. In contrast, we observe that the US real

estate industry sector does not demonstrate a radical position against the proposal. The reason is that their main concern was solved in the last draft: the ability to register expenses of type B leases in a straight line (equivalent to previous operating leases). To illustrate this fact, the Washington Real Estate Investment Trust comments on the letter submitted to the last exposure draft (2013, CL113, p.1): “*Fortunately, the standards in the Revised ASU have adequately and sensibly addressed our concerns regarding lessor accounting*”.

We can observe the high presence of service industry sectors strongly opposing the lease standard. As presented by Goodacre (2003), the retail subsector is one of the most intensive in the use of operating leases and its voice is also represented in comment letters, as well as the voices of hotels and commercial airlines. In the industrial sectors objecting, we find large US and European conglomerates, specifically those associated with transportation by land, sea and air. The chemical industry is also included, as well as health care and agricultural industry sectors. All of these industries use machinery that could be leased. Consultants and business associations are considered to be indirect lobbyists for preparers (Orens, Jorissen, Lybaert and Van Der Tas, 2011); therefore, they maintain the same position as the industry sector they are associated with.

Professionals at accounting and auditing firms and accounting profession associations are also a group that is actively involved in sending comment letters to the regulators (Haring, 1979; Puro, 1984; MacArthur, 1988; Hylton-Meier, Alam and Pearson, 1993; Larson, 2007). As regards the lease proposal, auditors have been very active in submitting comment letters on the three documents. Analysing the comment letters specific to Big Four accounting firms, we notice that they appear to agree with the general approach: the capitalization of operating leases. However, they find several points too complex such as the dual model for recognizing expenses in the lessees’ income statement. In lessor accounting, they agree with the return to the previous standards. They recommend better clarifying the two conditions to define a lease contract and also eliminating some terms that could be too subjective such as “important economic incentive”. It appears that standards setters have considered some of the audit firms’ recommendations in their re-deliberations.

The national standard-setters are a supportive group in general, as demonstrated by Mora and Molina (2014) after analysing their comment letters in response to the lease DP published in 2009 and by Giner and Arce (2014) in relation to other standards. This support could be explained by their need to collaborate with international standard-setters to gain legitimacy in the eyes of their national constituents.

The collective of academics is very small, but they provide an interesting point of view on some specific concepts or clauses, as we can observe in the comment letters submitted by Zeff (2013, CL14), who is an expert in normative accounting. Finally, professional and non-professional users present a mixed opinion. Some of them prefer to continue under the existing standards and some consider the new lease standards to be an improvement, although they also have some objections. The same occurs for authorities and individuals.

1.7. Conclusion of the chapter

In this chapter, we provide an overview of the discussion in the international arena on accounting for leases. We present the new lease standard as compared to existing standards, developing the theoretical issues and practical implications of accounting for leases. We consider this to be a relevant subject for this thesis to test some lobbying theories because it is a highly controversial standard and a much debated issue into the normative accounting field.

We exposed the substantial number of lease operations that comprise corporate financing strategies. Under the same tax and economic conditions, classical finance theory does not find any financial differences between leasing or buying an asset; however it does find that lease contracts present advantages over normal debt, such as lower maintenance costs or more flexible conditions in the contract. Furthermore, positive accounting theory also finds other financial and not financial variables that favour lease contracts.

Under the existing standards, leases are classified so that assets and liabilities that derive from financial leases are recognized on the balance sheet and those generated by operating leases stay off of the balance sheet. The empirical data has demonstrated

that from the adoption date of SFAS 13 (now ASC 840) in 1976 and IAS 17, in 1982, the number of operating leases has experienced a notable increase compared to the enormous decrease in financial leases. These data suggest the preferences of companies that consider having assets and liabilities off-balance sheet to be a comparative advantage.

Concerned with this phenomenon, the IASB and the FASB tried to converge into a common lease standard that avoids alternative accounting for different lease transactions and that permits comparability between countries. Therefore, a new approach was presented where all long-term non-cancellable lease contracts must be recognized on the balance sheet and the income statement. The proposed standard includes changes in policies for recognizing assets and liabilities in lessees' and lessors' accounting, comprising options in the lease term and contingent payments, modifications to the manner of registering expenses and income from the lease, and other issues such as lease-backs, presentations, disclosure, etc. However, the new proposal has raised a storm of criticism, and consequently, it has currently still not been published.

The previous accounting literature has focused on lease accounting, developing empirical ex-ante research that could be very important to helping regulators understand the economic consequences of the lease proposal. In the third section of this chapter, we reviewed the empirical evidence that confirms the larger impact of the new proposal on the reporting figures of companies across all industries and jurisdictions by increasing their debt. These studies demonstrate that leverage ratios would be significantly increased by the capitalization of operating leases as would performance measures such as the profit margin and return on assets, although not as intensely as balance sheet measures. The most affected companies would be those in the service industry sector, such as retailers, hotels, airlines, and vehicle providers. The change could also affect debt covenant requirements.

Prior literature maintains a mixed position on how the economic effects of the new proposal on reporting figures and ratios would be perceived by analysts, investors and lenders or by the market itself. Some authors suppose that there is no change in perceptions because professional analysts already adjust the figures to include the effect of operating leases. However, other researchers suppose that not all investors are

professional and have the tools and knowledge to calculate this impact. One of the main issues is that not all companies comply with disclosure requirements.

The interested parties have offered a mix between conceptual and economic arguments to oppose or defend the new lease standard. Comment letters submitted in the process, institutional information, audit firm reports and the economic press document the strong debate around the proposed changes. Preparers of financial reporting and users of financial information have different objectives in defending or criticizing several clauses of the standard. On the one hand, the new accounting approach would help user decision-making by increasing the quality of information and comparability and, on the other hand, there are changes that are considered to be excessively costly and complex for preparers compared to the benefits to the business world. Moreover, there are other groups such as auditors or academics that may have a more neutral perspective.

In this chapter, we have recognized the importance of lease accounting for business and financial strategy. This chapter offers a summary of the state of discussion about accounting for leases. It leads us to recognize that the regulators involved in this lease accounting standard-setting process do not have an easy solution. After understanding the situation, the next step is to understand if there are political forces pressuring standard-setters to favour the self-interest of some powerful groups and, if these forces exist, to understand the nature of the pressures that standard-setters are subject to.

Therefore, for several reasons such as the complexity of the conceptual approach considering the critical points of the lease standard and the difficulties of the lease standard-setting process, which has postponed agreement on and the publication of the new standard, we consider the lease standard to be a very good issue of focus for understanding the behaviour of parties interested in the process.

Chapter 2

Overview of lobbying literature in the accounting standard-setting process

- 2.1. *Introduction to the chapter*
- 2.2. *Theoretical background*
- 2.3. *Literature about participation*
- 2.4. *Literature about the content of comment letters: positions
and arguments*
- 2.5. *Insights for standard-setters: the usefulness of comment
letters.*
- 2.6. *Conclusion of the chapter*

Chapter 2

Overview of lobbying literature in the accounting standard-setting process

2.1. Introduction to the chapter

Under the convergence process, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are immersed in creating a new accounting framework to reduce differences between International and US standards. The discussion of standards around convergence attracts more attention from the international community than previous projects. The participation of interested parties in the accounting standard-setting due process could be perceived to be a signal of the regulators' legitimacy and the outcomes' quality (Durocher and Fortin, 2011). Moreover, the viability of accounting standards is conditioned to the legitimacy of standard-setters as well as to users' confidence in the companies' financial statements (Burlaud and Colasse, 2011).

The IASB and the FASB are private organisations that need to be accepted by society to develop their objectives. Consequently, they need sufficient authority (political legitimacy), enough technical expertise (substantial legitimacy) and an independent and transparent due process (procedural legitimacy) (Burlaud and Colasse, 2011). External pressures over the International Accounting Standards Committee (IASC) to increase independence and professionalism and thereby achieve more international recognition took form in an internal restructuring in 2001, through which it transformed itself into the IASB, which is more similar to FASB. Richardson and Eberlein (2011) state: (i) input legitimacy is gained with constituents' participation; (ii) throughput legitimacy is acquired during the process of transforming the collected inputs using a formalised decision process and; (iii) output legitimacy arrives when the standards are finally produced.

Cortese and Irvine (2010) describe the decision-making process of standard-setters as a 'black box' to illustrate its complexity. According to Watts (2006), accounting regulators fix directions as part of a market-driven process, distinguishing political forces moving towards market equilibrium from those directed by special groups for self-

interested reasons not oriented to the equilibrium. In this sense, the previous literature suggests that regulators' interest payoff may be positively correlated to social welfare or efficient decision making (Polk, 2002), whereas individuals and groups are moved by their own interests (Sutton, 1984).

Standard-setters are subject to external and internal pressures, as institutional theory confirms (DiMaggio and Powell, 1983). These pressures could be visible or invisible to society. Orens et al. (2011), based on the previous work of Georgiou (2004), also distinguishes between formal versus informal and direct versus indirect methods of exercising pressure. One of the most accessible participation methods for interested parties is the submission of comment letters. Other direct methods are presentations at public events; meetings or calls with regulators or technical staff; and consulting work on particular projects. Indirect methods include pressure through others, such as comments in the media; associations representing the interests of the company; external auditors; and members of institutions or sponsoring research studies.

Sutton (1984) defines lobbying as all actions taken by stakeholders to influence the regulatory process to defend their own interests. Most of the studies in this area have used comment letters as a proxy for lobbying activities, defining lobbyists as all parties who submit a comment letter in response to a discussion paper or an exposure draft launched by standard-setters (Hansen, 2011). It has been assumed that comment letters are the most visible action within lobbying activities, reflecting also the invisible side. However, the question is whether and to what extent comment letters could be a proxy for lobbying activities. In this chapter, we discuss this question while reviewing the prior literature.

Therefore, comment letters are considered to be useful for lobbyists, regulators and researchers. They might be useful for interested parties as an instrument to persuade regulators. In addition, they should be useful for regulators in terms of the legitimacy and quality of standards. Finally, they allow researchers to better understand the critical issues of a new regulation and to study the behaviour of parties in the process. This information is valuable for the market and especially for preparers and users of financial information.

The aim of this chapter is to provide an overview of the lobbying literature in the accounting standard process through comment letters submissions. To do that, we

review prior literature including seminal and current published articles, and also some working papers and thesis, mainly focusing on lobbying papers that emphasis on comment letters submitted to the standard-setting process (specially to IASB and FASB). We classify prior literature according to the following criteria: participation in the due process (i.e., Larson, 2007; Koh, 2011; Jorissen, Lybaert, Orens and Van der Tas, 2012; Jorissen, Lybaert, Orens and Van der Tas; 2013; Holder, Karim, Lin and Woods, 2013); content analysis (i.e., Kwok and Sharp, 2005; Stenka and Taylor, 2010; Le Manh, 2011; Mora and Molina, 2014); and influence on accounting standard-setters (i.e., Yen, Hirst and Hopkins, 2007; Hansen, 2011; Giner and Arce, 2012; Bautista Mesa, Molina Sánchez and Ramírez Sobrino, 2014).

In recent years, academics and regulators have demanded more works focused on the accounting standard-setting process. Most empirical research has focused on lobbying through preparers (companies and managers) and less attention has been given to audit firms and other groups of participants such as institutions, market regulators, etc. Our chapter aims to contribute to the previous literature in different ways. First, we examine the existing literature to understand how political forces could influence the standard-setting process through comment letters. Second, we analyse the usefulness of comment letters for participants and regulators. Third, we identify fundamental questions that remain unanswered and could be developed by future studies.

The structure of this chapter proceeds as follows. In Section 2.2, we provide an overview of the main theoretical aspects behind lobbying research. In the next sections, we divide the lobbying literature that focuses on comment letters into three primary research lines: the literature that explains the decision to submit comment letters (participation), the literature that analyses the content of these comment letters (content analysis) and the literature that investigates the reaction of regulators to comment letters (relation input-output). In the last section, we present conclusions and final thoughts.

2.2. Theoretical background

Regulators incorporate formal public consultation when develop the accounting standards to know the views and opinions of constituents' before the accounting

standards is mandatory. From the participants' side, they involve themselves in the due process because they are interested to influence the standard-setting process to take an advantage. They are considered lobbyists, in most cases. It is known that private interests seeking to influence government decisions, legislation or the award of contracts are part of the policy-making process in modern democracies. As institutional theory asserts both sides, regulators and lobbyist, represent ends of a feedback loop.

The US Government defines lobbying activity as the effort to persuade legislators to propose, pass or change legislation to provide benefits to parties with special interests (U.S. senate cited by Hill, Kelly, Lockhart and Ness, 2013). Focusing on the accounting standards regulatory process, which differs from other regulation process, Zeff (2002) differentiates technical from political lobbying. Political lobbying includes all political pressures and strengths affecting standard-setters moved by special interest groups for self-interested reasons. For example, the self-interested claims by preparers and others '*may be detrimental to the interest of investors and other users*' (Zeff, 2002, p.43). This political influence over standard-setters with the goal of affecting outcomes may or may not be inconsistent with the regulators' mission.

Durocher, Fortin and Côté (2007) performed an interesting classification of the previous literature on 'lobbying'. In particular, the participation of interested parties in the accounting standard-setting process is explained in the framework of three theories: the Positive Accounting Theory (PAT), based on the works of Watts and Zimmerman (1978), which links economic motivations to corporate characteristics; the Economic Theory of Democracy (ETDG), initiated by Downs (1957) and Sutton, which measures the probability of participation based on a cost-benefit analysis; and the Coalition and Influence Group (CIG).

The PAT group focuses on the underlying motivations behind preparers' positions on accounting standards and on how they behave as pressure groups. The PAT theory does not include users as subjects, but it is clear that users are also affected by the underlying economic incentives. The literature identifies some key variables that influence the decision to participate in the due process of accounting standards. For example, subjects of study are the variables related to firm characteristics such as size and degree of indebtedness and variables related to country characteristics such as the

percentage of policy control (Francis, 1987; Jorissen, Lybaert and Van de Poel, 2006; Ramanna, 2008).

According to the ETDG, a rational company or individual allocates resources to lobbying only if the benefits compensate for the costs, similar to the process of allocating a vote in a political system. In these terms, Sutton (1984) asks what type of individual or organisation finds lobbying more profitable. This equation can also be affected by the degree of support for preferences among individuals or pressure groups, the probability of influencing the decision process of the regulatory authority and the resources of the lobbyist. Some recent studies such as Jorissen et al. (2012) or Giner and Arce (2012) build hypotheses using this framework.

The CIG group examines possible alliances between groups to influence the process of forming accounting standards. It starts with the Metcalf Report (1976), which states that the FASB is greatly influenced by the large audit firms. Later, Puro (1984) and McKee, Williams and Frazier (1991) conclude that there are strong coalitions between large audit firms and their clients, whereas others such as Haring (1979) do not support this hypothesis. Jorissen et al. (2006) separate the third theory as a theoretical framework related to non-pluralistic practice controlled by a few powerful clusters.

In the next section, we review the main empirical evidence in this area and we provide some insight for future studies. Some of the most recent studies are summarized in the appendix 2.1.

2.3. Literature about participation

2.3.1. The decision to submit a comment letter

We define the decision to submit or not to submit a comment letter as a cost-benefit function, as Sutton (1984) proposes according to rational choice theory. This cost-benefit function is generally represented by signalling models based on assumptions that also rely on agency theory (Jensen and Meekling, 1976). Accordingly, all individual action is driven by self-interest; therefore, individuals would act in an opportunistic manner to increase their wealth, without notions of loyalty and morality. The expected benefit could be the probability of influencing the final standard, also named the outcome, and the cost

is equivalent to the investment of resources that an interested party makes to submit a comment letter.

Sutton (1984) divided the participants in the standards development process between preparers of financial reporting and users to explain differences in decisions by collectives of interest. Based on this partition, the IASB (2011, paragraph 17) has classified constituents into the following groups: preparer group, accounting profession group, regulators group, users, academics and consultants.

The literature demonstrates that preparers have been the most numerous group in terms of participation without distinction among standard-setters (i.e., Tandy and Wilburn, 1992; Jorissen et al., 2006 and 2012). According to Sutton (1984), corporate preparers of financial reporting, contrary to investors and other users, are more willing to participate because they are richer, less diversified and their economic interests are more homogeneous. These characteristics reduce the cost of submitting a comment letter and increase the possibilities of success. Giner and Arce (2012) argue that even in a case where users are wealthier than preparers, they would be less interested in any standard because of their diversified portfolios.

Several works show that preparers participate significantly more when proposals have a major impact on the financial statements of a firm (i.e., Jorissen et al., 2012); participation also depends on the type of accounting issue under consideration (Sutton, 1984). The motivation to participate increases substantially when the accounting standard affects the recognition or measurement of relevant issues. It is accepted that accounting standards can impact financial statements; for example, changes in lease accounting would increase assets and liabilities due to operating lease capitalisation. Therefore, it could be interesting here to continue exploring the variables that explain the decision to submit a comment letter based on robust theories such as the agency framework and the positive accounting framework.

Koh (2011), who examines the option expensing proposal launched in 2004, concludes that smaller firms that belong to an industry with peers who have lobbied and that have higher board independence are more likely to self-select to lobby. Recently, Kosi and Reither (2014) analyse the exposure draft of the Insurance Contracts standard, focusing principally on financial and insurance firms. Their results show that the lobbying decision is positively related to firms' financial constraints, firm size, profitability and past

lobbying experience. Moreover, firms with more dispersed ownership are more likely to lobby intensively. This finding is in line with block holders' potential to obtain private information and thereby disentangle the effect of accounting changes on firm performance. One interesting contribution is that the empirical evidence shows that firms who lobbied in the past might experience economies of scale.

The group formed by auditors has been less studied, in contrast to preparers. According to the agency theory perspective, auditors are expected to lobby in response to the interests of their clients (Watts and Zimmerman, 1982; Puro, 1984), to risk and to the transfer of wealth (Hylton-Meier et al., 1993). Watts and Zimmerman (1982) argue that in a competitive equilibrium, auditors' wealth ultimately depends on their customers. Agency theory (Jensen and Meckling, 1976) explains the ways in which the interests of clients and auditors may overlap. The role of the auditor is represented as that of an agent, and corporate shareholders are its primary customers, so that auditors are expected to participate by representing the benefit of their clients and thus, in the process, also benefit themselves (Puro, 1984). Regarding only the Big Four audit firms, which have a different profile than other auditors, the tightening auditing oligopoly manifests in a decrease in competitive pressure to satisfy client preferences and causes concern about rule reliability and litigation costs (Allen, Ramanna and Roychowdhury, 2013).

The other groups, users, academics or national standard-setters, have been less studied by the literature. However, Durocher et al. (2007) argue that the theoretical framework from preparers could be extended to them. For example, the only paper that focuses on the participation of national standard-setters is Giner and Arce (2014). The results show that the participation of national standard-setters increased at the end of the process, which is consistent with institutional theory. They conclude that national standard-setters who are interested in a convergence process with the IASB are more likely to participate to gain legitimacy. In relation with other collectives, such as academics, there is so little participation. Then, researchers may pay attention to the unexplored collectives to provide new insights.

There are basically two methodologies used to determine lobbyist participation. First, the identification of significant differences between lobbying groups versus no lobbying groups could be detected using univariate methodology such as the Wilcoxon-

Mann-Whitney test or the Kruskal-Wallis test (i.e., Giner and Arce, 2012; Kosi and Reither, 2014). Second, the decision to submit a comment letter and its determinants could be modelled by a discrete choice model. The most common models are probit (i.e., Ang, Sidhu and Gallery, 2000; Jorissen et al., 2012) and logit (i.e., Francis, 1987; Koh, 2011), which offer a binary dependent variable for lobbyists and not lobbyists to identify the probability of submitting a comment letter and the variables that determine the behaviour of submitting a comment letter. Other authors have also conducted multinomial regression when the dependent variable takes three or more values as the probability to submit one, two or more comment letters (Kosi and Reither, 2014; Santos and Santos, 2014). This methodology allows researchers a more precise categorisation of the variable of interest than the binary models, which address only two categories.

In general, the empirical studies suggest differences between firms that choose to submit a comment letter and firms that do not (Koh, 2011; Kosi and Reither, 2014; Santos and Santos, 2014). In this sense there is an extent study that summarizes the main studies about firm lobbying choice around FASB (Gipper, Lombardi and Skinner, 2013). The challenge for researchers could be to find solutions to make theory more robust in explaining the reasons for lobbying, perhaps by complementing them with sociological and psychological theories. Another practical problem is that studies often focus on companies because they submit more comment letters than other groups. Focusing on other collectives, such as auditors, or extending the sample would be good ways to solve this limitation. In the next section, we review the participation of constituents in an international setting to address the global profile of the IASB.

2.3.2. Participation according to geographical location

The IASB is a global standard-setter; therefore, it needs to have international legitimacy (Johnson and Solomons, 1984; Larson, 2007; Jorissen et al., 2013). The objective of international accounting standards is to make financial information comparable worldwide. However, each country has particularities that may affect its accounting approach (Nobes, 2006).

There is a part of the literature that principally studies the impact of country variables in the decision to submit a comment letter. The first reflexion was made by Sutton (1984), who stated that different costs of noncompliance in different countries affect the lobbying level. Also literature on earnings management (Hope, 2003; Leuz, Nanda and Wysocki,

2003) and quality of earnings (Ball, Kothari and Robin, 2000) provides evidence that the cost of noncompliance differs between countries (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998). Moreover, it is highly demonstrated that accounting practices are influenced by country variables such as capital market development, nation's legal system, enforcement systems, investor protection, etc. (Leuz et al., 2003).

As mentioned before, the theoretical foundations are primarily based on two premises. First, an organisation that submits international standards needs to be legitimated by the international community. Comment letters may contribute to increasing procedural legitimacy. Second, different country characteristics might include biases and different access due to the different cost of lobbying (Jorissen et al., 2013).

The literature on comment letters has developed some models that explain the participation intensity by countries, firms or specific industries. As the impact of accounting standards adoption does not affect the entire jurisdiction in the same manner, the motivation to participate in the accounting standards setting process remains a special interest. Focusing on the country level, the empirical studies include specific country variables that explain different levels of participation intensity by country (Jorissen et al., 2006 and 2013; Larson and Herz, 2013; Knospe and Dobler, 2014). Empirical studies usually use the lobbying intensity of a particular country as a dependent variable measure based on the number of writers or the number of comment letters of a country (i.e., Larson and Herz, 2013 use both). The variable could be represented in absolute terms (Knospe and Dobler, 2014) or scaled by other variables such as companies listed in the domestic market (Jorissen et al., 2006) or GDP (Jorissen et al., 2013).

With respect to the determinants of lobbying intensity, the variables are usually classified into two groups: firm-level variables and firm-country variables. Related to the former, the most common variables are contractual arrangements, compensation arrangements, regulatory and industry motivations, size, ownership structures, and governance mechanisms. Related to the latter, the most common variables are the country's level of economic development, proxy variables for financial, law and government systems, and also variables such as language barriers, reliance on the IFRS, country cultural dimensions, etc.

Economic variables have been considered in several previous works (e.g., Jorissen et al., 2013; Larson and Herz, 2013). Variables such as capital market development and gross domestic product per capita have been chosen as explanatory variables, detecting differences in participation in the sense that more developed countries are more likely to participate than less developed countries (Jorissen, Lybaert, Orens and Van der Tas, 2014).

Orens et al. (2011) suggest that the national regulatory background of preparers could affect their decision to participate versus not participate. Continental Europe has been regulated traditionally by a code law tradition wherein government institutions take the regulation initiative, contrary to Anglo-Saxon countries, where common law tradition emerged and where standards are set by the private sector. The authors assume that respondents from civil law tradition countries face a higher participation cost because they are less familiar with the process. Jorissen et al. (2006) include other variables such as the rule of law, enforcement, tax compliance, earnings management, etc.

Larson and Herz (2013) introduce other types of variables such as language barriers, measured by English language proficiency. This variable is positively associated with participation because lack of proficiency could increase the cost of participation. In addition, they introduce the variable IFRS differences, suggesting that interested parties from countries with larger historical differences in accounting from IFRS are more likely to submit comment letters. Contrary, Holder et al. (2013) demonstrated that writers from countries where the use of IFRS is required or permitted are more likely to submit comment letters expressing an unfavourable opinion.

The cultural variables identified by Hofstede in 1980 (2001) such as individualism, power distance, uncertainty avoidance or masculinity can be linked to Gray's (1988) accounting values, for example, professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and transparency versus secrecy. Gray (1988) describes these linkages in his study, explaining the cultural aspects of a country that support each accounting value. Braun and Rodriguez (2008) have created a score of accounting values aggregating Hofstede's cultural dimension. Both have been used by the literature as a determinant of participation intensity. Jorissen et al. (2013) and Larson and Herz (2013) demonstrate the influence of some of these variables on the decision to participate at the country level.

The contribution of these studies to the literature can be summarised in the next points. These studies use large samples that include several standards and comment periods and a broad set of variables to examine firm characteristics and country variables that influence lobbying. Therefore, the conclusions are more likely to be generalizable to the population. We believe that this line of research provides relevant and useful evidence that standard-setters can use to analyse constituents' behaviour (especially in the case of firms and auditors) and to predict their reaction to future changes in accounting standards. To gain international acceptance, the IASB needs the participation of emerging countries as well as Western countries. The challenge for researchers is to determine why the participation of emerging countries is so low compared to others.

2.4. Literature about the content of comment letters: positions and arguments

Content analysis is a method of codifying and categorising texts. Generally, it is used when a large amount of qualitative information needs to be analysed. Content analysis serves to make inferences from texts related to the sender, the audience or the message itself (Weber, 1990). There are two general approaches to this methodology: form-oriented analysis, which implies the counting of words, concepts or themes; and meaning-oriented analysis, which focuses on inferring the underlying sense of the text.

In the area of lobbying, researchers have more often used meaning-oriented analysis. The content of comment letters may provide valuable information to regulators, for example, to test whether there is consent in some matters or too much opposition. Prior studies that use this methodology have focused on one issue (Yen et al., 2007; Holder et al., 2013). The main advantage of examining a single-issue standard is the ease in measuring the variables of interest, such as the lobbying position (Georgiou, 2005), the sense of the comments (Giner and Arce, 2012), and the accuracy when examining the contextual and specific variables.

Some authors such as Puro (1984), Rahman, Wee and Tower (1994), Kenny and Larson (1995), Georgiou and Roberts (2004) and more recent authors such as Le Manh (2011), Katselas, Birt and Kang (2011), Giner and Arce (2012) and Holder et al. (2013)

classify the global position of respondents between agreement, opposition and, sometimes, neutrality. They try to highlight relationships between the respondents' characteristics and their position (i.e., Koh, 2011). Nevertheless, a model based on the position variable has many shortcomings (Francis, 1987; Buckmaster, Saniga and Tadesse, 1994) because its measure depends on subjective criteria.

To increase the robustness of the investigation, researchers started to analyse different types of arguments in letters. Yen et al. (2007) analyse the content of comment letters written in response to the Comprehensive Income Exposure Draft (FASB, 1996), and they distinguish several types of arguments: definitional arguments, scope arguments, due process arguments, outcome-oriented arguments and others. Similarly, Mora and Molina (2014) use content analysis for comment letters on the IASB's DP of leases (2009) and introduce the analysis of different type of arguments such as conceptual, economic effects, cost versus benefit, subjectivity, anti-abuse or business model.

Some researchers also examine the use of different arguments by groups of respondents. Giner and Arce (2012) develop a content analysis of comment letters on the documents preceding IFRS 2. They focus on identifying arguments and positions in terms of recognition, valuation criteria and reference date. In conclusion, they provide evidence that the constituents' most common strategy is to provide arguments only in the case of disagreement. The economic consequences arguments are used by only preparers and consultants, although they also sometimes use conceptual arguments too; these latter are preferred by regulators. Mora and Molina (2014) add that preparers have learned that the best strategy is to use conceptual arguments because they have observed that this type of argument is the most valued by regulators.

Until this point, we have referred to studies based on a literal content analysis that extracts opinions and arguments. There are other studies that focus on linguistic characteristics of the text that transcend the literal meaning of sentences. There are a few articles that contain this type of analysis on comment letters. Stenka (2013) selects the previous text of the *Conceptual Framework for Financial Reporting: The Reporting Entity* and the comment letters submitted on the proposal. The author identifies and categorises rhetorical devices under four main headings: (a) lexical choice, (b) sound patterning, (c) figurative language and (d) schematic language. The previous sociological

work of Bourdieu (cited by Stenka, 2013) supports the hypothesis that rhetorical language is a persuasive tool.

Because special software has been developed to analyse text, it could be valuable to use these techniques to deeply investigate the style, tone, content and position of comment letters. Analysing text from management reports or financial disclosures, researchers have examined other factors such as readability (Loughran and McDonald, 2014) or tone (Patelli and Pedrini, 2013). This field of research is extensive and might be applied to accounting standards setting process and in particular in the context of comment letters.

2.5. Insights for standard-setters: the usefulness of comment letters

After reviewing participation, drivers and the position of interested parties, we would like to go a step forward and review those studies whose objective is to analyse the impact of comment letters on regulators. We try to answer the following questions: Do comment letters submitted to discussion papers and exposure drafts influence the final standards? What is the key to lobbying success?

Therefore, the main variable may be defined as lobbying success, that is, whether the lobbyists reach their objectives. To answer these questions, a definition of lobbying success is necessary. Authors such as Rahman et al. (1994), Van Lent (1997), Mcleay, Ordelheide and Young (2000) and Giner and Arce (2012) adopted a pluralistic framework, in which lobbyists, whose proposals are accepted, are considered to be more powerful and successful than lobbyists whose suggestions are rejected by standard-setters. Then, lobbying success is defined as the ability to persuade standard-setters to make final decisions in some direction.

To find the determinants of lobbying success, the expectations of regulators and lobbyists should be considered. Supposing that regulators were in some way social welfare-oriented (Polk, 2002), they would make decisions that maximise public benefit. To comply with this aim of increasing shared welfare, one of the primary objectives of the IFRS Foundation is to produce high-quality accounting standards that are understood and accepted by the international community.

If lobbyists want to influence regulators because of self-interest, and standard-setters are involved in increasing the quality of accounting standards to maximise social welfare, lobbying success is located at the point where both interests converge. In this sense, Hansen (2011) argues that lobbying success is positively correlated with the ability of respondents to transfer valuable information to regulators. Therefore, the capacity to anticipate the information needs of standard-setters could be a fruitful thermometer of lobbying success.

In general, the evidence is mixed. Yen et al. (2007), who examine the FASB, find a connection between the specific arguments used and the recommendations made in the comment letters and the most significant changes between the exposure draft and the final standard. They suggest that the FASB attempted to understand the positions of participants, and the content of the letters may have influenced the final standard. Other studies support that constituent coalitions could capture the standard-setting process in order to secure favourable regulation (Cortese, Irvine and Kaidonis, 2010).

Moreover, some studies report evidence of influence from preparers (Rahman et al., 1994; Kwok and Sharp, 2005). Other reports show the impact of auditors in contrast to business preferences (Haring, 1979; McLeay et al., 2000) and support the effect of preparers conditioned to the help of auditors or academics. Seamann (1999) defends the power of users. There are other strands of studies that do not find any significant influence (Buckmaster et al., 1994; Van Lent, 1997).

We have not found many studies that examine lobbying success focusing on the IASB. However, there are some authors that directly or tangentially study this goal and reach interesting conclusions. For example, Le Manh (2011), who analyses comment letters submitted to the IASB that discuss the comprehensive income project (one DP and two ED), does not offer clear evidence for the power of participants on the IASB's final decision. Hansen (2011), analyses comment letters submitted to five exposure drafts (from ED2 to ED6) and concludes that lobbying success is positively related to lobbyists providing quality information to the IASB. However, this success also depends on the lobbyists' credibility and the impact that they have on the viability of the IASB.

In the same line, Giner and Arce (2012) analyse comment letters submitted to all consultation periods of the share-based payments project. The results show that none of the interested groups or parties has a dominant effect. This conclusion is contrary to

the findings of Kwok and Sharp (2005) because their research, built on a period when the IASC was the international standard-setter, shows that preparers were the most influential group. Additionally, Giner and Arce (2012) demonstrate that only conceptual arguments might be capable of influencing the IASB. Therefore, they believe that conceptual arguments are more useful to regulators than those based on economic consequences.

The techniques used to examine the impact of comment letters on standard-setters are founded in the methodologies of participation studies and content analysis. To examine the relation between input and output, we need a mix of qualitative and quantitative methods. First, the qualitative method allows researchers to identify the final position of the standard-setter in every statement of the new standards. Second, a comparison between the positions of standard-setters with the previous positions of constituents in comment letters is required; this comparison could be conducted using a binomial test (Giner and Arce, 2012). Later, in a quantitative analysis, the determinants of success could be tested individually in a univariate analysis or all together in a multivariate test, for instance, to determine the positive association between groups of arguments, considering the predictor variable and the outcome.

There are also some innovative methods to measure success such as the methodology applied by Bautista et al. (2014). These authors create an influence index, which is a contribution to this field. The index describes the degree of overlap with the subsequent decisions of the IASB and reveals significant differences between individuals due to the influence of political factors. This finding is in line with the definition of political lobbying by Zeff (2002) and is due to the influence of factors related to the highest technical quality of the responses. This index, together with the participation index cited above, constructs the lobbying index and allows a prediction of which comment letters will be the most influential.

Models that predict the content and form that are more likely to influence standard-setters are a very interesting contribution to the lobbying literature because they include evidence of prior empirical studies and provide practical recommendations to standard-setters and constituents. We considered that this research field will provide valuable and interesting avenues for advance in the lobbying arena.

2.6. Conclusion of the chapter

Based on rational choice theory and positive accounting theory, the previous literature supports the fact that the majority of interested parties submitting comment letters within the due process for accounting standard-setting are moved by their self-interest and not by an altruistic interest. The decision to lobby is determined by a cost-benefit function. This equation has its roots in classical microeconomic theory, in which individuals tend to maximise their utility, and also in behavioural theories, in which other factors influence the perception of cost and benefits. Comment letters allow lobbyists to express their position based on conceptual and economic arguments. Individuals and groups can pressure standard-setters in a public manner, exposing the weaknesses of and gaps in the standards.

The motivation of regulators is oriented towards increasing the quality of accounting information to reflect in the best possible manner the dynamics of the real economy. Therefore, the purpose of achieving high quality standards and, at the same time, the aim of gaining legitimacy make the submission of comment letters a useful instrument for standard-setters. Moreover, a symbiotic effect might be produced because both parties profit from this relationship. The self-interested motivation of lobbyists might not always be contrary to the general benefit. First, the natural selection of interested parties into a public process mitigates the bias of being uninformed; thus, valuable insights and data are provided by lobbyists, thereby improving the information of regulators. Second, the fact that comment letters are sent to standard-setters increases the input legitimacy of these organisations and their outputs.

Comment letters have been used as a proxy for lobbying activities in the accounting standard-setting process, among other lobbying instruments. First, they are observable due to their public character, and second, they are linked to other lobbying methods. Researchers have focused on identifying the interested subjects or groups that submit comment letters, understanding the reasons for participation, understanding positions and arguments and examining the effects that comment letters have on regulators. This research makes a contribution to future papers that focus on comment letters. At this moment, a revision of the literature and primary research lines is needed to understand the possibilities. These studies infer patterns within the lobbying phenomenon in terms of using comment letters, such as who the lobbyists are, and why, when and how do

they lobby? However, we observe some gaps in papers that could become new issues for future research.

The majority of articles focused on explaining company behaviour because there is a lack of user responses in term of written submissions. Therefore, regarding information about who is a lobbyist and who is not or the reasons to be involved in the lobbying process, we consider groups such as auditors, academics or non-professional investors to be valuable samples for future work. From the perspective of standard-setters, they need to incentivise the participation of less-represented groups and less-represented countries, such as in the case of the IASB. Further challenges to consider are the extension of content analysis through new software, the combination of comment letters with other lobbying methods, and the demonstration of causality between comment letters and final standards considering how theories of regulation characterize accounting standard-setting, among others. All of these proposals are oriented towards the primary objective: predicting the behaviour of constituents and standard-setters to improve the standard-setting process and obtain better international accounting standards.

Appendix 2.1. Summary tables of recent articles about lobbying in the main standard-setting process

Table 2.1.A. Studies about determinants of the decision to lobby: mainly focused on firm level factors

Author/Year	Theory	Objective	Sample	Methodology	Main results
Koh, (2011)	Positive accounting theory. Economic theory of democracy. Institutional theory.	What drives firms' decisions on whether or not to lobby and, if so, whether to oppose or support FASB's 2004 proposal.	2004 FASB's stock option expensing proposal 368 CLs	Two-level nested logit model.	Firms' closeness to debt constraints is the main incentive to oppose option expensing in 2004, in contrast to 1993. Firms that are smaller, that are in an industry with peers who have lobbied, that have board interlocks with firms that have lobbied, and that have higher board independence are more likely to self-select to lobby.
Jorissen et al. (2012)	Positive accounting and agency theory. Economic theory of democracy. Regulation theories.	This paper sets out to enquire about the nature of constituents' participation in the IASB's due process in terms of representation and drivers to participate.	2002-2006 (33 IASB issues) 3.234 CLs	Multivariate analysis through several sets of linear regression models.	Preparers participate the most, followed by the accounting profession and standard-setters. Preparers, accountants, standard-setters write more comment letters to issues with a major impact on company accounting numbers. Stock exchanges, their supervisory authorities, and users write more to disclosure issues. Lobbying preparers are larger and more profitable than non-lobbying preparers
Santos and Santos (2014)	The economic theory of regulation Positive accounting theory	To find the determining factors in lobbying strategies in accounting regulation of the oil industry.	2004 IASB DP IFRS 6 Extractive activities (DP-EA) 25 writers firms CLs) & 127 non lobbying firms.	3 models: 1) binomial logistic regression; 2) multinomial logistic regression; 3) the Poisson regression model.	The results support the hypothesis according to which size and the existence of a performance-based management compensation plan (less convincingly) represent determining factors for lobbying by oil firms. The propensity to reject a proposal in the DPEA is greater than the propensity to accept a proposal. So, lobbying is conducted to reject any change to the status quo in accounting regulation for the oil industry.

Author/Year	Theory	Objective	Sample	Methodology	Main results
Kosi and Reither (2014)	Positive accounting theory Information asymmetry theory	To find the determinants of financial firms' lobbying decisions and also the determinants of their long-term lobbying intensity.	IASB ED IFRS 4 Insurance Contracts 250 CLs	Multivariate analysis through probit regression model.	Preparers participate more than users. Additionally, this study documents a clear link between potential consequences of anticipated accounting changes in the ED and financial firms' lobbying behaviour, consistent with findings for non-financial firms. Insurance companies are more likely to lobby than other sector firms. For the sample of IFRS firms, the lobbying decision is also positively related to firms' financial constraints. They find that lobbying is positively related to firm size, profitability and past lobbying experience. Finally, the results show that insurers are more likely to lobby intensively over the period 2007–2010. Furthermore, IFRS firms with more dispersed ownership are more likely to lobby intensively. This is in line with blockholders' potential to obtain private information and therefore disentangle the effect of accounting changes on firm performance. They find stronger empirical results for IFRS than USGAAP firms.

Table 2.1-B: Studies about determinants of the decision to lobby: mainly focused on country level factors

Author/Year	Theory	Objective	Sample	Methodology	Main results
Jorissen et al. (2006)	The economic theory of regulation. Positive accounting and agency theory. Economic theory of democracy.	To analyse participation and drivers of constituents in the IASB standard-setting process.	2002-2005 23 IASB issues) 2.245 CLs	Descriptive and univariate analysis.	Preparers participate more than users and large companies participate more often than smaller corporations. Corporate comment letters come mainly from EU. Regarding geographical intensity of lobbying, the results indicate that in countries with high levels of enforcement, with high judicial efficiency, and with a positive attitude towards tax compliance, firms engage more often in lobbying. With regard to the cultural variables they obtained mixed results; only the existence of large power distance influences the lobbying behaviour in a negative way. Variables relating to domestic earnings management practices and the domestic information environment of the firm have no significant influence.
Larson (2007)	Legitimacy theory Positive accounting and agency theory	To investigate constituent participation of one significant part of the IASB, the International Financial Reporting Interpretations Committee (IFRIC).	2003-2006 (18 IFRIC issues) 714 CLs	Descriptive analysis. Analysis on bivariate correlations.	The participation of countries in IFRIC is significantly associated with the strength of its financial reporting system. The European Union submitted a majority of comment letters, with the UK being the largest provider. The US, Canada and developing countries contributed with few comment letters. Responses from countries requiring use of IFRS or 'equivalents' produced mixed results. Regarding the involvement of stakeholders, standard-setters and accounting profession generate more comment letters than firms or users.
Jorissen et al. (2013)	Legitimacy theory Positive accounting theory Economic theory of democracy	To examine the evolution of constituents participation in terms of geographic diversity and whether biases (institutional regimes) or unequal access (differences in participation costs) are present in this process.	1997-2007 90 IASB document 7.442 CLs	Multivariate analysis through several sets of linear regression models.	They observe an increase in participation over time. Also the findings show distortions in the geographic representation of constituents due to differences in the institutional regimes of countries and in participation costs. 1) Jurisdictions characterized by lower investor protection, by lower quality of enforcement, more code law oriented and with less transparency have lower participation rates. 2) Cost that are negatively associated with the participation intensity of a country such as the level of non-familiarity with: the English language; a system of private standard-setting; the accounting values in which IFRS are embedded (professional judgment, transparency and optimism). The IFRS adoption status in a country does not influence to a large extent differences in geographical participation intensity.

Author/ Year	Theory	Objective	Sample	Methodology	Main results
Larson and Herz (2013)	Legitimacy and institutional theory. Economic theory of democracy	To understand different geographic response levels depending on institutional factors, other factors, nature of the issue, evolution over time.	2001-2008 (57 IASB issues) 5.875 CLs	Multivariate analysis through several sets of linear regression models.	Countries variables such as EU membership, G4+1 membership, IASB donors and higher equity market development are associated with higher levels of countries participation. However, EU membership is not a significant predictor of participation in the 2005–2008 period. Developing countries are responsible for 12% of CLs. Countries with more historic divergence in accounting standards from IFRS have greater participation. Language barriers may hinder participation from non-English speakers. Responses per each standard issued did not increase over time, being higher for discussion papers and substantive issues rather than for amendment issues, and procedural issues. In most countries one single stakeholder interest group provides at least one half of all responses.
Knospe and Dobler (2014)	Legitimacy theory Economic theory of democracy	To determine the impact of country and due process document characteristics on the level of constituents' participation, according to (1) the level of economic development, and (2) cultural characteristics of the countries of origin.	2006–2012 56 IASB issues 8.825 CLs	Multivariate analysis through several sets of linear regression models.	The descriptive and univariate results indicate differences in constituents' participation between interest groups and continents. Preparers of financial statements and European constituents participate most. The level of constituents' participation per country of origin is associated with a country's market capitalization and its society's level of individualism, while unrelated to other economic and cultural characteristics. The level of constituents' participation per due process document is positively associated with the input opportunities offered by a due process document while un-associated with the complexity of the project it is affiliated with.

Table 2.2. Studies about the content of comment letters: positions and arguments

Author/Year	Theory	Objective	Sample	Methodology	Main results
Yen et al. (2007)	Theories of regulation. Coalition and Influence theory.	The main aim is to categorize systematically code and analyse the content of comment letters written in response to the CI ED, focusing on how firms attempt to persuade the FASB. They focus on types of arguments, associations of arguments with industry affiliation and consistence with final standard.	1997 FASB ED SFAS 130 Comprehensive Income Reporting 278 CLs	Meaning oriented content analysis	They find that writers used a wide variety of arguments: definitional, due process, and outcome-oriented arguments. Outcome-oriented arguments related to external financial statement users are the most common. The contents of the letters suggest a distinctly tailored aspect to the letter-writing process. Many respondents described company-specific circumstances (driven by industry affiliation) and speculated about how the proposal would affect investors' perceptions of the operating results and level of risk for their company. Finally, they observe the changes made between the ED and the final standard addressed the most common objections of the writers, although a causal connection cannot be made given other concurrent lobbying activities.
Katselas et al. (2011)	Positive accounting theory.	To investigate the influence of firm characteristics such as size, performance, and number of segments on firms' lobbying position choices on ED 8.	2006 IASB IAS 14 Segment Reporting ED 8 Operating Segments 182 CLs	Meaning oriented content analysis	Their finding are related to preparers. Of 34 preparers, sample is 27 listed corporations, mainly from UK. Larger firms are more likely to lobby. Results also reveal that larger firms were more likely to lobby in favour of ED 8, and firms with two or fewer segments were more likely to lobby against ED 8. It also provides evidence that relatively profitable firms operating in an environment of low competition are less inclined to support ED 8.
Giner and Arce (2012)	Institutional theory. Economic theory of Democracy.	There are several objectives: I. To examine the groups that participate in the process; II. To analyse the content of their submissions; III. To examine power relationships by focusing on the standard-setters' responses to the lobbyists' suggestions.	2002-2004 G4+1 and the IASB (2 DP and ED for IFRS 2 Share-based payments)	Content analysis Univariate tests Chi-Square	The empirical analysis show the following results: financial statements' preparers sent more CLs than others; firms sent twice as many letters in early stage of the regulatory process. In contrast, the other groups sent more CLs to the latest document. Companies and consultants frequently used economic-effects arguments, but as the commenting period progressed, they replaced them with conceptual viewpoints. The profession and regulators showed a position towards the proposals similar to users. The analysis of influence shows that none of the interested parties had a dominant effect, what suggests the IASB's due process is indeed pluralistic.

Author/ Year	Theory	Objective	Sample	Methodology	Main results
Holder et al. (2013)	Economic theory of Democracy.	I To explore the level of participation. II level of support, nature and intensity of arguments used to support constituents' positions, and extent to which the various supporting arguments are cited by different types of respondents.	IASB's ED IAS 37 and the FASB's ED to SFAS 5. 369 CLs	Content analysis Ordered logit regression model Ordinary least squares (OLS) regression models	Both proposal received unfavourable responses, but the IASB's proposal received more pressures to eliminate the probability recognition criterion than the FASB's proposal. Users support more the proposal than other stakeholders. Finally, they observe significantly more respondents to the IASB ED were from countries required or permitted to use IFRS (more likely to express an unfavourable response to the ED and to cite relevance to support their position), than from countries required to report under their national GAAP.
Barral Rivada (2014)	Positive accounting theory. Economic theory of Democracy.	The aim is to study why preparers lobby, in what sense they do and how they argue.	2009-2013 IASB-FASB leases proposal ED/2010/9	Content analysis Multivariate regression models. CHAID method	The results reveal that preparers participate in this project significantly more than others. Some characteristics influence this behaviour (Anglo-Saxon origin, the smaller size and trading on a smaller number of markets). They find that the opposite position justifies the participation because the majority position is contrary the proposal. The opponents use a higher battery of arguments: technical and economics. Technical arguments are less determinants of the position.
Mora and Molina (2014 and 2015)	Ideology theory of regulation. Positive Accounting Theory. Economic theory of Democracy.	They develop hypothesis about the impact of additional variables in lease project as the level of agreement with the proposal, the type of argument and the participation in IASB activities.	2009-2013 IASB-FASB leases proposal DP2009 302 CLs	Content Analysis Descriptive and CHAID method	The results confirm that the willingness to participate and the position in favour or against the proposal are consistent with the Positive Accounting Theory and the Economic theory of Democracy. In general preparers are the most active group and are mainly against the proposals; auditors' position is different to their clients, standard-setters' position is closer to the auditors' position than to preparers'. The strategy followed by all the constituents is the primary use of conceptual opinions to persuade. This is new and it could be explained by a learning process. Another novelty is the use of the business model argument. The number of arguments is significantly higher when the participant is against the proposal.

Table 2.3. Studies about the relationship between the inputs (comment letters) and the outputs (final standards)

Author/ Year	Theory	Objective	Sample	Methodology	Main results
Cortese et al. (2010)	Regulatory capture theory	To determine how the discourse was produced by powerful players (that is, by whom the discourse was created and what it contained), and how it was received, and interpreted by the IASC/IASB.	2000 IASB/ IASC IFRS 6 IP Extractive Industries 52 CLs	CDA-Critical Discourse Analysis	An examination of the discourse practice, using PwC, Exxon Mobil, and the API, expose the interactive process of meaning-making that occurred during the standard-setting process. The due process provided a forum within which powerful and self-interested constituents and constituent coalitions could contribute to and capture the standard-setting process in order to secure favourable regulation.
Le Manh (2011)	Institutional theory	To understand how the IASB makes decisions in regard to the formal inputs in the due process.	2006-2010 IASB Comprehensive income project 493 CLs	Meaning-oriented content analysis Descriptive analysis	The correlation between the IASB's decisions and the opinion expressed by participants to the due process is not obvious and does not provide any evidence of a mimetic isomorphism. The findings suggest that the IASB's comprehensive income project is mainly driven by convergence (with the FASB) issues, which lead to mimetic pressures from the FASB and coercive pressures from the SEC.
Hansen (2011)	Theories of regulation. Positive accounting and agency theory. Economic theory of democracy.	To develop a study regarding the associations between attributes of lobbyists and their lobbying success.	2002–2004 (5 IASB issues) 630 CLs	Meaning-oriented-content analysis. Logit regression model.	The evidence shows that lobbying success is positively associated with: 1) the ability of lobbyists to transfer information to the IASB, measured by higher quality of information in comment letters; 2) the impact that the lobbyists have on the viability of the IASB, measured by their financial contributions and the size of the capital market in their home country. The number of IASB Board Members from a lobbyist's home country is not related to lobbying success.

Author/ Year	Theory	Objective	Sample	Methodology	Main results
Bautista, et al. (2014)	Agency theory. Institutional theory. Economic theory of democracy.	To confirm the existence of collective lobbying about the IFRS for SMEs. Demonstrating the effectiveness of this influence by comparing the decisions finally made by the IASB and the position of each constituent. Confirming the use of different arguments by the stakeholders	2004–2012 (15 IASB issues)	Meaning Content analysis. Index creation: index of influence (IL). Descriptive analysis Calculation of the Gini coefficient	A) The collective influence on the IASB CLs: this work shows that the majority opinions of constituents agreed with fundamental decisions taken by the IASB discussion paper after 2004. However the effectiveness of lobbying by CLs is traditionally made from a collective approach, with inconclusive results. B) The individual influence on the IASB: the influence index. The study suggests the existence of differences in the technical competence of each of the senders, which may provide a different consultative value to each answer. The signs reveal this circumstance are: (i) the temporal discontinuity of the views of each individual and (ii) the possible plot inconsistency of argument into the same comment letter. Furthermore, the influence index, or degree of overlap with the subsequent decisions of the IASB, reveals significant differences between individuals due to both the influence of political factors and technical quality of the responses.

Chapter 3

Country-level determinants of the geographical intensity of lobbying

- 3.1. *Introduction to the chapter*
- 3.2. *Theoretical framework and country-level hypotheses*
- 3.3. *Definition and measurement of variables*
- 3.4. *Sample and descriptive statistic*
- 3.5. *Results*
- 3.6. *Sensitivity analysis*
- 3.7. *Conclusion of the chapter*

Chapter 3

Country-level determinants of the geographical intensity of lobbying

3.1. Introduction to the chapter

In recent years, the international accounting-harmonization process has intensified, as a result of globalization. Because of the combined efforts of the IASB and the FASB to develop international standards within the framework of the terminated convergence project between NIIF and the US Standards, researchers' attention to the regulatory process has increased.

Both of these standard-setters (i.e., the IASB and the FASB) are private organizations whose activities have an undeniably political character. Legitimacy theory supports the proposition that these organizations need community support to maintain their operations (Deegan, 2014). Both standard-setters have designed the entire standard-setting process to achieve the levels of independence, transparency and impartiality required for procedural legitimacy (Suchman, 1995; Burlaud and Colasse, 2011). For this reason, the documents and drafts launched for public discussions and the establishment of formal methods, as the submission of comment letters, have been set to encourage participation among constituents (Tandy and Wilburn, 1992; Larson, 2007; Richardson and Eberlein, 2011). Although the standard-setting process has an international scope, country participation is not homogeneous worldwide, and there are several factors that explain participation intensity across various regimes and jurisdictions. Geographical participation and the constituents implicated in the standard-setting process are matters of considerable interest and importance both to authorities (G20, 2009) and to researchers (Jorissen et al., 2013)

Standard-setters have cultivated "*the belief among constituents that their input exerts some degree of influence upon the ultimate content of standards*" (Fogarty, 1994, p. 220). In this context, some individuals or groups interested in the final standards seize opportunities to participate in the standard-setting process, seeking to persuade

regulators in an attempt to affect the accounting rules for self-interested reasons (Watts, 2006), depending on their expected effectiveness (Sutton, 1984). This phenomenon is called political lobbying (Zeff, 2002). According to Watts and Zimmerman (1978) and the positive accounting framework, the constituents' opportunistic behaviour of constituents should be linked both to their underlying economic motivations and their characteristics. Both constituents' motivation to participate and their potential influence on accounting standard-setters have captured special attention in the academic community. Moreover, considerable effort has been spent on understanding how different legal and informational environments, traditions and values among interested countries (i.e., La Porta et al., 1998; Ball et al., 2000; Hope, 2003; Leuz et al., 2003; Nobes, 2006; Zeghal and Mhedhbi, 2006; Bae, Tan and Welker, 2008; Cho, El Ghoul, Guedhami and Suh, 2014) may explain participation intensity (i.e. MacArthur, 1999; Larson, 2007; Jorissen et al., 2013; Larson and Herz, 2013; Knospe and Dobler, 2014).

The great concern related to biases in international participation and the academic questions about the country factors that may influence lobbying behaviour also motivate our research. The leases project, prepared jointly by the IASB and the FASB, which will replace the standards currently in force (IAS 17 and ASC 840), has been selected as the object of the study for several reasons. The highly controversial nature of the lease project compared to other projects renders it an extreme and interesting case study. The lease proposal has received more comment letters than almost any other project submitted by the IASB (Barral Rivada, 2014); those letters have arrived from more than 45 different countries. Even unexpected countries, such as Pakistan and Colombia, have been involved in the process. It is expected that the lease proposal will have differing impacts depending on the country; at the same time, such differences determine variance in constituents' lobbying decisions and strategies. Accordingly, it is worthwhile to develop a better cross-country study on a single, specific issue that will allow us to obtain conclusions that consider the specific characteristics of the lease project.

The main reason for the controversy over the lease project is that from a conceptual and practical perspective, it introduces important accounting changes that would significantly affect all companies' financial information. The new approach implies that assets and liabilities associated with all lease contracts (except short term) will be reflected on the balance sheet. This approach would have a substantial impact on companies' financial figures and ratios across all countries (Fülbier et al., 2008; Fito et

al., 2013). Moreover, other accounting notions are also the object of criticism, because they could present practical and conceptual problems (i.e., with respect to the definition of a lease). Although the proposal attempts to overcome current problems with the standards, it simultaneously creates new inconsistencies and structuring opportunities. This fierce debate has been reflected in a long and complex lease standard-setting process. To date, one discussion paper and two exposure drafts have been published for the purposes of public discussion, receiving 1,745 comment letters in total.

Moreover, the lease project is one of the international accounting standards whose aim is to be applied in every country that either permits them or establishes them as mandatory. Every normative change that is applied in different countries with diverse contexts can result in a multiplicity of practical consequences (Wysocki, 2011). The previous literature shows some differences in lease accounting practices or financing strategies among countries. PwC (2010) has performed a study based on the FY2008 information of more than 3,000 listed companies in 54 countries worldwide, concluding that there are great differences in the impact of the proposed lease changes among various industries and countries. The diverse impact among countries may result from previous differences in legal systems, enforcement levels and compliance attitudes (e.g., Psillaki and Daskalakis, 2009; Arimany et al., 2013), current accounting standards (i.e., either rules-based or principles-based) (e.g., Collins, Pasewark and Riley, 2012; Henderson and O'Brien, 2012), and industry composition (e.g., Barral Rivada et al., 2014) among other things, all of which could influence the existing volume of off-balance-sheet operating leases.

To the best of our knowledge, few prior studies have focused on lease projects. Some exceptions are Molina and Mora (2015), who conduct a content analysis of comment letters pertaining to the IASB's DP of leases (2009); they also analyse various types of arguments related to conceptual issues, economic effects, costs versus benefits, subjectivity, anti-abuse issues or business-model issues that were deployed either for or against the proposal. Those authors conclude that conceptual arguments are used both to legitimize lobbying behaviour and to persuade standard-setters. Barral Rivada (2014) develops a meaning-oriented analysis. He examines the draft published in 2010, investigating preparers' characteristics related to the arguments and positions set forth in their comment letters concluding that financial and non-financial companies exhibit different lobbying behaviours.

This research aims to investigate how institutional, economic, and cultural characteristics, along with other country factors, influence the participation of interested parties in the lease standard-setting process. The empirical part of the study is developed by collecting comment letters submitted to the three documents published by the IASB and FASB that are to be discussed before the publication of the final standard: (1) the discussion paper of 2009; (2) the first exposure draft of 2010; and (3) the second exposure draft of 2013. We conduct a univariate analysis using several country factors to the intensity of each country's participation. The findings suggest that institutional framework, economic context, cultural values and other control factors for each country influence the extent to which the interested parties located in a country are more likely to engage in lobbying efforts related to the lease project.

The previous evidence has signalled comment letters as a proxy for lobbying activities (Watts and Zimmerman, 1978; Hansen, 2011; Koh, 2011; Holder et al., 2013). These instruments are public, available and permit researchers to better understand the critical aspects of a new regulation, enabling the study of the characteristics, behaviour and drivers of parties who submit a comment letter for a given new standard.

The research contributes to previous cross-country lobbying studies. This study combines a set of country factors that allow us to extend prior research evidence in the lobbying field: 1) institutional factors that primarily have been tested in other areas of accounting and confirmed as determinants of accounting decisions; 2) economic factors, which are very important for understanding the distribution of hegemonies and power worldwide, 3) cultural factors, which are responsible for differences in political and business behaviour among countries; and 4) other specific factors in accountancy theory, such as the status of IFRS adoption among jurisdictions and the perception of corruption. The consideration of all of these factors in the same research analysis could provide a global image on lobbying attitudes in the lease standard-setting process. In addition, this analysis could help future researchers to better understand the lobbying phenomenon.

Additionally, the study attempts to contribute to a deeper understanding to the lease standard-setting process. To present a more complete picture of country participation in the lease accounting project, this study adds on to previous studies by examining the project's 2013 exposure draft. The definitive lease accounting standard is expected to be published during the last quarter of 2015. This research also contributes to previous

lease project studies, providing an international approach to lobbying behaviour related to the lease standard.

The structure of the chapter is presented as follows. In the 3.2 section, we explain the theoretical framework while constructing the hypothesis. In the 3.3 section, we present the description and measurement of the variables and methodology. In the 3.4 section, we introduce the sample and descriptive analysis. In the 3.5 section, we conduct the statistical test and show the results. The 3.6 section reports the sensibility analysis that gives robustness to previous tests. In the final section, we discuss the results and conclude.

3.2. Theoretical framework and country-level hypotheses

Ongoing globalization has sparked researchers' increasing interest in cross-country studies. A vast accounting literature has already suggested that accounting practices are influenced by variables such as capital market development, national legal systems, enforcement systems, investor protections, etc. (Leuz et al., 2003). Gordon, Greiner, Kohlbeck, Lin and Skaife (2013) advance the discussion of special challenges to cross-country accounting studies posed by differences in, *inter alia*, political institutions (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997; Hope, 2003), the legal environment (Salter and Douppnik, 1992) culture (Hofstede, 2001; Gray, 1988; Schwartz, 1994; House, Hanges, Javidan, Dorfman and Gupta, 2004) and religion (Guiso, Sapienza and Zingales, 2003).

The IASB is an international regulator. Its accounting standards are applied in various countries worldwide and are expected to be extended into the future, as confirmed by its convergence project with the FASB and similar projects with other national standard-setters. This context provides an interesting scope for empirical academic research to investigate the cost and benefits of the convergence project.

The lease project is a matter of considerable interest to both academics and professionals because it introduces important accounting changes (from both a conceptual and a practical perspective) that would significantly affect the financial information of firms worldwide. We expect the lease proposal to have different impacts

in different countries; the basis of this expectation is the existence of prior studies showing that firms' behaviour depends on the specific country where their activity is developed (PwC, 2010; Henderson and O'Brien, 2012; Barral Rivada et al., 2014). Existing empirical research also supports the proposition that lobbying attitude depends on legal tradition, the financial environment, etc., (i.e., Larson, 2007; Larson and Herz, 2013; Jorissen et al., 2013). Based on this literature, we define four hypotheses related to the influence of country factors on the decision to submit a comment letter on the IASB/FASB's lease proposal. More specifically, we divide the country factors in four groups: institutional factors, economics factors, cultural factors, and other social factors.

3.2.1. Institutional factors

There has been a considerable amount of research conducted on how institutional factors affect firms' financial reporting. The institutional dimension comprehends not only the political and legal system but also the enforcement environment.

Shleifer and Vishny (1997) and La Porta et al. (1997, 1998) consider that a country's financial development is closely linked to institutional factors. La Porta et al. (1997), using a sample of 49 countries, show that countries with better legal protections also have more external finance—i.e., they have broader, higher valued capital markets-. La Porta et al. (1998) also reveal that differences in legal protections for investors explain differences in countries' financial development.

The framework developed by La Porta et al. (1997, 1998) is a baseline both to understand and to develop how the legal and institutional environment influences corporate finance and governance worldwide. Subsequent studies reveal differences in financing and ownership patterns across countries driven by differences in legal rules regarding both investor protections and the quality of their enforcement (Djankov, La Porta, Lopez-de-Silanes and Shleifer, 2008; Cho et al., 2013). The literature has also demonstrated a country's higher levels of enforcement and compliance with standards may have an impact not only on levels of reporting quality (Leuz et al., 2003; Bradshaw and Miller, 2008) but also on levels of firms' participation in the standard-setting process (Jorissen et al., 2013).

H₁: Differences in institutional context among countries may explain the major or minor propensity of interested parties to lobby in the lease accounting standard-setting process.

In this context, it is necessary to measure both *ex ante* protections and *ex post* enforcement related to non-compliant behaviour. Based on the prior lobbying literature, we chose rule of law as *ex post* enforcement and shareholders' rights as *ex ante* protection (Jorissen et al., 2013). Shareholder protection has been included in most prior cross-country accounting cross country studies and is very important to a country's inversion volume and capital market size (La Porta et al., 1997). Moreover, the assessment of rule of law in the home country has been considered either an important condition for accounting quality or a disincentive for earnings management (Leuz et al., 2003).

Psillaki and Daskalakis (2009) believe that in absence of strong property-rights protections and the efficient enforcement of laws, leasing may be useful for facilitating greater access to finance. Considering that the lease standard is moving towards the total capitalization of leases, higher enforcement levels in a country could influence participation intensity if the interested parties believe—and they do—that the accounting proposal would have negative economic consequences. We establish the next sub-hypothesis, expecting a positive relation between the previous variables and the tendency to lobby:

H_{1a}: Constituents from countries with a high level of rule of law are more likely to lobby in the lease accounting standard-setting process compared to constituents from countries with a low level rule of law.

H_{1b}: Constituents from countries with a high level of shareholder rights are more likely to lobby in the lease accounting standard-setting process compared to countries with a low level of shareholder rights.

3.2.2. Economic factors

Economic development has been considered in several previous works as a determinant of lobbying in the standard-setting process (e.g., Larson and Herz, 2013; Jorissen et al., 2014; Knospe and Dobler, 2014). Wealthier companies and individuals

have a larger capacity to spend resources on lobbying to obtain more favourable regulations (Sutton, 1984). As an extension of this assumption, it should be established that constituents from wealthier countries with larger traditions of capital markets and greater economic structures are supposed to be larger and richer, and they are supposed to be better able to afford the cost-benefit function of the decision to lobby. Therefore, more developed countries are expected to produce more lobbyists than less developed countries.

In 2003, Bischoff conducts a study comparing OECD countries, finding that an OECD country's level of economic development is a significant factor in its decision to join a lobbying group. In the field of accounting lobbying, Jorissen et al. (2014, p.103) use capital market development and gross domestic product per capita to identify economically motivated lobbying differences among countries, concluding that "*constituents from countries with developed markets and high GDP per capita are still the overwhelming majority of the participants*". Therefore, we collect two economic factors related to a country's market development, expecting a positive association between economic capacity and the tendency to lobby. We establish the following hypothesis and sub-hypotheses:

H₂: Constituents from countries with a high level of economic development are more likely to lobby in the lease accounting standard-setting process compared to countries with a low level of economic development.

H_{2a}: Constituents from countries with high income are more likely to lobby in the lease accounting standard-setting process compared to countries with low income.

H_{2b}: Constituents from countries with more developed capital markets are more likely to lobby in the lease accounting standard-setting process compared to countries with less developed capital markets.

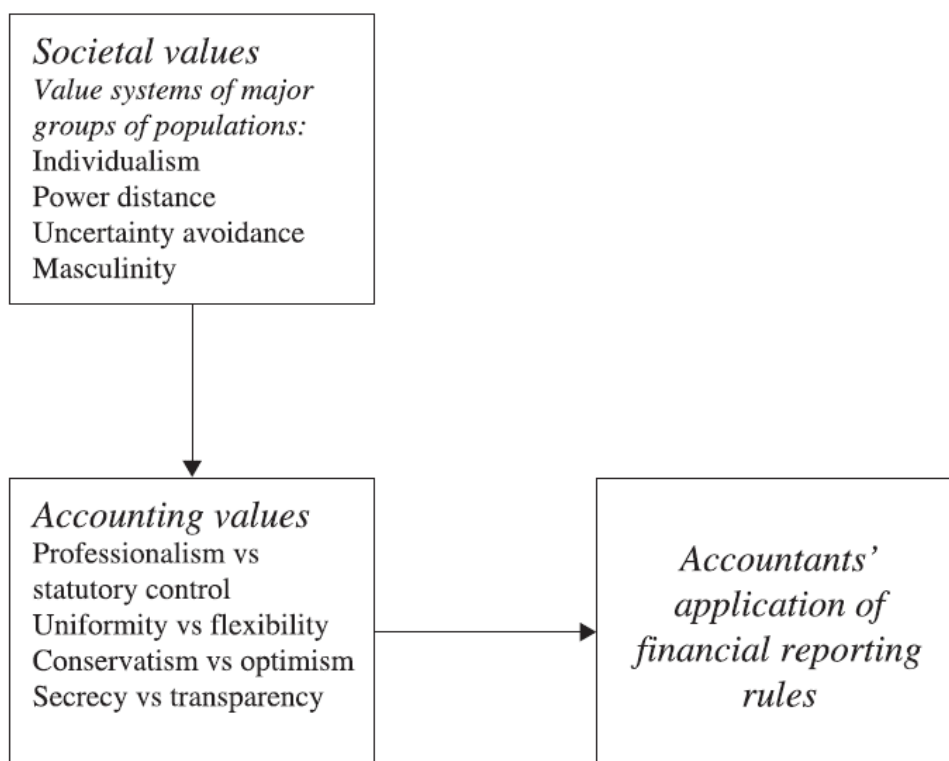
3.2.3. Cultural factors

Prior studies suggest that culture plays an important role in accounting decisions (Chanchani and MacGregor, 1999; Braun and Rodriguez, 2008). In 1980, Hofstede defines culture as "*the collective programming of the mind that distinguishes the*

members of one group or category of people from another" (Hofstede, 2001, p. 9). This author identifies five dimensions to capture their effect on cultural variables (power distance, individuality, uncertainty discomfort, masculinity and long-term orientation). In the literature there are several papers that document the influence of these cultural values over accounting systems. For example, Ding, Jeanjean and Stolowy (2005) reveal that cultural values are associated with the divergence between international accounting standards and national accounting system. Douppnik (2008) indicates that the cultural dimensions of uncertainty avoidance and individualism are significantly related to earnings management, even after controlling for investor protection and other legal institutional factors.

Based on the work of Hofstede, Gray (1988) has developed a framework for analysing the impact of culture on the development of accounting systems, proposing a linkage between cultural dimensions and accounting values or attitudes at the level of the accounting subculture (professionalism versus statutory control; uniformity versus flexibility; conservatism versus optimism and secrecy versus transparency) operationalized by authors such as Gray and Vint (1995) and Braun and Rodriguez (2008). For example, conservatism is associated with both uncertainty avoidance and also a higher level of power distance. In figure 3.1., the relationship between the two groups of values is exposed.

Figure 3.1. Cultural framework applicable to financial reporting rules



Source: Tsakumis (2007), adapted from Gray (1988) and Hofstede (2001).

Hofstede (2001) hypothesizes that cultural values do not change easily, thus implying external changes as the harmonization of accounting standards (e.g., IFRS) does not entail the harmonization of cultural factors that ultimately influence accounting perceptions and decisions (D'Arcy, 2001; Cieslewicz, 2014). Therefore, it could be inferred that the perception of proposed changes in the lease standard will vary depending on a country's cultural values. This statement has important implications for the standard-setters who are managing the international adoption of IFRS.

In an early work about cultural factors in the IASC standard-setting process, MacArthur (1999) analyses comment letters submitted by accounting member bodies from 23 countries, suggesting that cultural and accounting subcultural factors influence the accounting preferences of corporate managers and other accounting professionals.

Jorissen et al. (2013) reveal that the level of professionalism in a country is significantly and positively associated with the participation rates of that country's preparers and non-preparers alike. Moreover, preparers from less conservative

countries, in which transparency is more accepted, participate more by submitting comment letters. With respect to non-preparers, the accounting values of conservatism and secrecy play a less important role in explaining differences in country participation levels. We establish the following hypotheses considering participation intensity in the lease accounting project:

H₃: Highest levels of professionalism, optimism and transparency in a country are associated with the level of participation of constituents in the process of discussing the standard lease.

H_{3a}: Constituents from countries with a preference level for professionalism are more likely to lobby in the lease accounting standard-setting process compared to constituents from countries with a preference for compliance with prescriptive legal requirements.

H_{3b}: Constituents from countries with a preference for conservatism are more likely to lobby in the lease accounting standard-setting process compared to constituents from countries with a more optimistic risk-taking approach.

H_{3c}: Constituents from countries with a preference for secrecy are more likely to lobby in the lease accounting standard-setting process compared to constituents from countries with a preference for a more transparent, open and publicly accountable approach.

3.2.4. Other social factors

Other social factors might have a bias related to participation in the discussion of accounting standards because those factors are responsible for variations in the cost of lobbying (Sutton, 1984). The factors considered here are reliance on the IFRS and the perception of corruption.

The different degrees of reliance on the IFRS—referring to the levels of familiarity with the international standards depending on each country's adoption status—could either eliminate or pose an entrance barrier to the lobbying decision by the constituents of countries worldwide. However, because of the acceleration of the harmonization process and the joint process conducted by the IASB with several national standard-

setters to converge with some national standards, familiarity with the IFRS has been extended to countries in which they are not permitted, for example, the United States.

The reliance on the IFRS has been considered in several lobbying studies that focus on the standard-setting process (Hansen, 2011; Jorissen et al., 2013; Holder et al., 2013; Larson and Herz, 2013; Knospe and Dobler, 2014).

Holder et al. (2013) reveal that writers from countries where the use of IFRS is required or permitted (Deloitte, 2014) are more likely to submit comment letters expressing an unfavourable opinion. Such writers are more familiar with new standards and their potential economic effects; therefore, they are prompted to engage in more lobbying. Conversely, Larson and Herz (2013) introduce the concept of IFRS differences proposed previously by Ding, Hope, Jeanjean and Stolowy (2007), revealing that countries with larger historical differences from IFRS accounting have a greater number of comment letters submitters.

Knospe and Dobler (2014) show that participation is unaffected by a country's level of institutional reliance on IFRS, which could be explained not only by the globally expected character of IFRS and the intention of regulators to harmonize accounting standards but also by FASB's involvement in the convergence project. In this case, we formulate the next hypothesis, expecting a neutral association between intensity of lobbying and familiarity with IFRS.

H_{4a}: Constituents' familiarity with the dimensions and mandatory requirements of IFRS does not make them more likely to lobby to lobby in the lease standard-setting process.

The other social factor considered in this study is the perception of a country's corruption. Firms from countries with higher levels of corruption are not motivated to invest in lobbying the standard-setters because other same country same-country firms could invest lower quantities to avoid the rules' existing restrictions. Based on the previous work of Downs (1957), Sutton (1984) compares the lobbying phenomenon with the activity of voting because both share the characteristic of an investment good, subject to a cost-benefit equation with a degree of uncertainty. In more corrupt places, the existences of an alternative way to obtain the objective with less cost affects the collective decision to lobby. However, in the long term this collective behaviour— non-

compliance with standards caused by corruption—does not guarantee the quality of reporting and the credibility of the markets, national economics and business.

Previous evidence suggests that earnings management and high levels of corruption are negatively related to lobbying activities (Jorissen et al., 2006; Campos and Giovannoni, 2007; Harstad and Svensson, 2006). For instance, Jorissen et al. (2006) report that companies engage in more lobbying on the international accounting standards when earnings management is lower in the domestic market. They argue that constituents from countries that manipulate less tend to lobby in the standard-setting process to protect their self-interest. In contrast, constituents from countries that are accustomed to manipulating do not need to exert as much pressure via lobbying because they can more easily resort to earnings management behaviour.

Campos and Giovannoni (2007) investigate lobbying, corruption and influence by examining the characteristics of a country's firms and institutional environment. Their findings involve the relation between lobbying and corruption: 1) lobbying and corruption are substitutes; 2) lobbying seems to be a much more effective instrument for political influence than corruption, even in less developed countries. In the same line, Harstad and Svensson (2006; 2011) maintain that lobbying and corruption are substitutes and consequently, they are negatively associated with one another. Those authors report that when confronted by a regulatory constraint, firms may choose between bribing bureaucrats to avoid rules and lobbying the government to influence rules. The first option discourages firms from investing in lobbying and is associated positively with the lowest levels of development (i.e., the poverty trap). The second option implies a greater investment but is a more long-term-oriented action.

The lease accounting proposal introduces both a new accounting approach and new restrictions caused by the lease definition, full capitalization caused by the right-of-use registration, a dual model to recognize expenses on the lessees' income statements, etc. There are some constituents that are companies with a great deal of concern about economic consequences; however, we expect a different behaviour in response to potential changes, depending on the perceived level of a country's corruption. We expect that constituents from countries with lower perceived levels of corruption attempt to lobby more than constituents from countries with higher perceived levels of corruption, with the

aim of persuading standard-setters to elaborate rules in the long term that respect their own interests:

H_{4b}: Constituents from countries with lower perceived levels of corruption are more likely to lobby in the lease standard-setting process compared to constituents from countries with higher perceived levels of corruption.

3.3. Definition and measurement of variables

The participation intensity variable has been chosen as the dependent variable to quantify the level of a country's participation activity (see e.g., Jorissen et al., 2013; Larson and Herz, 2013; Knospe and Dobler, 2014; Jorissen et al., 2014). Specifically, Jorissen et al. (2013) propose to scale the number of letters by GDP to define a country's contribution to standard-setting (IASCF cited by Jorissen et al., 2013). We define the variable as the number of comment letters written from a country during a period scaled by that country's population for that year, measured in thousands. It is noted that we do not use GDP as a deflator because GDP is an important independent variable that explains differences in volume of comment letters received from countries (Larson and Herz, 2013; Knospe and Dobler, 2014; Jorissen et al., 2014). The ratio is defined as follows:

$$\text{Participation intensity} = \frac{\text{Number of letters submitted by country}}{\text{Population by country}} \times 1,000,000$$

In the paragraphs below, we explain the definition and measure of the independent variables.

First, we define and measure the institutional variables included in the study. The rule of law is defined as the reflection of "*the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence*" (Ramanna and Sletten, 2014, p. 1538). The rule of law variable is obtained from Worldwide Governance Indicators provided by the World Bank (see Kaufmann, Kraay and Mastruzzi, 2007 and 2009). The index provides an annual measure of the variable and is based on survey responses. It has mostly been used by previous works (see, e.g., Jorissen et al., 2006 and 2013). For the statistics test, this

variable is divided into two values: 1 for countries with overall legal quality and on law and 0 otherwise.

The shareholder rights variable, more commonly named as anti-director rights index, was originally developed for 49 countries in La Porta et al.'s seminal article (1998). This variable represents the degree of protection for minority shareholders'. Recently, it has been recently revised by Djankov et al. (2008) for 72 countries. The composition of anti-director rights equivalent to the addition of six indices that assess the possibility of voting by mail, blocking shares before a shareholder meeting, cumulative voting, oppressed minorities, pre-emptive rights, and the percentage of share capital required to call an extraordinary shareholder meeting (Cho et al., 2013). For the purpose of our study, the shareholder rights variable has been coded as 1 for countries with higher shareholder protection and 0 otherwise.

Second, we explain the economics variables included in the study. Most previous studies use gross national income (GNI) per capita and market development to measure the level of country development (see e.g. Ahluwalia, 1976; Busse and Hefeker, 2007), specifically applied to lobbying studies (Jorissen et al., 2014). Gross national income (GNI) is defined as GDP plus net receipts from abroad of wages and salaries (earned by residents working outside the country) and property income (interest, dividends and correspondent retained earnings of foreign enterprises that are either fully or partially owned by residents). This variable is obtained from the World Bank (2013), which categorizes several groups according to income level: high-income economies include those countries with a GNI per capita of \$12,746 or more. Low- and middle-income economies incorporate the countries that the World Bank has defined as those with a GNI per capita, calculated using the *World Bank Atlas* method, of less than \$12,746 in 2013. We use the dummy variable, which takes two values: high income coded as 1 and middle and low income coded as 0.

Additionally, we classify countries based on their capital market development index, which is based on Morgan Stanley Capital International's (MSCI) website (2015). This organization classifies countries into three groups depending on their capital market development, which is based on economic development, liquidity requirements, and market-accessibility criteria. The first cluster, coded as 2, is composed of countries with developed capital markets; the second cluster, coded as 1, is composed of countries

with emerging capital markets; and the third cluster, coded as 0, integrates countries with frontier capital markets (see, e.g., Jorissen et al., 2014).

Third, with respect to cultural variables we based our analysis on prior studies such as those of Hofstede (2001), Gray (1988), Braun and Rodriguez (2008) and Jorissen et al. (2013). Gray (1988) identifies four accounting values derived from the prior accounting literature: 1) professionalism versus statutory control; 2) uniformity versus flexibility; 3) conservatism versus opportunism; and 4) secrecy versus transparency. Braun and Rodriguez (2008) operationalize Gray's accounting values by creating a score for each of these values and for every country to which Hofstede (2001) has assigned one of the fourth cultural dimension indices (power distance, individuality, masculinity and uncertainty avoidance). The scores are constructed as a direct function of the numerical values presented in Hofstede and the relationships predicted by Gray (1988).

For the purpose of this study, the variables are presented in a dichotomous way. The first accounting value, professionalism, must be presented with preference for individual professional judgement coded as 1 and opposition to more guidance imposed by legal requirements coded as 0. The second accounting value, conservatism, implies a preference for more cautious accounting practices among companies coded as 1 and a more risk-taking approach coded as 0. The third accounting value, secrecy, involves an information-restriction approach, coded as 1, as opposed to a more open and publicly accountable approach, coded as 0. According to Jorissen et al. (2013), uniformity versus flexibility is excluded because it is highly correlated with professionalism.

The variable named reliance on the IFRS measures permissiveness in applying IFRS accounting rules (see e.g., Larson and Herz, 2013; Knospe and Dobler, 2014). To define reliance on the IFRS, we created a dummy variable that takes three values depending on a country's position with respect to the adoption of IFRS: not permitting adoption of the IFRS for listed companies (coded 2); permitting adoption of the IFRS for listed companies (coded as 1); and requiring adoption of the IFRS for listed companies (coded as 0). The source is the Deloitte (2014) website, which reports each jurisdiction's status.

Finally, we introduce the variable perception of corruption, which measures perceived levels of corruption as determined by expert assessments and opinion surveys. The index is calculated every year by the Transparency International

organization (Transparency International, 2015). Corruption is defined as the misuse of public power for private benefit. This measure of the level of corruption has been used in several cross-country studies of corruption and accounting (i.e., Kimbro, 2002; Malagueño, Albrecht, Ainge and Stephens, 2010) and lobbying (Svensson, 2005).

Table 3.1 summarizes the main variables used in this study.

Table 3.1. Description of the country-level variables

Variable	Definition
A. Dependent variable	
Participation intensity	Number of comment letters for each country scaled by the population.
B. Independent variables	
B.1. Institutional variables	
Rule of law	Dummy variable coded as 1 for countries with overall legal quality and on law and 0 otherwise (following Kaufmann et al., 2007).
Shareholders rights	Dummy variable coded as 1 for countries with higher anti-director protection and 0 otherwise.
B.2. Economic variables	
Per capita gross national income (Per capita GNI)	Dummy variable coded as 1 for countries with high GNI and 0 for countries with medium and low GNI. GNI is defined as GDP plus net receipts from abroad of wages, salaries and property income.
Country's capital market development	Dummy variable coded as 2 for countries with developed capital markets; 1 for countries with emerging capital market and 0 for countries with frontier capital markets.
B.3. Cultural variables	
Professionalism	Dummy variable coded as 1 for countries with a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation and 0 for countries with a preference for compliance with prescriptive legal requirements.

Conservatism	Dummy variable coded as 1 for countries with a preference for a cautious approach to measurement to cope with the uncertainty of future events and 0 for countries with a more optimistic risk taking approach.
Secrecy	Dummy variable coded as 1 for countries with a preference for confidentiality and the restriction of disclosure of information and 0 for countries with a preference for a more transparent, open and publicly accountable approach.
B.4 Other factors	
Reliance on IFRS	Dummy variable coded as 2 when the country does not permit adoption of the IFRS for listed companies, 1 when the country permits adoption of the IFRS for listed companies and 0 when the country considers mandatory adoption of the IFRS for listed companies.
Perception of corruption	Dummy variable coded as 1 for countries where perceived corruption is lower and 0 for countries where perceived corruption is higher.

3.4. Sample and descriptive statistic

For our analysis of constituents' geographic distribution, we focus on the comment letters sent by participants during the three consultation periods: 302 comment letters corresponding to the Discussion Paper published in 2009 (IASB, 2009); 788 comment letters corresponding to the ED/2010/9 (IASB, 2010); and 655 comment letters corresponding to the ED/2013/6 (IASB, 2013). We collected a total of 1,745 comment letters from the IASB website. The comment letters have been classified first by country of origin and then by geographical area. Some comment letters are excluded from the final sample: 1) comment letters categorized as not belonging to a single country, which are considered apart from the analysis sample because they cannot be allocated to a specific country variable (for instance, the Big Four auditing firms are considered international and thus classified in the group of supra-national respondents); 2) comment letters that are classified as indeterminate because the respondents do not specify their

country. As a result, the final sample includes 1,630 comment letters: 279, 733 and 618 for the DP2009, ED2010 and ED2013, respectively.

Table 3.2 presents the descriptive statistics for the study's main variable: lobbying intensity by geographical area measured by the number of comment letters submitted for each country. Table 3.2, Panel A indicates the number of comment letters submitted by geographical origin considering six geographical areas in the sample: Europe, North America, Asia, Australia and New Zealand, Latin America and Africa. Table 3.2, Panel B exhibits the average number of comment letters submitted concerning the six geographical areas mentioned. Table 3.2, Panel C presents the descriptive analysis of the dependent variable of the study, which is the number of comment letters submitted for each country divided by population.

Our descriptive outcomes indicate differences in constituents' participation among interested countries. Table 3.2, Panel A, shows that in absolute terms, the majority of the remaining letters are from North America (51% considering the three projects, last column, Table 3.2), mainly the United States; next is Europe (28% considering the three projects, last column, Table 3.2). Latin America and Africa are located on the other side of the balance, submitting a marginal number of comment letters. The large number of comment letters from the United States is likely attributable to convergence projects that are ongoing between the IASB and FASB (Hansen, 2011). Large American firms, which may need to use the IFRS in the future, are very interested in monitoring the process. There are also arguments that countries with a rules-based accounting regulatory approach tend to use more operating leases to remove debt or finances from the balance sheet. Table 3.2, Panel B, shows the average number of comment letters by geographical area. In this case, too, North America has the highest average number of comment letters.

On average, constituents from Australia, New Zealand and the United States participate the most, in terms of population, as is observed in Table 3.2, Panel C. For Europe, the mean of this variable decreases because there are many countries; the United Kingdom presents the highest mean for that continent. In the context of lobbying research and specifically the lease project, Mora and Molina (2014) analyse the responses to the 2009 Discussion Paper on the lease project, showing that "common-law" countries are more involved in lobbying activities than "civil-law" countries, following

the definitions and country classifications of La Porta (1998). Moreover, a country's legal system is also correlated to the classification of Anglo-Saxon countries versus non-Anglo-Saxon countries. For instance, Wehrfield and Haller (2014) show differences between German and British accountants in the practical application of the IFRS. Anglo-American countries have a longer tradition of participation in the private accounting standard-setting context versus the public standard-setting process (Jorissen et al., 2006; Larson, 2007; Mora and Molina, 2014). Jorissen et al. (2014) identify eight countries as frequent lobbyists, which are so designated when interested parties from a country have responded to at least half of the proposals issued by the standard-setter: Australia, France, Germany, South Africa, Switzerland, the Netherlands, the United Kingdom and the United States. Appendix II reports a detailed descriptive analysis of the lease project in which the United Kingdom and the United States have maintained a high percentage of participation in the three documents, followed by Australia, Canada, Germany and France, consistent with Jorissen et al.'s (2014) findings.

It is interesting that country participation varies depending on the responses to a specific project. Reviewing previous works based on an analysis of various projects' comment letters considered as a unique sample, Jorissen et al. (2013), Larson and Herz (2013) and Knospe and Dobler (2014) find that the average participation from Europe (leader by UK) is higher than the average participation from North America considering standard-setting of the IASB and IASC (and some convergence projects). In this case, the opposite is true: North America is the most interested country. Next, we consider it important to disaggregate the evidence by project to help standard-setters and accounting professions understand the participation of interested parties.

Table 3.2. Distribution of geographical origin

Panel A. Total number of comment letter by geographical origin

Geographical origin	DP 2009		ED/2010/9		ED/2013/6		Total	
	N	%	N	%	N	%	N	%
Europe	125	41%	203	26%	157	24%	485	28%
North America	110	36%	422	54%	365	56%	897	51%
Asia	19	6%	55	7%	55	8%	129	7%
Australia/ New Zealand	18	6%	41	5%	23	4%	82	5%
Latin America	4	1%	7	1%	12	2%	23	1%
Africa	3	1%	5	1%	6	1%	14	1%
Subtotal (sample)	279	92%	733	93%	618	94%	1,630	93%
Supra-national	22	7%	37	5%	34	5%	93	5%
Indeterminate	1	0%	18	2%	3	0%	22	1%
Total	302	100%	788	100%	655	100%	1,745	100%

Panel B. Average number of comment letter by geographical origin

Geographical origin	DP 2009		ED/2010/9		ED/2013/6		Pool	
	MEAN	SD	MEAN	SD	MEAN	SD	MEAN	SD
Europe	6.94	13.38	11.28	19.54	8.72	15.29	8.98	16.07
North America	27.50	44.97	105.50	185.78	91.25	164.36	74.75	136.33
Asia	1.36	1.28	3.93	5.18	3.93	4.10	3.07	3.98
Australia/ New Zealand	9.00	8.49	20.50	14.85	11.50	13.44	13.67	11.13
Latin America	0.80	0.84	1.40	2.07	2.40	3.78	1.53	2.45
Africa	1.00	1.73	1.67	2.89	2.00	1.73	1.56	1.94

Panel C. Average number of comment letter - scaled by population - by geographical origin

Geographical origin	DP 2009		ED/2010/9		ED/2013/6		Pool	
	MEAN	SD	MEAN	SD	MEAN	SD	MEAN	SD
Europe	0.31	0.31	0.50	0.49	0.40	0.39	0.40	0.40
North America	0.20	0.24	4.51	7.24	0.47	0.55	1.72	4.32
Asia	0.08	0.15	0.27	0.63	0.24	0.40	0.20	0.44
Australia/ New Zealand	0.69	0.00	1.85	0.63	0.68	0.32	1.08	0.68
Latin America	0.02	0.02	0.01	0.01	0.02	0.02	0.01	0.02
Africa	0.02	0.03	0.03	0.06	0.06	0.03	0.04	0.04

Table 3.2 shows the descriptive statistic by geographical origin considering the total number of comment letters submitted, the average number of comment letters submitted and the average number of comment letters submitted scaled by population. We have classified countries into their geographical area in terms of continents: Europe, North America, Asia, Australia and New Zealand, Latin America and Africa.

3.5. Results

This section presents our results in relation to the participation intensity variable by countries measured by the number of comment letters for each country scaled by the population. We use several univariate tests to detect statistically significant differences among countries. Specifically, we use the non-parametric Mann-Whitney-U test and the non-parametric Kruskal–Wallis test. The Mann-Whitney-U test is used when the reference variable takes two values and the Kruskal–Wallis test is used when the reference variable takes more than two values. For the quantitative data analysis, we use SPSS 22 software. The analysis has been repeated separately for the sample of comment letters corresponding to each document (the Discussion Paper of 2009, the Exposure Draft of 2010 and the Exposure Draft of 2013). We also examine the comment letters submitted considering all of the consultation periods together (named the pool sample).

3.5.1. Institutional factors

Table 3.3 presents the results of the influence of rule of law on a country's participation intensity. Table 3.3, Panel A, shows that countries with higher rule of law submit more comment letters (mean = 0.33) than countries with lower rule of law (mean = 0.02) in the first period; i.e., the discussion paper of 2009. The same behaviour is observed in the subsequent consultant period—i.e., the first exposure draft of 2010 (Panel B) and the second exposure draft of 2013 (Panel C)—and considering the complete consultant period (named pool, Panel D). The evidence suggests that on average, countries with a higher rule-of-law score submit more comment letters than do countries with a lower rule-of-law score. In all of the panels, the Mann-Whitney-U test reveals statistically significant differences among countries caused by the rule-of-law variable ($p < 0.01$). The evidence is consistent with the prediction of H_{1a} because *ex post* enforcement (measured by the rule-of-law variable) influences participation intensity.

Although the study of Jorissen et al. (2006) is not directly comparable with ours, their evidence—the comment letters written between 2002 and the summer of 2005 in response to discussion documents and exposure drafts issued by the IASB during that period, for example, IFRS 2, the share-based payment standard—shows that enforcement variables affect lobbying behaviour.

Table 3.4 presents the results of our second proxy for institutional factors, the level of shareholder rights. Panel A reveals that on average, countries with a higher level of shareholders submit more comment letters in response to a due process document related to DP 2009 (mean = 0.29) compared to countries with a lower level of shareholders (mean = 0.09). Mann-Whitney tests consistently indicate significant differences between country groups ($p < 0.05$). The evidence remains similar when the due process document related to ED2010/9 and ED2013/6 projects (Panel B and Panel C) and all of the consultation periods (Panel D) are examined ($p < 0.05$). This evidence is consistent with the prediction of H_{1b} , which means that a country's level of shareholder rights influences the responses to a process in all leasing-consultant periods.

Taken together, the two variables representing enforcement level can be considered determinants of countries' lobbying intensity on the lease project. These findings confirm and extend the literature on financial reporting quality and the impact of enforcement (see, e.g., Leuz et al., 2003; Bradshaw and Miller, 2008). Because the IASB's published standards are not directly applicable in the jurisdictions and need to be instituted by countries for proper implementation, the system's enforcement degree is a key factor in the perception of new standards. In an institutional system with high levels of enforcement, constituents feel more pressure to make decisions according to the rules and have confidence in the formal process. Therefore, the incentives to lobby in a standard-setting process are greater, especially if the accounting standard is viewed as a potential threat with negative economic consequences. Conversely, constituents from countries with a weak institutional system may be less motivated to participate in the formal standard-setting process.

Table 3.3. Results of participation intensity by institutional factors: rule of law

Panel A. First consultation period (DP 2009)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	20	.016	.032	13.300	56.000	-4.572	.000	H1a
Countries with a higher rule of law score	26	.333	.290	31.346				

Panel B. Second consultation period (ED/2010/9)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	20	.038	.084	13.325	56.500	-4.532	.000	H1a
Countries with a higher rule of law score	26	1.304	2.941	31.327				

Panel C. Third consultation period (ED/2013/6)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	20	.025	.027	13.175	53.500	-4.588	.000	H1a
Countries with a higher rule of law score	26	.523	.400	31.442				

Panel D. Pool (All consultation periods)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	60	.026	.054	39.083	515.000	-7.883	.000	H1a
Countries with a higher rule of law score	78	.720	1.751	92.897				

Table 3.4. Results of participation intensity by institutional factors: shareholder rights

Panel A. First consultation period (DP 2009)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	7	.085	.156	19.727	45.000	-2.189	.029	H1b
Higher shareholder rights	28	.292	.299	17.208				

Panel B. Second consultation period (ED/2010/9)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	7	.101	.176	19.182	38.000	-2.478	.013	H1b
Higher shareholder rights	28	.648	.685	17.458				

Panel C. Third consultation period (ED/2013/6)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	7	.110	.216	21.455	40.000	-2.392	.017	H1b
Higher shareholder rights	28	.455	.420	16.417				

Panel D. Pool (All consultation periods)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	21	.099	.175	28.952	377.000	-4.048	.000	H1b
Higher shareholder rights	84	.465	.510	59.012				

3.5.2. Economic factors

In this section, we examine the potential influence of economic factors, such as a country's wealth as or the presence of a developed capital market, on lease-accounting lobbying behaviour. In Table 3.5, we analyse the influence of a country's income based on GNI per capita on country-participation intensity. Table 3.5 shows that on average, high-income countries submit more comment letters—considering not only the consultant periods for the lease project DP 2009 (Panel A), ED2010/9 (Panel B) and ED2013/6 (Panel C) but also the pool (Panel D)—than middle- and low-income countries. The Mann-Whitney-U test reveals statistically significant differences among countries due to the proxy for economics factors—income variable ($p < 0.01$)—in all panels. The evidence is consistent with the prediction of H_{2a}.

The results are in line with previous works. For example, Jorissen et al. (2014) report that the most comment letters originate from countries with high macroeconomic indicators. They recommend that the standard-setter focus on the needs of those countries and establish a new mechanism to involve them in the process. They wonder whether the lower participation of emerging economies is associated with the IASB's objectives.

Table 3.5. Results of participation intensity by economic factors: income

Panel A. First consultation period (DP 2009)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	14	.009	.018	12.64	72.000	-3.670	.000	H2a
High Income	32	.277	.288	28.25				

Panel B. Second consultation period (ED/2010/9)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	14	.045	.098	14.00	91.000	-3.191	.001	H2a
High Income	32	1.064	2.690	27.66				

Panel C. Third consultation period (ED/2013/6)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	14	.021	.026	12.21	66.000	-3.782	.000	H2a
High Income	32	.431	.408	28.44				

Panel D. Pool (All consultation periods)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	42	.025	.060	38.17	700.000	-6.124	.000	H2a
High Income	96	.591	1.600	83.21				

Table 3.6 shows the results of our second proxy for economic conditions: the level of the capital market. That variable categorizes countries into three groups: countries with frontier capital markets, countries with emerging capital markets and countries with developed capital markets. This classification has been created by the MSCI (2015) organization and has been used in standard-setting lobbying research (Jorissen et al., 2014). In the sensitivity analysis, we repeat the tests using two groups of countries: frontier and emerging capital markets and developed capital markets.

Table 3.6 reports per-country statistics on the average comment letter submitted in response to DP 2009 (Panel A), ED2010/9 (Panel B), ED2013/6 (Panel C) and the three consultant projects together (Panel D). Panel A shows that countries with developed capital markets participate most—in terms of comment letters submitted (mean = 0.39)—followed by countries with emerging capital markets (0.02) and countries with frontier capital markets (mean = 0.00). The Kruskal-Wallis tests reveal statistically significant differences among all of the groups ($p < 0.01$) considering each of the three consultation periods in turn (Panels A, B and C) and all of the consultant projects together (Panel D).

The evidence suggests that there are differences in rankings among countries with different levels of capital market development. That is, the results show that the more developed a country's capital markets, the higher the inclination to lobby in the lease international standard-setting process. Thus, the results support the hypothesis that a country's participation intensity is influenced by its level of capital market development (H_{2b}).

Table 3.6. Results of participation intensity by economic factors: level of development of the country's capital market

Panel A. First consultation period (DP 2009)

Level of market development	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Countries with frontier markets	7	.001	.002	7.714	32.352	.000	H2b
Countries with emerging markets	16	.022	.036	14.500			
Countries with developed markets	22	.392	.278	34.045			

Panel B. Second consultation period (ED/2010/9)

Level of market development	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Countries with frontier markets	7	.061	.138	12.143	30.782	.000	H2b
Countries with emerging markets	16	.022	.036	12.563			
Countries with developed markets	22	.843	.656	34.045			

Panel C. Third consultation period (ED/2013/6)

Level of market development	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Countries with frontier markets	7	.021	.025	11.000	24.541	.000	H2b
Countries with emerging markets	16	.059	.112	14.750			
Countries with developed markets	22	.590	.391	32.818			

Panel D. Pool (All consultation periods)

Level of country market development	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Countries with frontier markets	21	.03	.08	30.33	87.968	.000	H2b
Countries with emerging markets	48	.03	.07	40.56			
Countries with developed markets	66	.61	.50	99.94			

Notes: we exclude Bermuda because it is not included in the source

3.5.3. Cultural factors

Table 3.7—Panels A, B and C—shows the influence of cultural variables on countries' lobbying intensity. Table 3.7 reveals that on average, countries with a high preference for professional judgement submit more comment letters to the lease project in every period than do countries with more preference for statutory control. Table 3.7, Panel D, also reflects greater lobbying intensity in countries with a higher preference for using professional judgement than in countries with an inclination for statutory control using the complete sample (the three consultation periods). The Mann-Whitney-U tests consistently show statistically significant differences among countries caused by the professionalism variable ($p < 0.01$). Thus, the results support the hypothesis that country-participation intensity is influenced by the country's level of preference for professionalism versus statutory control (H_{3a}). Professional judgement is preferred in

countries with high levels of individuality (e.g., United Kingdom) and is positively associated with higher levels of participation in the accounting standard-setting process, as argued by Jorissen et al. (2013) and Knospe and Dobler (2014).

Table 3.7. Results of participation intensity by cultural factors: professionalism

Panel A. First consultation period (DP 2009)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	21	.084	.146	14.476	73.000	-3.440	.001	H3a
Preference for profesionalism	19	.379	.308	27.158				

Panel B. Second consultation period (ED/2010/9)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	21	.228	.527	14.190	67.000	-3.598	.000	H3a
Preference for profesionalism	19	.761	.631	27.474				

Panel C. Third consultation period (ED/2013/6)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	21	.156	.326	15.333	91.000	-2.943	.003	H3a
Preference for profesionalism	19	.539	.391	26.211				

Panel D. Pool (All consultation periods)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	63	.156	.366	42.683	673.000	-5.915	.000	H3a
Preference for profesionalism	57	.560	.482	80.193				

Table 3.8, Panel A, reveals differences in the mid-ranges of countries with a high preference for conservatism and countries with a preference for optimism for the first consultation period, which includes the first group to submit fewer comment letters by population. Table 3.8, Panels B, C and D, shows similar results. The Mann-Whitney-U tests consistently indicate statistically significant differences among countries caused by the conservatism variable ($p < 0.01$). Consequently, the evidence supports the hypothesis that country-participation intensity is determined by the country's degree of preference for conservatism versus optimism (H_{3b}). This result is consistent with previous evidence (Jorissen et al., 2013). Conservatism is closely associated with uncertainty avoidance (as a proxy for risk-aversion) and ranking lower in individualism and masculinity. Conservatism has strong ties with traditional accounting practices and therefore, constituents from conservative countries are not interested in participating in an external standard-setting process such as that proposed by IASB for harmonization.

Table 3.8. Results of participation intensity by cultural factors: conservatism

Panel A. First consultation period (DP 2009)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	19	.352	.325	25.816	98.50	-2.746	.006	H3b
Preference for conservatism	21	.109	.160	15.690				

Panel B. Second consultation period (ED/2010/9)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	19	.806	.741	27.000	76.00	-3.354	.001	H3b
Preference for conservatism	21	.188	.305	14.619				

Panel C. Third consultation period (ED/2013/6)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	19	.527	.459	24.947	115.00	-2.292	.022	H3b
Preference for conservatism	21	.166	.251	16.476				

Panel D. Pool (All consultation periods)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	57	.562	.560	76.614	877.00	-4.840	.000	H3b
Preference for conservatism	63	.154	.244	45.921				

Table 3.9—Panels A, B and C—indicates that countries with a high preference for secrecy submit fewer comment letters to the lease project in every period than do countries that prefer transparency. Table 3.9, Panel D, which represents the pool, reflects greater lobbying intensity in countries with a preference for confidentiality than in countries with a preference for public disclosure. The Mann-Whitney-U tests consistently show statistically significant differences among countries due to the secrecy-versus-transparency variable ($p < 0.05$). Consequently, the data confirm the hypothesis that country-participation intensity is influenced by the degree of a country's preference for secrecy versus transparency (H_{3c}).

These results are consistent with previous literature about geographical lobbying participation (see, e.g., Jorissen et al., 2013). In addition, with respect to lease accounting, Arimany et al. (2013) compare compliance with lease disclosure in the footnotes of two different countries, the United Kingdom and Spain, confirming that the United Kingdom provided more detailed information than Spain. These two countries are situated in different extremes of secrecy versus transparency in Braun and Rodrigues's

index: United Kingdom is more in favour of transparency. Our study also shows that United Kingdom is more involved than Spain in the standard-setting process.

Table 3.9. Results of participation intensity by cultural factors: secrecy

Panel A. First consultation period (DP 2009)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	20	.362	.310	26.500	80.00	-3.259	.001	H3c
Preference for secrecy	20	.087	.150	14.500				

Panel B. Second consultation period (ED/2010/9)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	20	.729	.631	27.000	70.00	-3.526	.000	H3c
Preference for secrecy	20	.234	.540	14.000				

Panel C. Third consultation period (ED/2013/6)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	20	.518	.393	25.950	91.00	-2.953	.003	H3c
Preference for secrecy	20	.158	.334	15.050				

Panel D. Pool (All consultation periods)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	60	.536	.481	78.817	701.00	-5.784	.000	H3c
Preference for secrecy	60	.160	.375	42.183				

In sum, accounting sub-culture variables play an important role in the decision to submit a comment letter (MacArthur, 1999; Jorissen et al., 2013), specifically for the lease-accounting project, as Tables 7, 8 and 9 reveal. Cultural values are both strongly rooted and difficult to change. Previous literature shows that cultural values influence both accounting practices and perceptions of the IASB/FASB standards. Individuals and firms that operate in the context of cultural values also behave differently with respect to political activity such as lobbying in the standard-setting process. Individuals and firms are conditioned to cultural values when they operate in the market and engage in different behaviour that also affects political activity such as lobbying in the standard-setting process.

3.5.4. Other social factors

Finally, we classify countries according to other social factors: reliance on the IFRS and perception of corruption.

Regarding reliance on IFRS, we can consider three groups: countries with mandatory adoption of the IFRS, countries with optional adoption of the IFRS and countries that forbid adoption of the IFRS.

Table 3.10 indicates there are no differences in participation intensity according to reliance on the IFRS during the three consultation periods ($p > 0.05$) or considering all of the periods together ($p > 0.05$). This evidence is consistent with prior lobbying research (Knospe and Dobler, 2014). In general, countries in which the IFRS are not permitted are less likely to submit comment letters. However, there is an exception: the United States. In absolute terms, the United States is the country that has sent the most comment letters, even though it has different accounting standards. This resistance could be caused by the convergence project between the IASB and the FASB, the United States' own standard-setter. Thus, the results do not support the hypothesis that country-participation intensity is influenced by the level of reliance on the IFRS (H_{4a}). Future research needs to examine this hypothesis, because countries with mandatory IFRS adoption are highly represented in our sample compared to countries with optional adoption of the IFRS or that forbid adoption of the IFRS.

Table 3.10. Results of participation intensity by other factors: reliance on the IFRS

Panel A. First consultation period (DP 2009)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	6	.091	.131	19.000	.776	.678	H4a
Permitted adoption of IFRS	4	.266	.511	21.500			
Mandatory adoption of IFRS	35	.207	.260	23.857			

Panel B. Second consultation period (ED/2010/9)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	6	.381	.572	20.667	1.284	.526	H4a
Permitted adoption of IFRS	4	4.282	7.421	29.750			
Mandatory adoption of IFRS	35	.436	.616	22.629			

Panel C. Third consultation period (ED/2013/6)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	6	.370	.557	21.000	.588	.745	H4a
Permitted adoption of IFRS	4	.276	.478	19.250			
Mandatory adoption of IFRS	35	.308	.362	23.771			

Panel D. Pool (All consultation periods)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	18	.281	.460	59.889	.902	.637	H4a
Permitted adoption of IFRS	12	1.608	4.365	69.250			
Mandatory adoption of IFRS	105	.317	.445	69.248			

Table 3.11—Panels A, B and C—reveals that countries with lower perceived corruption submit more comment letters to the lease project in every period than do countries with higher perceived corruption. In addition, Table 3.11, Panel D, which represents the pool, shows greater lobbying intensity in countries with lower perceived corruption than in countries with higher perceived corruption. The Mann-Whitney-U tests consistently show statistically significant differences among countries due to the perception of corruption ($p < 0.01$). Consequently, the data confirm the hypothesis that country-participation intensity is influenced by the country's degree of perceived corruption (H_{4b}).

Table 3.11. Results of participation intensity by other factors: perception of corruption

Panel A. First consultation period (DP 2009)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	21	.011	.019	11.976	20.500	-5.317	.000	H4b
Lower corruption perception	24	.365	.281	32.646				

Panel B. Second consultation period (ED/2010/9)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	21	.042	.084	13.881	60.500	-4.381	.000	H4b
Lower corruption perception	24	.768	.675	30.979				

Panel C. Third consultation period (ED/2013/6)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	19	.030	.032	13.105	59.000	-4.238	.000	H4b
Lower corruption perception	25	.538	.401	29.640				

Panel D. Pool (All consultation periods)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	61	.028	.054	37.951	424.000	-8.094	.000	H4b
Lower corruption perception	73	.557	.502	92.192				

3.6. Sensitivity analysis

In this section, we report the results of the several sensitivity tests. First, we use an alternative dependent variable to assure the evidence of the above tests. Second, we avoid potential bias by removing the countries that do not submit comment letters. Third, we eliminate the United States because of the high number of comment letter that it submits compared to the other countries. Finally, we use alternative definitions of independent variables to review previous findings. In this section, we show the empirical results considering the three periods together (pool sample) instead of each consultant period -DP 2009, ED2010/9 and ED2013/6- to save space.

The sensitivity analysis using an alternative dependent variable is conducted because previous empirical studies have used a variety of proxies to measure participation intensity. For example, Jorissen et al. (2013) use as a proxy for participation intensity the number of letters submitted by country deflated by GDP. Jorissen et al.

(2012) and Knospe and Dobler (2014) consider the number of comment letters per group in absolute terms to obtain their conclusions. Consequently, we run the above tests using an alternative dependent variable: the number of letters submitted by country measured by absolute terms.

Table 3.12 shows the results of participation intensity driven by institutional factors, economic factors, cultural factors and other factors. Table 3.12 reveals that there are statistically significant differences in participation intensity by rule of law ($p < 0.01$, Panel A), shareholder rights ($p < 0.01$, Panel B), country income ($p < 0.01$, Panel C), capital market development ($p < 0.01$, Panel D), professionalism ($p < 0.01$, Panel E), conservatism ($p < 0.01$, Panel F), secrecy ($p < 0.01$, Panel G) and perceived corruption ($p < 0.01$, Panel I). In contrast, we do not find statistically significant differences in participation intensity by reliance on the IFRS ($p > 0.05$, Panel H). The results are consistent with the evidence in Section 5.

In the next sensitivity analysis, we avoid bias by removing the countries that do not submit comment letters (the minimum of the sample). The removed countries in the first consultant period (DP 2009) include the following: Argentina, Bermuda, Colombia, Czech Republic, Greece, Indonesia, Jamaica, Kenya, Poland, Qatar, Romania, Saudi Arabia and Zambia. In the second consultant period (ED/2010/9) the countries that have been eliminated from the sample include the following: Argentina, Chile, Czech Republic, Greece, Indonesia, Kenya, Qatar, Saudi Arabia, United Arab Emirates and Zambia. In the more recent consultant period (ED/2013/6) the excluded countries include the following: Austria, Bermuda, Chile, Colombia, Jamaica, Pakistan, Romania and United Arab Emirates. Table 3.13 shows that there are statistically significant differences in participation intensity by rule of law ($p < 0.01$, Panel A), shareholder rights ($p < 0.01$, Panel B), country income ($p < 0.01$, Panel C), capital market development ($p < 0.01$, Panel D), professionalism ($p < 0.01$, Panel E), conservatism ($p < 0.01$, Panel F), secrecy ($p < 0.01$, Panel G) and perceived corruption ($p < 0.01$, Panel I). In contrast, we do not find statistically significant differences by reliance on the IFRS ($p > 0.05$, Panel H). These results confirm the evidence shown in Section 3.5.

Additionally, we eliminate the country that submitted the most comment letters (the maximum of the sample), the United States, to ensure the evidence demonstrated by the above tests. Table 3.14 confirms the results shown in Section 3.5. Mann-Whitney

tests consistently show statistically significant differences in the intensity of lobbying according to a country's characteristics, which are summarized by institutional variables, economic variables and cultural variables. However, the Kruskal-Wallis test does not reveal statistically significant differences in the intensity of lobbying by reliance on the IFRS variable.

Table 3.12. Sensitivity analysis: results of the geographical intensity of lobbying in absolute terms by all factors considered

Institutional variables

Panel A. Geographical intensity of lobbying by rule of law (all consultation periods)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	60	1.500	2.095	46.083	935.000	-6.109	.000	H1a
Countries with a higher rule of law score	78	19.744	58.298	87.513				

Panel B. Geographical intensity of lobbying by shareholder rights (all consultation periods)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	21	2.762	3.375	33.857	480.000	-3.236	.001	H1b
Higher shareholder rights	84	18.560	56.308	57.786				

Economic variables

Panel C. Geographical intensity of lobbying by income (all consultation periods)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	42	1.667	2.302	47.750	1102.500	-4.279	.000	H2a
High Income	96	16.250	52.996	79.016				

Panel D. Geographical intensity of lobbying by capital market development (all consultation periods)

Level of country market development	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Frontier & emerging markets	72	1.319	1.985	42.896	460.500	-8.265	.000	H2b
Developed markets	66	23.258	62.805	98.523				

Cultural variables

Panel E. Geographical intensity of lobbying by profesionalism (All consultation periods)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	63	3.746	5.190	49.143	1080.000	-3.789	.000	H3a
Preference for profesionalism	57	24.298	67.649	73.053				

Panel F. Geographical intensity of lobbying by conservatism (All consultation periods)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	57	25.088	67.441	77.868	805.500	-5.243	.000	H3b
Preference for conservatism	63	3.032	4.631	44.786				

Panel G. Geographical intensity of lobbying by secrecy (All consultation periods)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	60	23.617	65.984	73.917	995.000	-4.258	.000	H3c
Preference for secrecy	60	3.400	4.962	47.083				

Other factors

Panel H. Geographical intensity of lobbying by reliance on IFRS (All consultation periods)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	18	47.110	116.147	66.280	.797	.671	H4a
Permitted adoption of IFRS	12	5.920	5.401	77.460			
Mandatory adoption of IFRS	105	6.760	13.036	67.210			

Panel I. Geographical intensity of lobbying by perception of corruption (All consultation periods)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	61	1.639	2.176	45.418	879.500	-6.085	.000	H4b
Lower corruption perception	73	20.932	60.100	85.952				

Table 3.13. Sensitivity analysis: results of the geographical intensity of lobbying removing non submitter countries

Institutional variables

Panel A. Geographical intensity of lobbying by rule of law (all consultation periods)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	38	.04	.06	21.45	74.00	-8.053	.000	H1a
Countries with a higher rule of law score	69	.81	1.84	71.93				

Panel B. Geographical intensity of lobbying by shareholder rights (all consultation periods)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	14	.148	.198	29.429	307.000	-2.687	.007	H1b
Higher shareholder rights	80	.488	.512	50.663				

Economic variables

Panel C. Geographical intensity of lobbying by income (all consultation periods)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	27	.039	.071	19.481	148.000	-6.684	.000	H2a
High Income	80	.709	1.730	65.650				

Panel D. Geographical intensity of lobbying by capital market development (all consultation periods)

Level of country market development	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Frontier & emerging markets	42	.419	2.363	25.762	179.000	-7.566	.000	H2b
Developed markets	65	.618	.496	72.246				

Cultural variables

Panel E. Geographical intensity of lobbying by professionalism (All consultation periods)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	47	.209	.412	32.468	398.000	-5.774	.000	H3a
Preference for profesionalism	52	.614	.471	65.846				

Panel F. Geographical intensity of lobbying by conservatism (All consultation periods)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	54	.593	.559	59.259	715.000	-3.514	.000	H3b
Preference for conservatism	45	.216	.266	38.889				

Panel G. Geographical intensity of lobbying by secrecy (All consultation periods)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	55	.585	.474	63.982	441.000	-5.415	0.000	H3c
Preference for secrecy	44	.218	.425	32.523				

Other factors

Panel H. Geographical intensity of lobbying by reliance on IFRS (All consultation periods)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	14	.361	.495	43.714	1.814	.404	H4a
Permitted adoption of IFRS	10	1.930	4.754	51.100			
Mandatory adoption of IFRS	82	.406	.466	55.463			

Panel I. Geographical intensity of lobbying by perception of corruption (All consultation periods)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	39	.043	.063	21.897	74.000	-8.044	.000	H4b
Lower corruption perception	66	.616	.492	71.379				

Table 3.14. Sensitivity analysis: results of the geographical intensity of lobbying removing the United States

Institutional variables

Panel A. Geographical intensity of lobbying by rule of law (all consultation periods)

Rule of law	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Countries with a lower rule of law score	60	.026	.054	39.067	514.000	-7.734	.000	H1a
Countries with a higher rule of law score	75	.714	1.784	91.147				

Panel B. Geographical intensity of lobbying by shareholder rights (all consultation periods)

Shareholder rights	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Lower shareholder rights	21	.099	.175	28.810	374.000	-3.946	.000	H1b
Higher shareholder rights	81	.450	.508	57.383				

Economic variables

Panel C. Geographical intensity of lobbying by income (all consultation periods)

Income	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Middle and low Income	42	.025	.060	38.143	699.000	-5.996	.000	H2a
High Income	93	.581	1.623	81.484				

Panel D. Geographical intensity of lobbying by capital market development (all consultation periods)

Level of country market development	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Frontier & emerging markets	72	.244	1.807	39.708	231.000	-9.039	.000	H2b
Developed markets	63	.596	.498	100.333				

Cultural variables

Panel E. Geographical intensity of lobbying by professionalism (All consultation periods)

Profesionalism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for statutory control	63	.156	.366	42.476	660.000	-5.708	.000	H3a
Preference for profesionalism	54	.543	.480	78.278				

Panel F. Geographical intensity of lobbying by conservatism (All consultation periods)

Conservatism	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for optimism	54	.545	.563	74.519	863.000	-4.595	.000	H3b
Preference for conservatism	63	.154	.244	45.698				

Panel G. Geographical intensity of lobbying by secrecy (All consultation periods)

Secrecy	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Preference for transparency	57	.519	.479	76.930	688.000	-5.589	.000	H3c
Preference for secrecy	60	.160	.375	41.967				

Other factors

Panel H. Geographical intensity of lobbying by reliance on IFRS (All consultation periods)

Reliance on IFRS	N	Mean	Std Dev.	Mid-range	Chi-cuadrado	Sig. asintot.	Hyphotesis
Non permitted adoption of IFRS	15	.163	.364	49.000	3.581	.167	H4a
Permitted adoption of IFRS	12	1.608	4.365	68.580			
Mandatory adoption of IFRS	105	.317	.445	68.760			

Panel I. Geographical intensity of lobbying by perception of corruption (All consultation periods)

Corruption perception	N	Mean	Std Dev.	Mid-range	U de Mann-Whitney	Z	Sig. asintot.	Hyphotesis
Higher corruption perception	61	.028	.054	37.934	423.000	-7.943	.000	H4b
Lower corruption perception	70	.543	.501	90.457				

Finally, as an additional test (not reported in our tables for reasons of brevity), we repeat the univariate analysis using different definitions for independent variables. There are several ways to measure a country's *ex ante* and *ex post* enforcement. For example, the literature supports the proposition that enforcement is negatively associated with earnings management and therefore, earnings management is used as a variable that is determinant of lobbying activities. In countries in which there is a higher rate of earnings management (Leuz et al., 2003), companies might have less incentive to send comment letters, because in the new law they can find new ways of structuring their contracts. Therefore, we expect a negative relationship between earnings management and levels of participation in the lease accounting standard-setting process. We also repeat the univariate analysis using various proxies for other independent variables, for instance, considering per-capita GDP to measure income. We also test the cultural variables in their initial index form and we use some Hofstede (2001) variables such as individualism and uncertainty avoidance. The results remain similar.

3.7. Conclusion of the chapter

The standard-setting process for the lease-accounting project has attracted international attention: comment letters have been received from 46 countries. The fierce debate caused by the proposed changes and their expected economic consequences, along with the global scope of the project, are responsible for the high participation of interested parties.

In this chapter, we analyse whether the participation-intensity variable by country is influenced depending on a country's characteristics. To do so, we rely on the comment letters submitted to the lease proposal in the three consultation periods: the DP 2009, the ED/2010/9 and the ED/2013/6. The results show that the participation intensity is influenced by a country's institutional context, economic environment and cultural values.

Institutional factors such as *ex ante* protection of creditors and shareholders and *ex post* protection (or punishment) of creditors and shareholders may explain the level of compliance with the accounting standards. Countries in which regulation avoidance is less common are those countries in which the lobbying phenomenon is more common. Individuals and companies are aware of the effects of the accounting rules on their

decisions. With respect to lease activity, enforcement also affects the flexibility of financing by increasing debt or looking for different solutions as operating lease.

Economic factors represent a country's wealth and the dimensions of its financial systems. The wealthier an economic system, the larger the amount of business activity and the greater the need to finance equipment and property, with the lease being an important instrument. Moreover, the richest countries—e.g., the United States or United Kingdom—have been in that position for years, and so their companies and their individuals are operating in a more experienced system that has internalized some mechanisms, such as those for giving feedback on accounting rules that can affect those companies and individuals.

Cultural values associated with a region's historical tradition configure citizens' way of thinking and consequently, their behaviour. Most prior studies suggest that each country's business models are affected by cultural characteristics. Therefore, it is not the same to apply the new lease proposal in one country (for example, the United States) as in another (for example, Brazil) because the two countries might have different financing behaviour and different off-balance-sheet accounting practices. In this line, Japan is influenced by collectivism, conservatism and Confucian culture, and previous literature has demonstrated that the effect of lobbying incentives is mitigated compared to Western countries in which professionals tend to maximize opportunities through competition (Sugahara, Tsunogaya and Chand, 2014).

With respect to reliance on the IFRS, the univariate test has confirmed that there are no significant differences between countries with different IFRS adoption statuses. However, further research requires this variable because countries with mandatory IFRS adoption are highly represented in our sample compared to countries that either make adoption optional or forbid it entirely.

Finally, lower levels of corruption perception are positively associated with geographical lobbying intensity, as we predicted, assuming that corruption and lobbying are substitutes. Constituents from countries perceived to be more corrupted (such as Latin American countries) have less individual and collective motivation to invest in lobbying than do constituents from countries with lower levels of perceived corruption (such as Australia), because avoiding regulation restrictions such as those presented by the new lease proposal are easier in countries with high levels of perceived corruption.

However, non-compliance with standards can influence accounting quality and market development and can generate a poverty trap.

The evidence provided by this research has implications for standard-setters, accounting professionals and researchers, indicating that participation by interested parties is strongly conditioned by a country's characteristics. The research contributes to the extant cross-country accounting literature that has examined the accounting treatment of leases and international lobbying behaviour.

Appendix 3.1. Additional detailed sample distribution

Table 3.15. Sample distribution by country

Geographical origin	DP 2009		ED/2010/9		ED/2013/6		Total	
	N	%	N	%	N	%	N	%
Austria	1	0%	1	0%	0	0%	2	0%
Belgium	4	1%	5	1%	2	0%	11	1%
Czech Republic	0	0%	0	0%	1	0%	1	0%
Denmark	2	1%	3	0%	2	0%	7	0%
Finland	3	1%	3	0%	5	1%	11	1%
France	12	4%	24	3%	18	3%	54	3%
Germany	14	5%	22	3%	22	3%	58	3%
Greece	0	0%	0	0%	1	0%	1	0%
Ireland	2	1%	3	0%	5	1%	10	1%
Italy	3	1%	6	1%	2	0%	11	1%
Netherlands	7	2%	8	1%	10	2%	25	1%
Norway	1	0%	6	1%	3	0%	10	1%
Poland	0	0%	1	0%	1	0%	2	0%
Romania	0	0%	1	0%	0	0%	1	0%
Spain	5	2%	16	2%	6	1%	27	2%
Sweden	5	2%	7	1%	6	1%	18	1%
Switzerland	8	3%	13	2%	8	1%	29	2%
United Kingdom	58	19%	84	11%	65	10%	207	12%
Europe	125	41%	203	26%	157	24%	485	28%
Canada	16	5%	37	5%	28	4%	81	5%
United States	94	31%	383	49%	337	51%	814	47%
Bermuda	0	0%	1	0%	0	0%	1	0%
Jamaica	0	0%	1	0%	0	0%	1	0%
North America	110	36%	422	54%	365	56%	897	51%
China	2	1%	6	1%	9	1%	17	1%
Hong Kong	4	1%	16	2%	8	1%	28	2%
India	1	0%	3	0%	5	1%	9	1%
Indonesia	0	0%	0	0%	1	0%	1	0%
Israel	1	0%	2	0%	3	0%	6	0%
Japan	4	1%	14	2%	14	2%	32	2%
Korea, Rep.	2	1%	6	1%	4	1%	12	1%
Malaysia	1	0%	1	0%	1	0%	3	0%
Pakistan	1	0%	1	0%	0	0%	2	0%
Qatar	0	0%	0	0%	1	0%	1	0%
Russian Fed.	1	0%	1	0%	2	0%	4	0%
Saudi Arabia	0	0%	0	0%	1	0%	1	0%
Singapore	1	0%	5	1%	6	1%	12	1%
United Arab Emirates	1	0%	0	0%	0	0%	1	0%
Asia	19	6%	55	7%	55	8%	129	7%
Australia	15	5%	31	4%	21	3%	67	4%
New Zealand	3	1%	10	1%	2	0%	15	1%
Australia and NZ	18	6%	41	5%	23	4%	82	5%
Argentina	0	0%	0	0%	1	0%	1	0%
Brazil	2	1%	5	1%	9	1%	16	1%
Chile	1	0%	0	0%	0	0%	1	0%
Colombia	0	0%	1	0%	0	0%	1	0%
Mexico	1	0%	1	0%	2	0%	4	0%
Latin America	4	1%	7	1%	12	2%	23	1%
Kenya	0	0%	0	0%	1	0%	1	0%
South Africa	3	1%	5	1%	4	1%	12	1%
Zambia	0	0%	0	0%	1	0%	1	0%
Africa	3	1%	5	1%	6	1%	14	1%
Subtotal (sample)	279	92%	733	93%	618	94%	1630	93%

Note: N is the number of comment letters.

Chapter 4

Determinants of corporate lobbying intensity in the lease standard-setting process

- 4.1. *Introduction to the chapter*
- 4.2. *Theoretical framework and hypotheses*
- 4.3. *Model specification and definition of variables*
- 4.4. *Sample and descriptive statistic*
- 4.5. *Results*
- 4.6. *Conclusion of the chapter*

Chapter 4

Determinants of corporate lobbying intensity in the lease standard-setting process

4.1. Introduction to the chapter

The setting of accounting standards is commonly viewed as a political or economic process rather than a technical one (Zeff, 2002). Therefore, the IASB and the FASB, as private sector bodies, have established a formal process for issuing accounting standards to gain legitimacy. Transparency and participation are the key elements to achieve this objective. Actions of stakeholders to influence the regulatory process and to defend their own interests are called lobbying activities (Sutton, 1984).

Orens et al. (2011), based on the previous works of Georgiou (2004, 2010), distinguish between different methods of exercising pressure: formal versus informal and direct versus indirect. Regarding the former, the most accessible avenues for participation for interested parties are the submission of comment letters. Comment letters have been considered a proxy for lobbying as a reflection of invisible lobbying actions (Hansen, 2011; Holder, Karim, Lin and Woods, 2013). Consequently, for the purposes of our study, we identify as a lobbyist every writer of a comment letter submitted to the lease discussion paper or to the exposure draft documents.

The lease accounting proposal was chosen as the subject of this study for several reasons. First, this project has a global character because it was conceived as part of the convergence project of the IASB and the FASB, which makes it special because there are few projects that have the same condition. Second, it is a highly controversial accounting standard with distinct differences of opinion among the political forces and participants. This heated debate is reflected in the international media and in the substantial number of comment letters received by the standard-setters. Third, the lease project introduces important accounting modifications from a conceptual and practical perspective. In addition to the adoption of a “right of use” model, there were some other critical accounting matters that hindered the achievement of consensus. Finally, the new

approach could have significant economic consequences because it affects companies' financial information.

The lease accounting standard is a high-priority project for both standard-setters, the IASB and the FASB. It was introduced to the common agenda of both Boards in 2006 after the SEC (2005) required a change in lease accounting after finding \$US1.25 trillion operating leases outside of balance sheets. The project is currently under way, although divergence has occurred regarding some aspects. The commitment of both boards to the lease project confers it a global character, more than previous IASB projects. Only a few standards have the same converged condition, such IFRS 15 – Revenue from Contracts with Customers - issued in 2014 – which is fully converged with ASU 2014-09.

During the lease standard-setting process, one discussion paper (March 2009) and two drafts (August 2010 and May 2013) were published for the purposes of public discussion, and they received 302, 788 and 655 comment letters, respectively. The number of responses, most of which opposed the proposal, surpassed the average number of responses for other projects' comment letters (Barral Rivada, 2014), thus indicating a strong polemic. Additionally, the date of the final standard was delayed several times, so that the process of establishing lease accounting standards is especially long compared with other projects, such as the Business Combinations standard (IFRS 3). The ongoing debate about the pros and cons of the new lease accounting standard has become an important issue that has attracted the attention of accounting academia, professionals and the media (see, e.g., *The Economist*, 2013, *The New York Times*, 2013). On the one hand, the new lease approach is supposed to help users' decision-making, but on the other hand, companies have concerns about costs and consequences.

The treatment of lease accounting has evolved from a complete lack of registration of assets and liabilities to the current partial capitalization model. With this new proposal, the standard-setters intend to go one step further: to move towards a full capitalization model. All leases that are not freely cancellable by both parties would be reflected in the balance sheet, with the exception of short-term leases. Both standard-setters show strong support for the "right-of-use" model rather than the current ownership model (Biondi et al., 2011). Currently, however, there are other key issues such as the definition of a lease, the recognition of expenses on the lease income statement, renewal periods,

and contingent payments that have changed lease accounting and that are being questioned.

The new lease approach would affect the financial statements of companies across all sectors; however, the financial figures of industries that are traditionally more intensive in operating leases would face considerably higher impacts (e.g., Fülbier et al., 2008; Fito et al., 2013). Authors such as Beattie et al., (1998), Goodacre (2003) and Duke, Hsieh and Suj (2009) and companies such as PwC (2010) have examined the possible increases in assets and liabilities due to the capitalization of operating leases, and their results show that some financial ratios would be substantially affected. However, other authors reveal that the amount of off-balance-sheet assets and liabilities proceeding from operating leases have been adjusted by analysts and are included in stock prices and interest rates (see, for example, Boastman and Dong, 2011; Krische et al., 2012; Altamuro et al., 2014), thus reducing concerns about the recognition of assets and liabilities from lease contracts that would be more transparent if companies calculated the adjustments directly (Nailor and Lennard, 2000).

The aim of this chapter is to find explanatory factors that predict the behaviour of corporate groups with respect to the lease standard-setting process by distinguishing between three degrees of intensity in lobbying activities, depending on participation in the different discussion periods. For this reason, having considered all of the submitters of lease comment letters that have participated in the process from different groups (academics, regulators, companies, associations, etc.), we study the comment letters submitted by 306 non-financial listed companies in response to the lease discussion paper (2009) and the two exposure drafts (2010 and 2013) elaborated jointly by the IASB and the FASB. The quality of the financial statements provided by the listed companies and the fact that they are publicly available are valuable for this research. Additionally, the design to the study requires us to use firm factors that are difficult to obtain from other groups such as academics or regulators.

Our findings suggest that the intensity of lobbying, which is understood as the degree of presence of interested companies measured through comment letters submitted during the lease accounting standard-setting process, is positively associated with the length of comment letters, firm size, firm profitability, firm age, and industries traditionally more intensively involved in leases and is negatively associated with

managerial ownership. The results are consistent with the positive accounting theory regarding firms' motivations to lobby (Watts and Zimmerman, 1978) and also with the rational choice theory proposed by Sutton (1984). Moreover, the outcomes are consistent with the accounting literature that predicted the economic effects of the lease proposal.

The chapter contributes to the growing literature on lobbying behaviour in the accounting standard-setting process and the lease accounting project in particular. First, previous papers analysing the lease accounting standard-setting process have focused on the modifications from a conceptual and practical perspective by examining the impacts of the proposal, the characteristics of the participating constituents, the content of the comment letters and compliance with the proposal. This chapter adds a new perspective by examining the factors that determine the decision to submit comment letters in the lease accounting standard-setting process. Drawing on the framework that explains the drivers for lobbying in accounting standards, this chapter explores the intensity of lobbying using a combination of quantitative and qualitative determinants such as size, firm age, managerial ownership and length of comment letters. Thus, the results contribute to extending the previous evidence on lobbying behaviour, as we use not only traditional variables that empirical papers have shown to be associated with lobbying but also new determinants or less conventional determinants that could explain firms' decisions to submit comment letters on this specific project.

Moreover, this study also reveals that previous findings that have identified factors that influence a company's decision to lease and the characteristics that explain preferences for off-balance-sheet financing may be connected with companies' lobbying attitude in this case. Additionally, to our knowledge, this is the first study to analyse the factors associated with firms' decisions to lobby in the lease accounting standard-setting process using the comment letters received in three consultation periods – DP 2009, ED/2010/9 and ED/2013/6. Thus, the results provide a complete picture of firms' participation behaviour in the lease accounting standard-setting process. This study therefore represents a new step in predicting the behaviour of preparers regarding changes in standards as controversial as the lease project.

The structure of the chapter is as follows. Section 4.2 reviews the theoretical framework while also presenting the hypothesis. In section 4.3, we describe the

methodology and the variables. Section 4.4 reveals the sample selection and the descriptive analysis. In section 4.5, the results are shown and discussed. Finally, section 4.6 presents the conclusions.

4.2. Theoretical framework and hypotheses

Watts and Zimmerman (1978, 1986), who provide the theoretical basis for the positive accounting theory, express some seminal statements about the lobbying phenomenon. From an economic perspective, a new accounting standard could impact the economic and financial situation of companies. Therefore, there are three factors that can explain managers' motivation to incur in certain accounting practices: a) the political cost hypothesis, b) contractual arrangements related to debt or c) information production costs and bookkeeping costs linked to manager compensation. The first factor assumes that the government will place more sophisticated regulations on more visible firms (e.g., larger firms, more profitable firms); therefore, companies tend to use different accounting methods to avoid attracting political attention. The second factor states that managers will make accounting choices to show better performance and liquidity positions to comply with the terms of debt contracts between firms and lenders. The third factor assumes that managers tend to maximize their wealth via compensation agreements tied to accounting numbers. Therefore, this theory could explain the association between the impact of a new accounting standard, the financial situation of the company and the lobbying phenomenon.

The positive accounting theory is a robust accounting framework to explain company behaviour and particularly lobbying behaviour. Prior empirical research has used a variety of factors and variables to explain firms' motivations to lobby. While the prior literature generally finds that a high probability of submission of comment letters is associated with larger companies (Larson, 1997; Ang et al., 2000; Georgiou, 2005; Katselas et al., 2011; Jorissen et al., 2012), debt covenants or high leverage (Ndubizu, Choi and Jain, 1993; Georgiou, 2005; Koh, 2011; Fito et al., 2013) and corporate governance characteristics (Kelly, 1985; Koh, 2011), less evidence exists with regard to other corporate characteristics such as media coverage or corporate social responsibility. Based on this previous research, this chapter examines a combination of

firm characteristics that may explain the likelihood of submitting a comment letter in the lease standard-setting process.

According to the rational choice theory and the economic theory of democracy, a rational company or individual allocates resources to lobbying only if the benefits compensate for the costs, similar to the process of allocating a vote in a political system. Thus, Sutton (1984) asks what type of individual or organization finds lobbying to be more profitable. This calculation can also be affected by the degree of support for the entity's preferences among individuals or pressure groups, the probability of influencing the decision process of the regulatory authority and the resources of the lobbyist. Some recent studies, such as those by Jorissen et al. (2012) and Giner and Arce (2012), build hypotheses using this framework.

Based on previous theories, we assume that companies involved in the lease standard-setting process through the submission of comment letters have made an investment to transfer information to standard-setters to ultimately influence the outcome and receive benefits. They are signalling themselves as lobbyists through a transactional information strategy according to the corporate political activities theory. Independent from the corporate position described in the comment letter, which may be interpreted subjectively, the investment is greater if the company is committed during all phases of the project in addition to the result of the final standard. The positive accounting theory and the economic theory of democracy provide arguments to explain that the decision to engage in lobbying in the early stage of the accounting standard-setting process (i.e., in the standard-setting process between the first discussion document and the definitive publication of the accounting standard) depends on the firm's effectiveness in influencing issues during the provisional stage of the process and on the economic impact of the proposal.

Based on the previous evidence that shows that the lease project is one of the joint standards established by the IASB and the FASB that has caused the most debate, primarily among companies potentially affected by the proposed changes, and also based on the lobbying principal theories such as positive accounting theory and the economic theory of democracy, which suggest that corporate characteristics influence the decision to lobby, we develop seven hypotheses to test in this chapter.

Hypothesis 1: Comment letters' length

We examine the length of comment letters because it may be a vehicle to exert pressure over regulators in the accounting standard-setting process. The evidence may be remarkable not only for this project but also for future projects. The literature has used different proxies to investigate the relationship between the content of comment letters and the lobbying behaviour. For example the quantity of information measured by the length of a comment letter is used in several early studies (Tutticci, Dunstan and Holmes, 1994; Brown, 1982; Ang et al., 2000, Hansen, 2011, Giner and Arce, 2012).

Hansen (2011) argues that lobbying success is positively correlated with the ability of respondents to transfer valuable information to regulators. He uses a factor to measure the quality of the reasoning (of the arguments) that includes the length of the letter (in number of pages), the percentage of answered questions, references to conceptual frameworks and to other IFRS and, finally, references to national standard-setters. He finds a positive association between the quality of the information included in a comment letter, each lobbyist's desired position and the outcome. According to the rational choice theory, a lobbyist would only exert the effort to submit a comment letter if he or she expects to influence the outcome; therefore, the expectations of a comment letter's influence based on its characteristics are relevant. In addition, Giner and Arce (2012) use several accounting projects to reveal that the length of comment letters, as measured by the number of pages and words, is important as a lobby strategy.

Focusing on the lease project, Mora and Molina (2014) examine the strength of the constituent positions in favour or against, measured by the number of arguments presented in the comment letter as a proxy for each of the issues addressed by the interested parties. The results show that preparers use more arguments than other participants due to their high level of interest in this project, which is consistent with their opposition to the proposal. In sum, the quality of the reasoning has been measured by different proxies such as the length of comment letters, the percentage of questions answered and the arguments that have been used by each constituent.

Based on this literature, we examine the length of the comment letters regarding the three consultation phases, as the length may be related to the lobbying intensity. We expect a positive association between the quality of the reasoning and the lobbying

decision because the quality of the reasoning positively influences the standard-setters. Consequently, we establish the next hypothesis.

H₁: The length of the comment letters is positively associated with the intensity of lobbying activity in the lease accounting standard-setting process.

Hypothesis 2: Firm size

Several authors have examined the attribute of firm size as a determinant of a lobbying decision from different perspectives. First, Watts and Zimmerman (1978 and 1986) use size as a proxy to measure political visibility or political costs, as large companies are more politically visible. They make the assumption that companies with a larger size may receive adverse political attention; consequently, large companies tend to use accounting methods to reduce their profit (and to avoid such visibility) more than small companies do. In addition, Kelly (1985) and Francis (1987) examine lobbyist behaviour regarding the accounting standards published by the FASB using the framework proposed by Watts and Zimmerman (1978 and 1986).

Second, Sutton (1984) argues that lobbyists make rational choices according to the cost-benefit function. Therefore, a large company has more incentives to lobby than a small company does because a large company has more resources to invest in lobbying activities and more capacity to influence a regulator and to benefit from the outcome. Koh (2011, p.5) interprets Sutton's approach by explaining that a "*larger firm size is generally seen as a proxy for the higher likelihood that a firm's proportion of benefits obtained from lobbying is usually large enough to offset the lobbying costs*".

In line with these theories, prior empirical studies on lobbying show a positive relationship between size and the tendency to participate in the process of standard-setting (e.g., Larson, 1997; Ang et al., 2000; Georgiou, 2005; Katselas et al., 2011; Jorissen et al., 2012). Recent articles based on the size hypothesis and a combination of the two theories conclude that the lobbying decision is positively related to firm size (Kosi and Reither, 2014; Santos and Santos, 2014). Additionally, in the particular context of the lease accounting project, we can consider that a firm is affected by the political costs hypothesis (Goodacre, 2003; Gosman and Hanson, 2000; Lanfranconi and Wiedman, 2000; Fito et al., 2013). In addition, changes in lease accounting could proportionately affect large firms more, and large companies have more capacity to

absorb lobbying costs. Therefore, we introduce firm size in our study, and we expect a positive relationship between size and the tendency to engage in lobbying behaviour.

H₂: Larger firms are more likely to lobby more intensively than small companies regarding the lease accounting standard-setting process.

Hypothesis 3: Leverage

Watts and Zimmerman (1978) use the positive accounting theory to argue that companies are more likely to be involved in a decision to lobby when the regulatory changes could have an impact on their reporting figures. Continuing with this argument, Georgiou (2004) argues that firms prefer not to participate in the process when the proposed standard does not have a substantial impact on their accounts. The new lease proposal intends to move towards a full capitalization model whereby lessee companies would increase the amount of assets and liabilities recognized due to operating lease capitalization, and as a consequence, financial ratios such as leverage would be affected (Beattie et al., 1998; Bennett and Bradbury, 2003; Durocher, 2008; Fito et al., 2013).

The literature on lease determinants considers that firms with higher leverage levels and financial constraints prefer to use leases instead of other types of debt (Sharpe and Nguyen, 1995; Eisfeldt and Rampini, 2009). In addition, Watts and Zimmerman (1986) predict that managers would make elections that would avoid violating the terms of debt covenants. Additionally, if operating leases are capitalized, it could affect debt covenant violations in the short term (Lee et al., 2014). Therefore, we establish the hypothesis that companies with high leverage ratios are more likely to lobby in the long term than other companies, and we expect a positive relation between debt ratios and the tendency to lobby.

H₃: Companies with high leverage ratios are more likely to lobby more intensively than other companies are regarding the lease accounting standard-setting process.

Hypothesis 4: Profitability

As mentioned previously, most of the prior research on the subject of lobbying on accounting regulations has used the positive accounting theory (Watts and Zimmerman,

1978) to build hypotheses. Several authors have included firm profitability as an important part of their lobbying models (Sadrich and Annavarjulia, 2003 and 2005; Jorissen et al., 2012; Fito et al., 2013; Kosi and Reither, 2014; Santos and Santos, 2014; Mora and Molina, 2014; Barral Rivada, 2014). The literature shows that more profitable firms are supposed to be more likely to lobby because they have more resources to invest in it (see, e.g., Fito et al., 2013; Kosi and Reither, 2014). Additionally, income volatility or changes in profitability can explain the probability of submitting a comment letter (Kosi and Reither, 2014; Barral Rivada, 2014). Reviewing the empirical evidence, some studies do not find a relationship between lobbying and the profitability variable (Jorissen et al., 2012; Fito et al., 2013), while some studies find a positive relationship between lobbying and income volatility or profitability (Sadrich and Annavarjulia, 2003 and 2005; Kosi and Reither, 2014; Santos and Santos, 2014).

From the perspective of financial strategy, in large companies, profitability is found to be positively correlated with lease contracts (Morais, 2013). Regarding the proposed changes in lease standards, it has been documented that profitability ratios are expected to be reduced to some extent in some sectors (Goodacre, 2003; Mulford and Gram, 2007; Durocher, 2008). Therefore, based on previous lobbying research that shows a positive relationship between lobbying and income variability during the period or average return on assets during the period (Sadrich and Annavarjulia, 2003 and 2005; Kosi and Reither, 2014; Santos and Santos, 2014; Barral Rivada, 2014), we introduce firm profitability into the study.

H₄: Profitable companies are more likely to lobby more intensively than non-profitable companies regarding the lease accounting standard-setting process.

Hypothesis 5: Firm age

Within the corporate political activities theory, we find several antecedents that argue for an association between firm age and lobbying. Campos and Giovannoni (2007) explain that firm age increases the likelihood of a firm being a lobbyist. Hillman, Keim and Schuler (2004) argue that age has been used as a proxy for constructs such as “visibility of the firm” (Hansen and Mitchell, 2000), “reputation” (Boddewyn and Brewer, 1994) and “experience” or “credibility” (Hillman and Hitt, 1999). All of these proxies could be related to political cost hypothesis of Watts and Zimmerman (1986). Additionally, the age of the firm as a synonym of “experience”, meaning, for example, “previous

experience in lobbying activities”, may also influence the cost-benefit equation proposed by Sutton (1984). Morck, Sepanski and Yeung (2001) and Kosi and Reither (2014) affirm that firms lobbying in the past might experience economies of scale. They make considerable investments the first time they lobby, but in subsequent periods, they experience low marginal costs for further lobbying. Moreover, success in past lobbying could also be a motivation for continuing lobbying behaviour (Beresford, 2001; Kosi and Reither, 2014).

The age of the firm is considered to be a potentially important driver of firms’ political activities (Weymouth, 2012). The author states that older firms have the advantage of repeated interactions during previous years with politicians and regulators, and therefore, the costs of monitoring may decrease with the age of the firm. Therefore, we expect that the maturity of a firm may be positively associated with the intensity of lobbying.

H₅: Older firms are more likely to lobby more intensively than younger firms regarding the lease accounting standard-setting process.

Hypothesis 6: Industry

According to Watts and Zimmerman’s theory (1978), companies that belong to industries that are more affected by a regulatory change (firms that use operating leases more intensively) tend to lobby more than companies in other industries do. The sectors that use operating leases more intensively are those in service industries (Beattie et al., 1998; Peterson and Brolin, 2014) such as air transport services, retailing (Finucane, 1988; Gosman and Hanson, 2000), restaurants, hotels, shipping, truck and railway transport, and companies involved in the energy and utilities sectors (Adams and Hardwick, 1998).

A large number of previous studies examine the impact of the new standard on these particular industry sectors. Goodacre (2003) shows that commercial companies use operating leases intensively. Fito et al. (2013) simulate the impact of capitalization on the balance of commitments for operating leases on a sample of 52 Spanish listed companies and note that the impact from 2008-2010 is significant in some ratios, and key sectors are impacted regarding energy and retail distribution of both goods and services. PwC (2013) argues that the oil industry will be particularly affected because of

the definition of a lease due to the capital-intensive nature of the industry and the fact that highly specialized equipment is not always owned. Therefore, we expect a positive relationship between industries that are traditionally more intensively involved in leases and lobbying in the long term.

H₆: Companies from industries that are traditionally more intensively involved in lease contracts are more likely to lobby more intensively than companies from other industries are regarding the lease accounting standard-setting process.

Hypothesis 7: Managerial ownership

Agency theory concerns the relationship between the principal (ownership) and the agent (manager) when the agent is engaged in managing a company and the principal and agent have different goals or interests. The positive accounting literature has focused on examining situations where both parties have different interests and the way that governance mechanisms limit the agent's self-serving behaviour when asymmetric information exists.

Corporate governance and the ownership structure have been extensively examined in the economics and accounting literature (see, e.g., Jensen and Meckling, 1976; Kelly, 1985; Morck, Shleifer and Vishny, 1988; Koh, 2011). The literature shows that public firms have high agency costs compared with private firms due to the greater ownership separation and dispersion. Ownership concentration has showed mixed results. In general, the literature shows that when CEO ownership increases, the interests of managers and other shareholders are more aligned, thus reducing the agency problem (e.g., Jensen and Meckling, 1976). However, it is also possible to find the opposite effect (entrenchment) because owner-managers can use their equity positions to divert resources away from the firm, which results in a higher level of agency costs (e.g., Morck et al., 1988).

According to the managerial risk-aversion hypothesis (Amihud and Lev, 1981; Walkling and Long, 1984), in companies where CEOs and other executives have a *larger* share of ownership, they try to reduce the firm's exposure to risk through a positive tendency to use lease contracts to reduce, for example, the obsolescence risk of property (i.e., Flath, 1980; Smith and Wakeman, 1985; Mehran, Taggart and Yermack, 1999; Duke, Franz, Hunt. and Toy, 2002). However, the changes in lease accounting do not

need to affect the risk considerations of insider managers because these considerations reflect characteristics of the contracts themselves and not with the recognition of assets or debt.

Little research to date has linked ownership structure with lobbying behaviour. For example, Kelly (1985) examines the importance of share ownership of management and concludes that firm that lobby have lower management ownership compared with firms that do not lobby. In addition, Koh (2011) uses this variable as a control variable to analyse the decision to lobby. Regarding the lease literature with respect to the positive accounting theory, we expect a negative association between managerial ownership and the lobbying decision in the lease project. Borghesi and Chang (2015) suggest that firms with a higher level of insider ownership invest less in the firms and lobby more because lobbying does not increase firm value in the long term.

In our sample, CEO ownership is low compared with previous samples because the percentage of managers that own more than 5% shares is on average 8%. Based on the previous literature, we expect that the insider variable influences lobbying intensity. However, due to the high dispersion of ownership, we do not predict the sign of the relationship between lobbying in the lease accounting standard-setting process and the concentration of managerial ownership.

H₇: The managerial ownership concentration of companies influences their lobbying intensity to the lease proposal.

4.3. Model specification and definition of variables

The hypotheses related to the key factors that explain participation and intensity of lobbying are tested in three ways: (i) Pearson and Spearman correlation analysis (ii) we compare the three groups on intensity of lobbying in the lease standard-setting process through a univariate test (Kruskal-Wallis test) to observe whether there are significant differences between the groups; (iii) we use a multivariate discrete choice model to explain the decision to submit a comment letter to the lease project and its determinants, where we measure three possibilities: the probability of a company submitting comment letters on only one lease document (less intensity of lobbying), the probability of a

company submitting comment letters on two of the three documents published by the regulators (medium intensity of lobbying) and the probability of a company submitting comment letters on all three documents that were discussed (high intensity of lobbying). For the quantitative data analysis, we use the following software: SPSS (22) and Stata (12).

The most common models used to study the decision to engage in a lobbying behaviour are probit models (see, e.g., Ang et al., 2000; Jorissen et al., 2012) and logit models (e.g., Francis, 1987; Koh, 2011), which offer a binary dependent variable for lobbyists and not lobbyists to identify the probability of submitting a comment letter and the variables that determine the behaviour of submitting a comment letter. Other authors have also conducted multinomial regressions where the dependent variable takes three or more values as the probability of lobbying by different levels of intensity or not lobbying (Kosi and Reither, 2014; Santos and Santos, 2014). This methodology allows researchers a more precise categorization of the variable of interest than binary models, which address only two categories. Therefore, we run a multinomial regression to test our hypotheses. The model takes the following expression:

$$\text{INTENSITY_LOBBY (ORDERED PROBIT)} = \beta + \beta_1\text{AV_LENGTH} + \beta_2\text{AV_SIZE} + \beta_3\text{AV_LEV} + \beta_4\text{AV_PROF} + \beta_5\text{AGE} + \beta_6\text{INDUSTRY} + \beta_7\text{INSIDERS} + \varepsilon.$$

The dependent variable is the Intensity of lobbying, that is, companies that submitted comment letters in all three phases of the lease accounting standard-setting process are considered lobbyists in the long term; such companies have to spend more resources because they expect to receive more benefits from their actions. Thus, the variable takes the value of 2 for firms that have submitted three documents during the consultation periods, the value of 1 for firms that have submitted two documents during the consultation periods and the value of 0 for firms that have submitted one document during the consultation periods.

As explanatory variables, we use one qualitative comment letter characteristic and six corporate firm characteristics. First, we use a variable called length, which is measured by the number of pages of the comment letter, which we consider to be a proxy for the quality of the reasoning and the cost of lobbying. Second, we use Bureau van Dijk's OSIRIS database to obtain corporate data from firms' financial statements.

For the size variable, we use the logarithm of total assets (similar to Santos and Santos, 2014, in the Extractive Activities discussion paper). We take the average of the logarithm of total asset for firm i in year t for the period from the 2009 to 2013.

For the leverage variable, we use the long-term debt ratio, which is defined as the amount of long-term debt scaled by the book value of total assets (Cho et al., 2014). This use of this measure is based on previous literature that shows that total leverage is mainly determined by the amount of long-term debt (see, e.g., Barclay and Smith, 1995; Johnson, 2003). We take the average of total long-term debt divided by total assets for firm i in year t for the period that from 2009 to 2013.

We consider the variable profitability in our model as categorical variable that takes the value of 1 if firm i reports positive net income divided by assets in year t and 0 otherwise, considering the years from 2009 to 2013. Kosi and Reither (2014) use the average of return on assets during the period. Santos and Santos (2014) use the average of net profit during the period.

The age of the firm is measured as the years since the time of incorporation to the last day of 2013 (Shin and Stulz, 2000; Akhtar and Oliver, 2009).

Moreover, we include in our model the industry effect. This variable is measured as a categorical variable based on subsectors that traditionally use operating leases more intensively and the others. We classify the companies by the four-digit SIC Code obtained from the OSIRIS database and taking into account the classification of sectors made by Gosman and Hanson (2000), Lim, de Mann and Mihov (2005), and Kostolansky and Stanko (2011). Thus, the intensive lease industries are airlines, other transport, some manufacturing industries, supermarkets, family clothing stores, restaurants, hotels, energy and communications.

Finally, we consider the variable insiders in our model as a categorical variable that takes the value of 1 if any of the managers of the firms (CEOs or other executives) own more than 5% of the shares of the company and 0 otherwise.

Table 4.1. Description of the firm-level variables

Variable (predicted sign)	Definition	Source
INTENSITY_LOBBY	Indicator variable that takes the value of 2 if the firm submitted comment letters in all three periods of the lease standard-setting process, 1 if the firm submitted comment letters in two periods of the lease standard-setting process and 0 if the firm submitted comment letters in one period of the lease standard-setting process.	Comment letters' sample
AV_LENGTH (+)	Average number of pages in comment letters submitted (2009-2013).	Comment letters' sample
AV_SIZE (+)	Natural logarithm of the average total assets (2009-2013).	OSIRIS database (2014)
AV_LEV (+)	Mean of ratio of long-term debt to total assets (2009-2013).	OSIRIS database (2014)
AV_PROF (+)	Dummy variable that takes the value of 1 if the firm reports positive net income / assets in the year, 0 otherwise (2009-2013).	OSIRIS database (2014)
AGE (+)	Number of years from the date of incorporation to 31/12/2013.	OSIRIS database (2014)
INDUSTRY (+)	Dummy variable that takes the value of 1 for industries that traditionally use operating leases more intensively (US SIC principal code), 0 otherwise (2009-2013).	OSIRIS database (2014)
INSIDERS (?)	Dummy variable that takes the value of 1 for a manager that owns more than 5% of shares, 0 otherwise (2009-2013).	OSIRIS database (2014)

4.4. Sample and descriptive statistics

4.4.1. Data collection

We focus on the analysis of the comment letters sent by participants during the three consultation periods: the Discussion Paper published in 2009 (IASB, 2009), the ED/2010/9 (IASB, 2010) and the ED/2013/6 (IASB, 2013). We collected 1,745 comment letters from the IASB website to test the hypotheses. There are some comment letters that are signed by several respondents. Therefore, we treat them as different writers. Hence, the regulators have received 1,745 comment letters during the three consultation periods submitted by 1,186 respondents in total.

Table 4.2. Sample selection

Total comment letters' submitters to lease proposal	1,186
- Non-preparers respondents	-347
- Trade associations	-176
Total corporate comment letters' submitters to lease proposal	663
- Financial companies	-198
Total non-financial corporate comment letters' submitters to lease proposal	465
- Non-listed industrial companies	-159
Total non-financial corporate listed comment letters' submitters to lease proposal	306

Note: The group of non-preparers includes academics, regulators, accounting profession, consultants and users. The group of preparers refers to companies that elaborate financial statements and their trade associations.

First, we consider the total number of respondents in any of the three consultation periods opened after the introduction of the Discussion Paper in 2009 and the two subsequent Exposure Drafts in 2010 and 2013. The prior literature distinguishes the group of financial statement preparers as the most active group in the submission of comment letters in the accounting regulatory process. The same pattern is observed in this lobbying group regarding the process of replacement of the lease standard (663 companies submitted letters signed by preparers of financial statements, or 55.9% of the sample, followed by their trade associations, with 176 respondents, or 14.8% of the sample); therefore it is interesting to focus on this group. The evidence is consistent with Sutton's theory (1984) about the lobbying phenomenon that supposes that preparers might be more involved in the standard-setting process than non-preparers, as preparers are more resourceful, less diversified and will be more affected by the new standard. Other studies, such as those of Tandy and Wilburn (1992) and Jorissen et al. (2006),

find that the majority of the comment letters are from preparers. A few published studies also focus on the distribution of respondents in the lease accounting project (Kort, 2011; Mora and Molina, 2014; Barral Rivada, 2014) and provide similar evidence, although they do not incorporate the last ED.

To acquire a better understanding of preparers' behaviour, we follow the arguments from the prior literature. Orens et al. (2011) find differences in lobbying behaviour between industrial firms and financial firms and also between listed and non-listed firms. For instance, the mandatory application of IFRS only for listed companies in the European Union since 2005 is one reason that may explain the different reactions to a regulatory change between listed and non-listed firms in this geographic zone. Regarding differences between financial and industrial firms, Orens et al. (2011) indicate that such firms have distinct preferences in lobbying methods. A peculiarity of the financial industry is that its companies can in some cases be considered preparers of financial statements and in other situations users of financial information as capital investors or creditors. Based on these considerations, we focus on listed industrial companies.

Table 4.2 shows that there are 663 corporate preparers involved in the lease standard-setting process. To obtain further data on these respondents, we use the OSIRIS database to obtain their names and international security identification numbers. The corporate preparer group is divided into 465 non-financial companies and 198 financial companies. Regarding the non-financial companies, we separate the 306 listed firms and 159 private firms during the years considered (2009-2013). Of the 159 private firms, 16 of them were listed once and were delisted before or during the years under consideration. The 306 non-financial listed firms are the sample used for our study.

4.4.2. Sample composition by consultation project, country origin and industry

Table 4.3, titled sample composition by consultation project, shows the sample composition by participation intensity. There are 177 non-financial listed firms (58%) that submitted a comment letter in response to DP 2009, ED/2010/9 or ED/2013/6, 93 non-financial listed firms (30%) that submitted comment letters in two of the consultation periods (30%) and 36 non-financial listed firms (12%) that submitted comment letters in all three periods of the lease standard-setting process.

Table 4.3. Sample composition by consultation project

	Lobbyists in one of the three documents		Lobbyists in two of the three documents		Lobbyists in all of the three documents		Total lobbyists	
	N	%	N	%	N	%	N	%
	Non-financial listed companies	177	0.58	93	0.30	36	0.12	306

Note: N is the number of comment letters

Table 4.4 reveals the country origin composition for the sample used in this study. Most of the writers come from the United States (47%). The large number of respondents from this country is likely attributable to the fact that this is a convergence project conducted jointly by the IASB and the FASB, which have different scopes. The rules submitted by the FASB are directly applicable to public and private companies located in the United States or listed in United States' capital markets, and the standards submitted by the IASB depend on the approbation of the local authorities where they are permitted or mandatory; for example, in Europe, they are mandatory only for listed companies. The next largest geographic group is the group of respondents that come from the United Kingdom (10%).

Table 4.4. Sample composition by country

Country	Lobbyists in one of the three documents		Lobbyists in two of the three documents		Lobbyists in all of the three documents		Total lobbyists	
	N	%	N	%	N	%	N	%
Argentina	1	0.01	0	0.00	0	0.00	1	0.00
Australia	6	0.03	2	0.02	3	0.08	11	0.04
Belgium	1	0.01	0	0.00	0	0.00	1	0.00
Bermuda	1	0.01	0	0.00	0	0.00	1	0.00
Brazil	0	0.00	1	0.01	0	0.00	1	0.00
Canada	14	0.08	6	0.06	2	0.06	22	0.07
China	3	0.02	0	0.00	0	0.00	3	0.01
Denmark	1	0.01	0	0.00	0	0.00	1	0.00
Finland	2	0.01	1	0.01	0	0.00	3	0.01
France	2	0.01	6	0.06	2	0.06	10	0.03
Germany	7	0.04	5	0.05	2	0.06	14	0.05
Hong Kong	6	0.03	0	0.00	2	0.06	8	0.03
India	0	0.00	1	0.01	0	0.00	1	0.00
Ireland	2	0.01	0	0.00	0	0.00	2	0.01
Italy	2	0.01	1	0.01	0	0.00	3	0.01
Japan	11	0.06	12	0.13	0	0.00	23	0.08
Korea, Rep.	3	0.02	0	0.00	0	0.00	3	0.01
Netherlands	1	0.01	1	0.01	1	0.03	3	0.01
New Zealand	1	0.01	1	0.01	0	0.00	2	0.01
Norway	0	0.00	1	0.01	0	0.00	1	0.00
Singapore	1	0.01	0	0.00	0	0.00	1	0.00
South Africa	2	0.01	1	0.01	0	0.00	3	0.01
Spain	1	0.01	1	0.01	2	0.06	4	0.01
Switzerland	5	0.03	2	0.02	3	0.08	10	0.03
United Kingdom	19	0.11	9	0.10	3	0.08	31	0.10
United States	85	0.48	42	0.45	16	0.44	143	0.47
Total	177	1.00	93	1.00	36	1.00	306	1.00

Note: Table 4.4 reports the composition of the sample by country and distinguishes between lobbyists who submitted a comment letter in response to DP 2009, ED/2010/9 and ED/2013/6, those who submitted two comment letters in response to the lease standard-setting process and those who submitted three comment letters in response to the lease standard-setting process.

Table 4.5 shows the composition of the sample by industry considering the 2-digit SIC code. The largest industry group is the manufacturing group (31%), where we find large industrial conglomerate companies such as Siemens and General Electric, which specialize in heavy equipment, followed by the trade industry (19%), services industry

(14%), transport industry (10%), utilities (8%), the petroleum industry (8%) and telecommunications (7%). Agriculture, natural resources and construction are the industries that are less represented in the sample.

Table 4.5. Sample composition by industry

Industry	Lobbyists in one of the three documents		Lobbyists in two of the three documents		Lobbyists in all of the three documents		Total lobbyists	
	N	%	N	%	N	%	N	%
	Utilities	13	0.07	6	0.06	4	0.11	23
Agriculture	1	0.01	0	0.00	0	0.00	1	0.00
Natural resources	4	0.02	1	0.01	0	0.00	5	0.02
Petroleum industry	10	0.06	11	0.12	4	0.11	25	0.08
Construction	3	0.02	0	0.00	1	0.03	4	0.01
Manufacturing	45	0.25	36	0.39	13	0.36	94	0.31
Services industry	28	0.16	14	0.15	2	0.06	44	0.14
Telecommunications	9	0.05	7	0.08	6	0.17	22	0.07
Trade industry	41	0.23	12	0.13	4	0.11	57	0.19
Transport Industry	23	0.13	6	0.06	2	0.06	31	0.10
Listed non-financial firms	177		93		36		306	

Note: Table 4.5 reports the composition of the sample by industry and distinguishes between lobbyists who submitted a comment letter in response to DP 2009, ED/2010/9 and ED/2013/6, those who submitted two comment letters in response to the lease standard-setting process and those who submitted three comment letters in response to the lease standard-setting process.

4.5. Results

4.5.1. Descriptive statistics, bivariate correlation analysis and univariate tests

Table 4.6 presents the descriptive statistics for the independent variables. The table reveals that the average length of the comment letters (AV_LENGTH,) is 6.74 and at the 90th percentile is 13.50. The average firm size (AV_SIZE), measured by the size logarithm, is 16.38. The average of leverage (AV_LEV), measured as long-term debt to total assets, is 0.37. The average of firm age (AGE) is 48.94, which means that firms

have experience in the market. The average of industry is 0.55. The average of insiders is 0.08, which means that most managers own less than 5% of the firms' shares.

Table 4.6. Descriptive analysis of independent variables

Independent variables	Period 2009-2013						
	MEAN	SD	PERC 10	PERC 25	PERC 50	PERC 75	PERC 90
AV_LENGTH	6.744	4.949	2.000	3.000	5.500	9.000	13.500
AV_SIZE	16.381	1.734	14.147	15.103	16.503	17.629	18.634
AV_LEV	0.369	0.187	0.118	0.230	0.358	0.494	0.629
AV_PROF	0.781	0.414	0.000	1.000	1.000	1.000	1.000
AGE	48.939	38.784	10.555	16.971	34.208	74.302	112.363
INDUSTRY	0.552	0.498	0.000	0.000	1.000	1.000	1.000
INSIDERS	0.082	0.274	0.000	0.000	0.000	0.000	0.000

Note: Table 4.6 reports the descriptive statistics of the independent variables used in the model: AV_LENGTH, AV_SIZE, AV_LEV, AV_PROF, AGE, INDUSTRY, INSIDERS.

Table 4.7 shows the pair-wise correlations among the dependent variable and the corporate variables, including the signs of the correlation coefficients. Pearson correlations (below the diagonal) are consistent in signs with the Spearman correlations (above the diagonal). As predicted, the dependent variable INTENSITY_LOBBY is positively correlated with AV_LENGTH, AV_SIZE, AV_LEV, AV_PROF, AGE and INDUSTRY and negatively correlated with INSIDER. The evidence suggests that intense lobbying is mainly adopted by larger firms, profitable firms, more mature firms and firms operating in industries that traditionally use operating leases more intensively. In addition, the intensity of lobbying is positively correlated with the length of comment letters. Although many of these pairwise correlations are statistically significant, all of the correlations are considerably low, which indicates that there is no collinearity problem.

Table 4.7. Pearson and Spearman correlations

	INT_LOBBY	AV_LENGTH	AV_SIZE	Spearman				
				AV_LEV	AV_PROF	AGE	INDUSTRY	INSIDER
Pearson								
		.220 **	.325 **	.071	.146 *	.179 **	.183 **	-.154 **
	.225 **		.190 **	.097	-.010	-.006	.009	-.078
	.322 **	.176 **		.195 **	.133 *	.274 **	.233 **	-.153 **
	.079	.069	.197 **		-.184 **	-.112	.041	-.175 **
	.126 *	-.029	.126 *	-.187 **		-.004	.016	.014
	.186 **	.050	.293 **	-.074	-.019		.120 *	.041
	.216 **	.019	.226 **	.044	.016	.099		-.043
	-.145 *	-.056	-.167 **	-.170 **	.014	.035	-.043	

Note: This table presents the Pearson (Spearman) correlations below (above) the diagonal for the complete sample (all of the consultation projects). *, **, *** denote statistical significance at the 90 percent, 95 percent, and 99 percent confidence levels, respectively. All variables are defined in Table 4.1.

Table 4.8 presents univariate results through the non-parametric Kruskal–Wallis test. The first three columns show the descriptive data for each variable for the three values of the dependent variable: lobbyists that submitted comment letters on one of the three documents, lobbyists that submitted comment letters on two of the three documents, and lobbyists that submitted comment letters on all three documents. The last column shows the *p-value* of the Kruskal–Wallis test.

Table 4.8 reveals significant differences in the length variable², which is measured by the number of pages submitted in each comment letter (AV_LENGTH). The group that lobbied in the long term presents the largest average length (9.630), followed by the group that submitted comment letters on two of the lease documents (7.055) and then the group that only submitted comment letters on one of the documents (5.993). The Kruskal-Wallis test shows statistically significant differences in the length variable among the different intensities of lobbying ($p < 0.001$). This evidence supports H_1 , which predicts that the length of comment letters is associated with by intensity of lobbying.

² To extend the study, we also include the analysis of comment letter’s length (pages) and percentage of answered questions considering all comment letters submitted to the three documents (DP2009; ED2010; ED2013). See table 4.12 in the appendix 1.1.

Table 4.8 also reveals interesting differences in the size variable (AV_SIZE). The average for firm size (measured by the logarithm of assets) is 15.948 for the less intensive lobbyists, 16.754 for the medium-intensive lobbyists and 17.548 for the highest pressure group. The Kruskal-Wallis test shows statistically significant differences ($p < 0.001$) in the size variable. This evidence is consistent with the prediction of H₂ and also with the accounting literature (see, e.g., Jorissen et al., 2012; Santos and Santos, 2014). The mean of AV_LEV increases when the lobbying intensity is higher: 0.360 for the less intensive lobbyists, 0.372 for the medium-intensive lobbyists and 0.409 for the most intensive group. However, the Kruskal-Wallis test does not show statistically significant differences in the AV_LEV variable ($p > 0.05$). Thus, the evidence does not confirm the prediction of H₃. There are also differences in the intensity of lobbying by the profitability variable. The profitability average is 0.723 for the less intensive lobbyists, 0.882 for the medium-intensive lobbyists and 0.806 for the most intensive lobbyists. In addition, the Kruskal-Wallis test shows statistically significant differences ($p < 0.05$). Thus, the evidence supports H₄.

Table 4.8 shows that the relationship between the variable intensity of lobbying and the maturity of the company is as follows: the average company maturity is 43.484 years for companies that submitted one comment letter, 53.243 years for companies that submitted two comment letters and 64.641 years for companies that submitted three comment letters. The Kruskal-Wallis test shows statistically significant differences in AGE ($p < 0.01$), thus confirming H₅.

Moreover, we include the variable INDUSTRY to consider industries that are involved in leases more intensively and industries involved in leases less intensively. The Kruskal-Wallis test shows statistically significant differences in the industry variable ($p < 0.001$), thus confirming H₆.

Finally, Table 4.8 shows that there are statically significant differences ($p < 0.05$) between the intensity of lobbying and the insider ownership variable (INSIDERS), which supports the last hypothesis, H₇.

Table 4.8. Univariate results

	Lobbyists in one of the three documents			Lobbyists in two of the three documents			Lobbyists in all of the three documents			p-value
	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD	
<i>Independent variables</i>										
AV_LENGTH	5.993	5.000	4.547	7.055	6.000	5.209	9.630	9.000	5.140	0.000
AV_SIZE	15.948	15.978	1.623	16.754	16.899	1.685	17.548	17.439	1.668	0.000
AV_LEV	0.360	0.347	0.191	0.372	0.354	0.184	0.409	0.403	0.169	0.308
AV_PROF	0.723	1.000	0.449	0.882	1.000	0.325	0.806	1.000	0.401	0.011
AGE	43.484	29.326	35.913	53.243	38.027	40.314	64.641	59.040	43.553	0.007
INDUSTRY	0.497	0.000	0.501	0.516	1.000	0.502	0.917	1.000	0.280	0.000
INSIDERS	0.119	0.000	0.324	0.032	0.000	0.178	0.028	0.000	0.167	0.022

Note: Table 4.8 reports descriptive statistics of the sample for lobbyists who submitted a comment letter in response to DP 2009, ED/2010/9 or ED/2013/6, those who submitted two comment letters in response to the lease standard-setting process and those who submitted comment letters in all three periods of the lease standard-setting process. The table also reports the statistical significance (p-value) of the difference between the three groups using the Kruskal-Wallis test (last column). All of the variables are defined in Table 4.1.

4.5.2. Multivariate results

Table 4.9 reports the ordered probit regression estimation of the model stated in Equation 1. Model 1 does not include dummy variables, and Model 2 includes country dummies. The (pseudo) R squared of the models ranges from 0.11 (Model 1) to 0.14 (Model 2).

Table 4.9. Results of ordered probit

	<u>Pred sign</u>	<u>coef</u>	<u>p-value</u>	<u>coef</u>	<u>p-value</u>
AV_LENGTH	(+)	0.044	0.002	0.039	0.022
AV_SIZE	(+)	0.137	0.003	0.142	0.005
AV_LEV	(+)	0.313	0.433	0.189	0.664
AV_PROF	(+)	0.425	0.022	0.367	0.055
AGE	(+)	0.004	0.042	0.003	0.119
INDUSTRY	(+)	0.388	0.008	0.448	0.004
INSIDERS	(?)	-0.654	0.037	-0.685	0.042
No. of observations		306		306	
Pseudo-R2		0.1073		0.1403	
Country dummies		No included		Included (26)	
L2 chi2		61.12		79.91	
Prob > chi2		0.000		0.000	

Note: The dependent variable is lobbying intensity, which takes the value of 2 for lobbyists who submitted comment letters in all three phases of the lease standard-setting process (DP 2009, ED/2010/9 and ED/2013/6), the value of 1 for those who submitted two comment letters in the lease standard-setting process and the value of 0 for those who submitted comment letters only in one of the three phases of the lease standard-setting process. All of the variables are defined in Table 4.1.

Table 4.9 shows that the coefficient on AV_LENGTH is significant and positive, which means that the quality of reasoning is associated with the intensity of lobbying, thus supporting our first hypothesis H₁. The coefficient on AV_SIZE is significant and positive. This result corroborates H₂, that is, larger companies are more likely to lobby more intensively.

However, the coefficient on AV_LEV is not statistically significant. This result is not isolated because prior lobbying studies also provide mixed evidence related to this variable (e.g., Ang et al., 2000; Katselas et al., 2011; Kosi and Reither, 2014). For example, in the leases case, some authors question the relationship between debt created from a lease contract and other types of debts, especially with regard to whether they are substitutes for each other or are complementary (see, e.g., Ang and Peterson, 1984; Lewis and Schallheim, 1992; Beattie, Goodacre and Thomson, 2000; Eisfeldt and Rampini, 2009). The same could be the reason for the mixed evidence related to the AV_LEV variable.

The coefficient on AV_PROFIT is significant and positive, which suggests that more profitable firms are more likely to lobby more intensively. Additionally, the coefficient on INDUSTRY is positive and statistically significant. Thus, firms operating in industries that traditionally use operating leases more intensively are more likely to submit comment letters. Finally, the coefficient on INSIDERS is significant and negative, which means that INSIDERS are less likely to submit comment letters. As mentioned previously, this variable requires further research.

In summary, the ordered logit regression supports our hypotheses that larger firms, profitable firms, more mature firms and firms operating in industries that traditionally use operating leases more intensively are more likely to submit comment letters. The results also show that the quality of the reasoning is positively associated with the probability of engaging in long-term lobbying.

4.5.3. Sensitivity test

In this section, we develop several sensitivity tests based on the sample characteristics and the variables. First, we repeat the regression while excluding the countries that are heavily represented and also the countries that have low representation in the sample. Second, we model the probability of submitting a comment letter using a probit regression where the dependent variable is a binary indicator. In section 5.2, we use a probit model where the dependent variable takes three values according to the number of comment letters submitted during the period. Finally, we repeat the univariate and multivariate analyses using alternative measures for the independent variables.

First, we conduct the same analysis while controlling for country representation. In this case, we repeat the regression excluding countries that are 1) heavily represented in the sample of observations (the United States and United Kingdom); 2) poorly represented, that is, countries that have three or fewer companies in the sample of observations (Argentina, Belgium, Bermuda, Brazil, China, Denmark, Finland, India, Ireland, Italy, Republic of Korea, Netherlands, New Zealand, Norway, Singapore, and South Africa).

Table 4.10 indicates that the coefficients on AV_LENGTH, AV_SIZE, AV_PROFIT, AGE and INDUSTRY are positive and statistically significant. The coefficient on

INSIDERS is negative and statistically significant, while the coefficient on AV_LEV is not statistically significant. These results support the evidence from Section 5.2.

Table 4.10. Results of ordered probit controlling for countries

	Pred sign	Without countries that have more representation*		Without countries that have less representation**	
		coef	p-value	coef	p-value
AV_LENGTH	(+)	0.061	0.002	0.043	0.004
AV_SIZE	(+)	0.198	0.008	0.132	0.006
AV_LEV	(+)	0.207	0.769	0.182	0.657
AV_PROF	(+)	0.545	0.050	0.369	0.054
AGE	(+)	0.004	0.119	0.003	0.075
INDUSTRY	(+)	0.396	0.097	0.366	0.017
<u>INSIDERS</u>	(?)	<u>-1.260</u>	<u>0.014</u>	<u>-0.590</u>	<u>0.073</u>
No. of observations		132		276	
Pseudo-R2		0.1854		0.0947	
L2 chi2		46.78		49.50	
Prob > chi2		0.000		0.000	

*Excluding the United States and United Kingdom. ** Excluding Argentina, Belgium, Bermuda, Brazil, China, Denmark, Finland, India, Ireland, Italy, Republic of Korea, Netherlands, New Zealand, Norway, Singapore, South Africa

Second, we model the probability of submitting a comment letter using a probit regression where the dependent variable is a binary indicator. In section 5.2, we use a probit model where the dependent variable takes one of three values based on the number of comment letters submitted during the period. In this model, the intensity of lobbying is a binary indicator that takes the value of 1 for firms that submitted more than one comment letter (we consider that those firms are engaged in long-term lobbying, as they participated during the entire consultation period) and 0 for firms that only submitted one comment letter. Table 4.11 shows that the coefficients on AV_LENGTH, AV_SIZE, AV_PROFIT, AGE and INDUSTRY are positive and statistically significant. The coefficient on INSIDERS is negative and statistically significant, while the coefficient on AV_LEV is not statistically significant. These results support the evidence from Section 5.2.

Table 4.11. Results of probit using an alternative dependent variable

	<u>Pred sign</u>	<u>coef</u>	<u>p-value</u>
AV_LENGTH	(+)	0.048	0.002
AV_SIZE	(+)	0.147	0.003
AV_LEV	(+)	0.169	0.360
AV_PROF	(+)	0.634	0.002
AGE	(+)	0.005	0.013
INDUSTRY	(+)	0.289	0.075
INSIDERS	(?)	-0.934	0.010
No. of observations		302	
Pseudo-R2		0.1508	
L2 chi2		61.76	
Prob > chi2		0.0000	

Note: The dependent variable is lobbying intensity, which takes the value of 1 for lobbyists who submitted comment letters in more than one of the three phases of the lease standard-setting process (DP 2009, ED/2010/9 and ED/2013/6), and the value of 0 for those who submitted comment letters in only one of the phases of the lease standard-setting process. All of the variables are defined in Table 4.1.

As an additional test (not reported in tables here for brevity), we repeated the estimations using different specifications and alternative measures for the independent variables. In terms of profitability, some prior research uses income or profit volatility as a proxy to explain the decision to submit a comment letter (Kosi and Reither, 2014; Santos and Santos, 2014; Barral Rivada, 2014). The Pearson and Spearman correlations show a positive correlation between firms with more profit volatility and the decision to lobby in the long term.

The size variable is a key variable in the study, and there are several ways to measure firm size in the literature, for example, through net sales transformed by its 10 logarithm or its natural logarithm (Jorissen et al., 2012; Cho et al., 2014). We consider different alternatives to measure the size variable as the 10 logarithm and natural logarithm of operating revenue and assets. The relationship between alternative size measures and the decision to lobby in the long term is positive and significant. We also repeat the regression using various proxies for other independent variables, considering, for instance, the logarithm of firm age and the ratio of total debt to total assets for leverage. For industry, we considered the categories used by Gosman and Hanson (2000). The results remain similar.

4.6. Conclusion of the chapter

The requirements of the lease accounting proposal would change the *status quo* of lease accounting and end the majority of off-balance-sheet financing opportunities due to operating lease accounting that are taken advantage of by companies in several industries. The lease standard-setting project has become very controversial because it has generated a substantial number of responses during the lease standard-setting process from throughout the corporate environment. Not only have lessee companies become involved, which are directly affected by the main changes to make the recognition of assets and liabilities from lease contracts compulsory, but also lessors have become involved in the process because their destiny is directly linked to the future of the lease industry. Although lease contracts continue to have other essential advantages, such as tax provisions, flexible financing terms or the transfer of ownership risk, the accounting approach is considered decisive for companies in every jurisdiction, as our study shows.

The objective of this chapter has been to identify the determinants of the corporate intensity of lobbying in the lease accounting standard-setting process by including both quantitative and qualitative variables to expand on previous evidence on lobbying behaviour. The sample comprises comment letters submitted by non-financial listed companies on the lease standard-setting proposal during three consultation periods: DP 2009, ED/2010/9 and ED/2013/6. Hence, the analysis of the comment letters during the three consultation periods, including the last draft, helps us to draw conclusions from the entire process and to expand on the evidence presented in previous studies regarding the lease accounting project. For the statistical analysis, we have used an ordered probit regression to obtain results regarding lobbying behaviour during the period considered.

The evidence shows that lobbying intensity is influenced by the length of comment letters and other firm characteristics such as firm size, profitability, age, whether the firm belongs to a lease-intensive industry and insider ownership. Our results reveal that the most powerful companies in terms of size and profitability lobby with more intensity, thus confirming the political cost hypothesis advocated by Watts and Zimmerman (1978) and the rational theories of Sutton (1984). The results for firm leverage are mixed, which is in line with the debate on the relationship between debt and leases. Firm age has been

introduced as a proxy for experience in lobbying activities, which reduces the marginal costs of participation.

We also validate the hypothesis that companies that are most intensively involved with leases, which are directly affected by the proposal, devote more resources to lobbying, thus supporting the positive accounting theory. Our findings confirm the theory, which predicts that self-interested companies have incentives to participate when they are considerably affected by potential negative consequences of a proposed standard. Finally, the variable insiders, which represents managerial ownership, is negatively related to the intensity of lobbying. Although there is evidence to suggest that monitoring mechanisms and governance characteristics influence financial reporting, little research has been conducted in previous lobbying studies. Thus, the introduction of managerial ownership opens an interesting avenue for future research.

The corporate participants in lease project show similar behaviours in comparison with the evidence from other accounting projects, but the intensity in the lease accounting project is high because it is one of the most controversial convergence projects, and the board has continued to delay publishing the final standard. Many large corporate groups have been involved throughout the process to protect their self-interest and to influence the outcome by protecting the *status quo*. These conclusions have implications for standard-setters that wish to predict the intensity of lobbying depending on the degree of controversy of the standard discussed and the specific characteristics of the project.

These findings open a number of possibilities for future research. One potential direction is to introduce more firm factors and qualitative factors to explore their incidence in the lease accounting project. Examining the effects of additional quantitative and qualitative factors on a particular accounting standard project may provide a complete picture of lobbying behaviour. Another future direction is to expand and solidify the results using other accounting projects to also provide a more complete picture of lobbying behaviour.

Appendix 4.1. Comment letters' content analysis

Table 4.12. Pages and percentage of answered question by respondent groups (all documents)

Group	Pages			% of answered questions		
	Mean	Std. dev.	(min-max)	Mean	Std. dev.	(min-max)
<i>Regulators</i>	10.81	6.48	(2-29)	0.63	0.40	(0-1)
Standard setters	12.69	6.89	(2-29)	0.77	0.28	(0-1)
Other authorities	8.53	5.13	(2-26)	0.47	0.46	(0-1)
<i>Accounting profession</i>	10.07	7.43	(1-46)	0.71	0.38	(0-1)
Professional association	9.27	5.55	(1-26)	0.73	0.35	(0-1)
Worldwide firm	25.83	10.07	(12-46)	1.00	0.02	(0-1)
Domestic Firm	8.19	6.42	(1-31)	0.62	0.42	(0-1)
Public sector auditor	10.20	6.27	(1-22)	0.69	0.46	(0-1)
<i>Non-financial preparers</i>	8.09	7.24	(1-67)	0.40	0.41	(0-1)
Non-financial companies	7.34	6.08	(1-61)	0.39	0.41	(0-1)
Trade associations	8.85	6.99	(1-43)	0.40	0.43	(0-1)
Leasing association	14.57	13.99	(1-67)	0.51	0.43	(0-1)
<i>Financial industry</i>	6.90	6.90	(1-77)	0.33	0.41	(0-1)
Financial companies	6.36	5.98	(1-59)	0.31	0.41	(0-1)
Financial associations	8.45	8.92	(2-77)	0.39	0.42	(0-1)
<i>Users</i>	10.59	10.60	(1-49)	0.42	0.41	(0-1)
<i>Consultants</i>	8.35	8.32	(1-36)	0.35	0.45	(0-1)
<i>Academic</i>	9.14	14.37	(1-72)	0.39	0.41	(0-1)
<i>Individuals</i>	4.56	5.10	(1-26)	0.25	0.37	(0-1)

Kruskal - Wallis one-way rank test for average number of pages $p = 0.000$

Kruskal - Wallis one-way rank test for average percentage of answered questions $p = 0.000$

The group of Big Four presents the biggest average in pages - length (25.83) followed by leasing associations (14.57) and by standard-setters (12.69), whereas, non-financial preparers (7.34) and bank and insurance companies (6.36) sent the shortest ones. Giner and Arce (2012) show similar results in the case of accounting profession, regulators and preparers. Moreover, the accounting profession and the standard-setters are also the collectives that response more percentage of questions posed by IASB and FASB (both around 60% and 70%). This outcomes are consistent with length results. The Kruskal Wallis test shows statistically significant differences in both variables among the participant groups ($p < 0.01$).

Chapter 5

Conclusions and final thoughts

Chapter 5

Conclusions and final thoughts

This thesis overall aims is to explain lobbyists' behaviour during the lease accounting standard-setting process, conducted jointly by the IASB and FASB, based on country factors and corporate characteristics.

The general objective contains four specific objectives and determines the thesis structure. The first two specific objectives constitute the conceptual framework related to the lease accounting project and lobbying behaviour. The last two objectives analyse the Country and Firm level participation in the leasing accounting project. The objectives are summarised as follows:

Specific objective 1. To analyse the lease proposal from a critical viewpoint, identifying main changes respect current standards, critical issues of the proposal and understanding the ongoing debate from a conceptual and practical perspective.

Specific objective 2. To examine theoretical framework about constituents' behaviour in accounting standard-setting: incentives and motivations, instruments for lobbying, and main empirical evidence.

Specific objective 3. To examine the influence of institutional, economic, cultural, and other social factors of constituents' origin countries on the intensity of participation in the lease project.

Specific objective 4. To identify explanatory factors that predict firms' behaviour regarding participation intensity in the lease standard-setting process.

The thesis consists of five chapters, where each objective is described and developed. This last chapter summarises the main conclusions reached in the thesis by first describing the conclusions related to each objective separately and then offering final thoughts to provide consistency to the analysis and considerations of the thesis.

The main conclusions of the investigation are detailed below.

Conclusions: Objective 1

To explain the current debate in the accounting standards project for leases (1) the main doctrinal positions of both the standards setters and the academic research are examined, and (2) the key controversial conceptual aspects related to the accounting treatment for leases are identified in the project.

The analysis of the doctrinal positions adopted by standard-setters shows a lack of consensus on the accounting criteria for lease recognition in financial statements, differing both in their historical evolution and in conceptual approach. The historical analysis shows an evolution of lease accounting from not reflecting assets and liabilities on the balance sheet to a progressive approach to a full capitalization model. The current accounting approach also shows significant differences depending on the jurisdiction. The FASB has emphasized the principle of reliability, demonstrated by setting certain percentage thresholds to classified leases, as opposed to the IASB standard focusing on economic substance over the legal form of contracts.

Following a review of the empirical evidence, the academic literature has focused on analysing the economic impact of capitalizing leases. The results from this research confirm the economic effects due to increased assets and liabilities from operating leases. There are two main visions in terms of decisions affecting users of financial information: those suggesting that a new approach could affect managers' decision making, credit, and market perception; and those arguing that there would be no effect because professional investors and credit agencies currently adjust for the effect of off-balance sheet leases. Standards-setters consider both arguments to defend their new approach, wherein companies must be prepared to recognize off-balance sheet leases in their own financial statements to improve the information transparency demanded by users of financial reports.

The critical matters in the lease proposal result from a deductive logical analysis. The issues in the conceptual discussions around consistency and appropriateness in the conceptual framework are: 1) the definition of a lease, due to the importance of

distinguishing leases from service contracts in the new scenario; 2) reflecting leases in the lessees' income statement; 3) lessor accounting; 4) renewal periods; and 5) contingent payments specified in contracts.

Conclusions: Objective 2

There is an appropriate theoretical framework to examine participants' behaviour during the standards-setting process based on three widely accepted theories to study accounting lobbying: positive accounting theory, economic theory of democracy, and the theory of coalition and group influence. The principal assumption in these theories is that lobbyists' actions aim to protect their self-interests, contrary to standards-setters' main objective focusing on the general welfare.

Positive accounting theory, postulated by Watts and Zimmerman (1978), focuses on stakeholders' underlying motivations to behave opportunistically, linking the unintended economic effects of the standard to their corporate characteristics. The economic theory of democracy views financial accounting standards setting as a political activity (Zeff, 2002). Based on the previous work of Downs (1957), Sutton compares the lobbying phenomenon with the activity of voting because both share the characteristic of an investment good, subject to a cost-benefit equation with a degree of uncertainty. Finally, the theory of coalition and group influence examines possible alliances between the groups to influence accounting standards (Metcalf Report, 1976).

In the overview of the empirical application we identify three primary approaches focused mainly on: 1) understanding the reasons for participation, 2) understanding positions and arguments, and 3) examining the effects that comment letters have on regulators.

Conclusions: Objective 3

The empirical evidence shows that the country's characteristics as the institutional context, the economic environment, cultural values, and other social factors influence

members' decision to lobby. The analysis is based on the general assumption that individuals' and firms' behaviour also depends on their home country characteristics.

The study is based on the analysis of all comment letters submitted in response to the three documents issued by the IASB and the FASB before the publication of the final lease standard: the discussion paper of 2009, the first exposure draft of 2010, and the second exposure draft of 2013, which have received a total of 1,745 comment letters. The comment letters were classified according to the country of reference. Comment letters are a formal public tool established by regulators and considered a reflection of the other invisible lobbying activities. Therefore, they are used as proxy lobby to test the research hypotheses.

Institutional factors such as the degree of investor protection and the level of implementation of punishment in the case of non-compliance explain the degree of compliance with the accounting standard. Constituents from countries with a higher level of control have more incentive to participate in the regulatory process to influence the final result. Regarding lease accounting, the country's level of enforcement also affects financial flexibility, for example, by finding alternative solutions such as using operating leases to avoid increasing the debt ratio.

Economic factors indicate the country's wealth and size of their financial systems. Companies from countries with larger and more complex economies, like the US or the UK, have integrated mechanisms to pressure regulators into their practices. The methods are involved in economies of scale achieved by accumulating experience. Moreover, the richer a country is, the greater the need for equipment and properties in business, where leasing plays an important role.

Cultural values associated with historical traditions shape citizens mind sets and behaviour. Most previous studies suggest that business decisions and business models are affected by cultural characteristics. In countries like Japan, whose society is considered to have rigid and conservative structures, incentives to lobby decrease compared to Western countries like the United States, where the preference for professional judgment, innovation, risk, and competition predominates.

Regarding the other social factor considered, the degree of IFRS adoption in the country under review had no significant effect on the degree of its members' participation in the regulatory process. Further research is required to identify why this is not a factor.

Finally, lower perceptions of corruption are positively associated with geographical lobbying intensity. Facing regulation restrictions such as the new lease accounting approach, constituents from countries perceived as corrupt have less motivation to lobby than constituents from countries with lower levels of perceived corruption.

Conclusions: Objective 4

The findings show that the level of participation intensity is influenced by the length of the comment letters and some business characteristics such as size, profitability, age, industry, and managerial ownership (when directors own more than 5% of the shares).

Three degrees of intensity are distinguished in the lobby: the probability that a company submits comment letters to only one document (low intensity lobbying), the probability that a company submits comment letters to two of the three documents published by regulators (medium intensity lobbying), and the probability that a company submits comment letters to all documents (high intensity lobbying). The analysis is based on comment letters submitted by 306 non-financial listed companies during the three consultation periods. Including of the comment letters from the three consultation periods aims to capture the whole process, and is an original, innovative contribution to the literature on the lease standards-setting process. For statistical analysis, we used an ordered probit using the three values above as the dependent variable.

Our results suggest that the most powerful companies in terms of size and profitability are associated with more lobbying intensity, confirming the hypothesis related to the political cost. The results for the leverage variable indicate a statistically insignificant association with lobbying intensity. One possible explanation may be that there is debate in the financial literature about the relationship between debt and leases, and whether they are substitutes or complements. The firm's variable age was introduced as a proxy for experience in lobbying, reducing marginal costs of participation, and, therefore, the relationship is also positive and significant. We also accept the hypothesis that companies in the most affected sector negatively devote more resources

to apply pressure. Our results confirm that companies whose economic interests may be adversely affected have more incentive to participate. Finally, the fact that managers own part of the company, although such participation does not involve control, reduces the agency problem and is negatively related to participation.

Corporate participants in this project have shown that constituents behave in a similar way as for other projects, but with more intensity because this project is considered one of the most controversial. Large business groups have participated throughout the process to protect their own interests and influence the outcome and defend the status quo. These findings have implications for accounting standards regulators by helping to predict the intensity of pressure from constituents, mainly in particularly controversial projects.

Final thoughts

The study of lobbying behaviour in the international standard-setting process has attracted research interest. Changes in international accounting standards affect businesses worldwide. Given the importance of standards, attention has focused on the pressure and political forces around regulators. Understanding constituents' underlying motivation to participate in the standards-setting process is important for regulators that must focus on setting rules that provide useful information for general decision making and not to serve the interests of powerful lobbyists. Nevertheless, participation is required as a signal of legitimacy and quality.

Moreover, the factors that predict increased lobbying intensity in a controversial standard such as that related to leases, which change the existing accounting model and introduce important changes from the conceptual and practical perspective, determine the success of the project. Our results demonstrate that participants, especially companies most affected, participate in the process in order to preserve their own interests by maintaining the status quo, according to the theoretical framework. Factors, such as possessions or experience, establish differences among companies in terms of the decision to lobby based on a rational choice. Additionally, this research provides evidence that individual resources and expectations are important in decision making, in

addition to the context of the country were the interested parties operate. Institutional, economic, and cultural factors influence members' lobbying behaviour.

The results of our research indicate an interesting phenomenon. Theoretically, formal participation methods such as submitting comment letters have been established by the IASB and FASB to incentivise the general participation of interested parties (political pluralism). Practically, larger profitable listed companies lobby with more intensity than small companies, as well as constituents from wealthy and countries with high legal enforcement who lobby with more intensity than constituents from other countries. Therefore, standards-setters should consider there is no equilibrium among interested parties.

The major limitations of our study affect both empirical analyses. In the first empirical study, the primary limitation is that indices considered in the previous literature do not cover all of the countries included in the sample. In the second empirical study, an initial analysis of listed companies was conducted to verify compliance with the fundamental hypothesis. Future research could analyse unlisted companies. We understand that this work may be extended by incorporating additional variables and expanding the sample. Moreover, further analysis of the content of the comment letters could be interesting and provide more qualitative conclusions in the extended work.

References

References

- Adams, M. and Hardwick, P. (1998). Determinants of the leasing decision in United Kingdom listed companies. *Applied Financial Economics*, 8(5), 487-494.
- Ahluwalia, M. S. (1976). Income distribution and development: Some stylized facts. *The American Economic Review*, 66(2), 128-135.
- Akhtar, S. and Oliver, B. (2009). Determinants of Capital Structure for Japanese Multinational and Domestic Corporations. *International Review of Finance*, 9(1-2), 1-26.
- Allen, A., Ramanna, K. and Roychowdhury, S. (2013). The auditing oligopoly and lobbying on accounting standards. Working Paper, Harvard Business School.
- Altamuro, J., Johnston, R., Pandit, S. and Zhang, H. (2014). Operating leases and credit assessments. *Contemporary Accounting Research*, 31(2), 551-580.
- Amihud, Y. and Lev, B. (1981). Risk reduction as a managerial motive for conglomerate mergers. *The bell journal of economics*, 12(2), 605-617.
- Andrade, S. C., Henry, E. and Nanda, D. (2011). The impact of operating leases and purchase obligations on credit market prices. Working paper. University of Miami.
- Ang, J. and Peterson, P. P. (1984). The Leasing Puzzle. *Journal of Finance*, 39(4), 1055-1065.
- Ang, N., Sidhu, B. K. and Gallery, N. (2000). The incentives of Australian public companies lobbying against proposed superannuation accounting standards. *Abacus*, 36(1), 40-70.
- Arimany, N., Fito, M. A., Moya, S. and Orgaz, N. (2013). What lies behind non compliance with operating lease disclosure? Working paper.
- Ashton, R. K. (1985). Accounting for Finance Leases: a Field Test. *Accounting and Business Research*, 15(59), 233-238.

- Bae, K. H., Tan H. P. and Welker, M. (2008). International GAAP differences: The impact on foreign analysts. *The Accounting Review*, 83(3), 593–628.
- Ball, R., Kothari, P. and Robin, A. (2000). The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economic*, 29(1), 1-51.
- Barclay, M. and Smith, C. Jr (1995). The priority structure of corporate liabilities. *Journal of Finance*, 50(3), 899-917.
- Barone, E., Birt, J. and Moya, S. (2014). Lease Accounting: A Review of Recent Literature. *Accounting in Europe*, 11(1), 35-54.
- Barral Rivada, A. (2014). *El posicionamiento de los preparadores en la reforma de la norma internacional de contabilidad sobre arrendamientos*. Tesis doctoral. Universidad de Córdoba. Facultad de ciencias económicas y Empresariales (ETEA).
- Barral Rivada, A., Cordobés Madueño, M. and Ramírez Sobrino, J. N. (2014). Los arrendamientos operativos: impacto de su reconocimiento en los estados financieros y en la política de financiación de las compañías españolas y del Reino Unido. *Revista de contabilidad*, 17(2), 212-223.
- Bauman, M. P. and Francis, R. N. (2011). Issues in lessor accounting: the forgotten half of lease accounting. *Accounting Horizons*, 25(2), 247-266.
- Bautista Mesa, R., Molina Sánchez, H. and Ramírez Sobrino, J. N. (2014). Una aproximación al estudio de la eficacia individual de las cartas de comentario sobre el IASB: el índice de lobbying. *X Workshop de Investigación Empírica en Contabilidad Financiera*, 2-4 abril, La Coruña.
- Beattie, V., Edwards, K. and Goodacre, A. (1998). The impact of constructive operating lease capitalisation on key accounting ratios. *Accounting and Business Research*, 28(4), 233-254.
- Beattie, V., Goodacre, A. and Thomson, S. (2000). Operating leases and the assessment of lease debt substitutability. *Journal of Banking and Finance*, 24(3), 427-470.

- Beattie, V., Goodacre, A. and Thomson, S. J. (2006) International lease-accounting reform and economic consequences: The views of UK users and preparers. *The International Journal of Accounting*, 41(1), 75–103.
- Bennett, B. K. and Bradbury, M. E. (2003). Capitalizing non-cancelable operating leases. *Journal of International Financial Management and Accounting*, 14(2), 101-114.
- Beresford, D. R. (2001). Congress looks at accounting for business combinations. *Accounting Horizons*, 15(1), 73-86.
- Biondi, Y., Bloomfield, R. J., Glover, J. C., Jamal, K., Ohlson, J. A., Penman, S. H., Tsujiyama, E. and Wilks, T. J. (2011). A Perspective on the Joint IASB/FASB Exposure Draft on Accounting for Leases: American Accounting Association's Financial Accounting Standards Committee (AAA FASC). *Accounting Horizons*, 25(4), 861-871.
- Bischoff, I. (2003). Determinants of the Increase in the Number of Interests Groups in Western Democracies: Theoretical Considerations and Evidence from 21 OECD Countries. *Public Choice*, 114(1-2), 197-218.
- Boastman, J. and Dong, X. (2011). Equity value implications of lease accounting. *Accounting Horizons*, 25(1), 1-16.
- Boddeyn, J. J. and Brewer, T. L. (1994). International-business political behavior: New theoretical directions. *Academy of management review*, 19(1), 119-143.
- Borghesi, R. and Chang, K. (2015). The determinants of effective corporate lobbying. *Journal of Economics and Finance*, 39(3), 606-624.
- Bradshaw, M. T. and Miller, G. S. (2008). Will harmonizing accounting standards really harmonize accounting? Evidence from non-US firms adopting US GAAP. *Journal of Accounting, Auditing and Finance*, 23(2), 233-264.
- Braun, G. P. and Rodríguez Jr, R. P. (2008). Earnings management and accounting values: A test of Gray (1988). *Journal of International Accounting Research*, 7(2), 1-23.

- Brown, P. R. (1982). FASB responsiveness to corporate input. *Journal of Accounting Auditing and Finance*, 5(4), 282–290.
- Buckmaster, D., Saniga, E. and Tadesse, S. (1994). Measuring lobbying influence using the Financial Accounting Standards Board public record. *Journal of Economic and Social Measurement*, 20(4), 331-356.
- Burlaud, A. and Colasse, B. (2011). International accounting standardisation: is politics back? *Accounting in Europe*, 8(1), 23-47.
- Busse, M. and Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European journal of political economy*, 23(2), 397-415.
- Campos, N. F. and Giovannoni, F. (2007). Lobbying, corruption and political influence. *Public Choice*, 131(1-2), 1-21.
- Chanchani, S. and MacGregor, A. A (1999). Synthesis of cultural studies in accounting. *Journal of Accounting Literature*, 18, 1-30.
- Cho, S.S., El Ghouli, S., Guedhami, O. and Suh, J. (2014). Creditor Rights and Capital Structure: Evidence from International Data, *Journal of Corporate Finance*, 25(April), 40-60.
- Cieslewicz, J. K. (2014). Relationships between national economic culture, institutions, and accounting: Implications for IFRS. *Critical perspectives on accounting*, 25(6), 511-528.
- Collins, D. L., Pasewark, W. R. and Riley, M. E. (2012). Financial Reporting Outcomes under Rules-Based and Principles-Based Accounting Standards. *Accounting Horizons*, 26(4), 681-705.
- Cornaggia, K. J., Franzen, L. A. and Simin, T. T. (2013). Bringing leased assets onto the balance sheet. *Journal of Corporate Finance*, 22, 345-360.
- Cortese, C. and Irvine, H. (2010). Investigating international accounting standard setting: The black box of IFRS 6. *Research in Accounting Regulation*, 22(2), 87-95.

- Cortese, C. L., Irvine, H. J. and 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.
- D'Arcy A. (2001). Accounting classification and the international harmonisation debate – an empirical investigation. *Accounting, Organizations and Society*, 26(4/5), 327–49.
- De Martino, G. (2011). Considerations on the subject of lease accounting. *Advances in accounting*, 27(2), 355-365.
- Deegan, C. (2014). 15 *An overview of legitimacy theory as applied within the social and environmental accounting literature*. In Bebbington, J., Unerman J., O'Dwyer, B. (2nd Ed) *Sustainability Accounting and Accountability*, 248-272. New York: Routledge.
- Deloitte (2014). IAS Plus – Jurisdictions. Available at: <http://www.iasplus.com/en/jurisdictions> [last accessed September 2014].
- Deloof, M., Lagaert, I. and Verschueren, I. (2007). Leases and debt: complements or substitutes? Evidence from Belgian SMEs. *Journal of Small Business Management*, 45(4), 491–500.
- Dhaliwal, D., Lee, H. S. G. and Neamtiu, M. (2011). The impact of operating leases on firm financial and operating risk. *Journal of Accounting Auditing and Finance*, 26(2), 151–197.
- DiMaggio, P. W. and Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organisational fields. *American Sociology Review*, 48(2), 147-160.
- Ding, Y., Jeanjean, T. and Stolowy, H. (2005). Why do national GAAP differ from IAS? The role of culture. *The Journal of International Accounting*, 40(4), 325–350.
- Ding, Y., Hope, O., Jeanjean, T. and Stolowy, H. (2007). Differences between domestic accounting standards and IAS: measurement, determinants and implications. *Journal of Accounting and Public Policy*, 26(1), 1-38.

- Djankov, S., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (2008). The law and economics of self-dealing. *Journal of Financial Economics*, 88(3), 430-465.
- Doupnik, T.S. (2008). Influence of culture on earnings management: A note. *Abacus*, 44(3), 317-340.
- Downs, A. (1957). *An Economic Theory of Democracy*. New York: Harper & Row.
- Duke, J., Franz, D., Hunt, H. and Toy, D. (2002). Firm-specific determinants of off-balance sheet leasing: a test of the Smith/Wakeman model. *Journal of Business and Management*, 8(4), 335-354.
- Duke, J., Hsieh, S. and Suj, Y. (2009). Operating and synthetic leases: exploiting financial benefits in the post-Enron era. *Advances in Accounting*, 25(1), 28–39.
- Durocher, S. (2008). Canadian Evidence on the Constructive Capitalization of Operating Leases. *Accounting Perspectives*, 7(3), 227-256.
- Durocher, S. and Fortin, A. (2011). Practitioners' participation in the accounting standard-setting process. *Accounting and Business Research*, 41(1), 29-50.
- Durocher, S., Fortin A. and Côté, L. (2007). Users' participation in the accounting standard-setting process: A theory-building study. *Accounting, Organizations and Society*, 32(1-2), 29-59.
- Eisfeldt, L. and Rampini, A. (2009). Leasing ability to repossess and debt capacity. *The Review of Financial Studies*, 22(4), 162-1657.
- Financial Accounting Standards Board [FASB] (1976). *Accounting Standards Codification 840, Lease*.
- Finucane, T. J. (1988). Some empirical evidence on the use of financial leases. *Journal of Financial Research*, 11(4), 321-333.
- Fitch (2011). *Corporate Rating Methodology*.

- Fito, M. A., Moya, S. and Orgaz, N. (2013). Considering the effects of operating lease capitalization on key financial ratios. *Spanish Journal of Finance and Accounting/Revista Española de Financiación y Contabilidad*, 42(159), 341-368.
- Flath, D. (1980). The economics of short-term leasing. *Economic Inquiry*, 18(2), 243-255.
- Fogarty, T. J. (1994). Structural-functionalism and financial accounting: standard setting in the US. *Critical Perspectives on Accounting*, 5(3), 205-226.
- Francis, J. R. (1987). Lobbying against proposed accounting standards: The case of employers' pension accounting. *Journal of Accounting and Public Policy*, 6(1), 35-57.
- Franzen, L.A., Rodgers, K.J. and Simins, T.T. (2009). Capital Structure and the Changing Role of Off-Balance-Sheet Lease Financing. Working paper.
- Fülbier, R. U., Silva, J. L. and Pferdehirt, M. H. (2008). Impact of Lease Capitalization on Financial Ratios of Listed German Companies. *Schmalenbach Business Review*, 60, 122-144.
- G20 (2009). Declaration on Strengthening the Financial System. London (2 April 2009). Available at: <http://www.g20.utoronto.ca/2009/2009ifi.html> [last accessed August 2015].
- García Suárez, C.S. (2011). Efectos de las normas internacionales de información financiera en los registros contables del arrendatario. *Revista de Contabilidad y Tributación. Comentarios y Casos Prácticos*, 344, 207-264.
- Georgiou, G. (2004). Corporate Lobbying on Accounting Standards: Methods, Timing and Perceived Effectiveness. *Abacus*, 40(2), 219-237.
- Georgiou, G. (2005). Investigating corporate management lobbying in the UK accounting standard-setting process: a multi-issue/multi-period approach. *Abacus*, 41(3), 323-347.
- Georgiou, G. (2010). The IASB standard-setting process: Participation and perceptions of financial statement users. *The British Accounting Review*, 42(2), 103-118.

- Georgiou, G. and Roberts, C. B. (2004). Corporate lobbying in the UK: an analysis of attitudes towards the ASB's 1995 deferred taxation proposals. *The British Accounting Review*, 36(4), 441-453.
- Giner, B. and Arce, M. (2012). Lobbying on Accounting Standards: Evidence from IFRS 2 on Share-Based Payments. *European Accounting Review*, 21(4), 655-691.
- Giner, B. and Arce, M. (2014). National Standard-Setters' Lobbying: Analysis of its Role in the IFRS 2 Due Process. In: R. Di Pietra, S. Mcleay, and J. Ronen (Eds). *Accounting and Regulation. New Insights on Governance, Markets and Institutions*, 377-398. New York: Springer.
- Gipper, B., Lombardi, B. J. and Skinner, D. J. (2013). The politics of accounting standard-setting: A review of empirical research. *Australian Journal of Management*, 38(3), 523-551.
- Goodacre, A. (2003). Operating lease finance in the UK retail sector. *International Review of Retail, Distribution and Consumer Research*, 13(1), 99-125.
- Gordon, E. A., Greiner, A., Kohlbeck, M. J., Lin, S. and Skaife, H. (2013). Challenges and Opportunities in Cross-Country Accounting Research. *Accounting Horizons*, 27(1), 141-154.
- Gosman, M. and Hanson, E. (2000). The Impact of Leasing on Lenders' Evaluations of Firms' Debt Levels. *Commercial Lending Review*, 15(3), 53-60.
- Gray, S. J. (1988). Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24(1), 1-15.
- Gray, S. J. and Vint, H. M. (1995). The impact of culture on accounting disclosures: some international evidence. *Asia-Pacific Journal of Accounting*, 2(1), 33-43.
- Guiso, L., Sapienza, P. and Zingales, L. (2003). People's opium? Religion and economic attitudes. *Journal of Monetary Economics*, 50(1), 225-282.

- Hales, J. W., Venkataraman, S. and Wilks, T. J. (2012). Accounting for lease renewal options: The informational effects of unit of account choices. *The Accounting Review*, 87(1), 173–197.
- Hansen, T. B. (2011). Lobbying of the IASB: An Empirical Investigation. *Journal of International Accounting Research*, 10(2), 57-75.
- Hansen, W. L. and Mitchell, N. J. (2000). Disaggregating and explaining corporate political activity: Domestic and foreign corporations in national politics. *American Political Science Review*, 94(04), 891-903.
- Haring, J. R. (1979). Accounting rules and 'The accounting establishment'. *Journal of Business*, 52(4), 507–519.
- Harstad, B. and Svensson, J. (2006). From corruption to lobbying and economic growth. Working paper. Northwestern University, Evanston, IL.
- Harstad, B. and Svensson, J. (2011). Bribes, lobbying, and development. *American Political Science Review*, 105(01), 46-63.
- Henderson, D. and O'Brien, P. C. (2012). Principles, Rules, Bright Lines and Transaction Structuring: A Cross-Regime Study of Lessees. In *CAAA Annual Conference* (March).
- Hill, M. D., Kelly, G. W., Lockhart, G. B. and Ness, R. A. (2013). Determinants and effects of corporate lobbying. *Financial Management*, 42(4), 931-957.
- Hillman, A. J. and Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of management review*, 24(4), 825-842.
- Hillman, A. J., Keim, G. D. and Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management*, 30(6), 837-857.
- Hofstede, G. (2001). *Culture's Consequences – Comparing Values, Behaviors, Institutions, and Organizations across Nations* (2nd ed.). London and New Delhi: Sage Publications.

- Holder, A. D., Karim, K. E., Lin, K. J. and Woods, M. (2013). A content analysis of the comment letters to the FASB and IASB: Accounting for contingencies. *Advances in Accounting*, 29(1), 134-153.
- Hope, O.K. (2003). Firm-level disclosures and the relative roles of culture and legal origin, *Journal of International Financial Management and Accounting*, 14(3), 218-248.
- House, R. J., Hanges, P. J., Javidan, M., Dorfman, P. W. and Gupta, V. (Eds.). (2004). *Culture, leadership, and organizations: The GLOBE study of 62 societies*. Thousand Oaks, CA: Sage publications.
- Hyatt, T. and Reed, B. (2007). An examination of the recently restated financial statements due to inappropriate lease accounting. *Academy of Accounting and Financial Studies Journal*, 11(3), 69-84.
- Hylton-Meier, H., Alam, P. and Pearson, M. A. (1993). Auditor lobbying for accounting standards: The case of banks and savings and loan associations. *Accounting and business research*, 23(92), 477-487.
- Imhoff, E. A., Lipe, R. C. and Wright, D. W. (1991). Operating Leases: Impact of Constructive Capitalization. *Accounting Horizons*, 5(1), 51-63.
- Imhoff, E. A., Lipe, R. C. and Wright, D. W. (1997). Operating Leases: Income Effects of Constructive Capitalization. *Accounting Horizons*, 11(2), 12-32.
- International Accounting Standards Board [IASB] (1997). *IAS 17, Leases*. London: IASB.
- International Accounting Standards Board [IASB] (2009). *Discussion Paper, Leases: Preliminary Views*. March. London: IASB.
- International Accounting Standards Board [IASB] (2010). *Exposure Draft. Leases. ED/2010/09*. August. London: IASB.
- International Accounting Standards Board [IASB] (2011). *Preface to International Financial Reporting Standards*. London: IASB.

- International Accounting Standards Board [IASB] (2013). *Exposure Draft. Leases. ED/2013/06*. May. London: IASB.
- International Accounting Standards Board and Financial Accounting Standards Board [IASBFASB] (2007). Academic Research on Lease Accounting. Memorandum prepared for 15 February 2007 meeting of Joint International Working Group on Leasing. London: IASB.
- International Accounting Standards Board and Financial Accounting Standards Board [IASBFASB] (2014). *Meeting Summary*. Meeting 18 March 2014. Available at: http://www.fasb.org/jsp/FASB/FASBContent_C/ActionAlertPage&cid=1176163912957&pf=true [last accessed June 2015].
- International Accounting Standards Board and Financial Accounting Standards Board [IASBFASB] (2014). *Meeting Summary*. Meeting 23 April 2014. Available at: http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FActionAlertPage&cid=1176163996861&pf=true [last accessed June 2015].
- International Accounting Standards Board [IASB] (2014). Project update. Leases. August 2014. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [last accessed June 2015].
- International Accounting Standards Board [IASB] (2015). Project update. Leases: Definition of a Lease. February 2015. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [last accessed June 2015].
- Jamal, K. and Tan, H-T. (2010). Joint Effects of Principles-Based versus Rules-Based Standards and Auditor Type in Constraining Financial Managers' Aggressive Reporting. *The Accounting Review*, 85(4), 1325-1346.
- Jennings, R. and Marques, A. (2013). Amortized cost for operating lease assets. *Accounting Horizons*, 27(1), 51-74.
- Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm: managerial behaviour, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 78-79.

- Johnson, S. A. (2003). Debt maturity and the effects of growth opportunities and liquidity risk on leverage. *Review of Financial Studies*, 16(1), 209-236.
- Johnson, S. B. and Solomons, D. (1984). Institutional legitimacy and the FASB. *Journal of Accounting and Public Policy*, 3(3), 165–183.
- Jorissen, A., Lybaert, N. and Van de Poel, K. (2006). Lobbying towards a global standard setter---do national characteristics matter? An analysis of the comment letters written to the IASB. In: G.N. Gregoriou and M. Gaber (Eds), *International Accounting. Standards, Regulations, and Financial Reporting*, 1-41. Oxford: Elsevier.
- Jorissen, A., Lybaert, N., Orens, R. and Van der Tas, L. (2012). Formal participation in the IASB's due process of standard setting: A multi-issue/multi-period analysis. *European Accounting Review*, 21(4), 693-729.
- Jorissen, A., Lybaert, N., Orens, R. and Van der Tas, L. (2013). A geographic analysis of constituents' formal participation in the process of international accounting standard setting: Do we have a level playing field? *Journal of Accounting and Public Policy*, 32(4), 237-270.
- Jorissen, A., Lybaert, N., Orens, R. and Van der Tas, L., (2014). Constituents' Participation in the IASC/IASB's due Process of International Accounting Standard Setting: A Longitudinal Analysis. In: R. Di Pietra, S. Mcleay, and J. Ronen (Eds), *Accounting and Regulation. New Insights on Governance, Markets and Institutions*, 79-110. New York: Springer.
- Kadous, K., Kennedy, S. J. and Peecher, M. E. (2003). The effect of quality assessment and directional goal commitment on auditors' acceptance of client-preferred accounting methods. *The Accounting Review*, 78(3), 759-778.
- Katselas, D., Birt, J. and Kang, X. H. (2011). International firm lobbying and ED 8 operating segments. *Australian Accounting Review*, 21(2), 154-166.
- Kaufmann, D., Kraay, A. and Mastruzzi, M. (2007). Governance Matters VIII: Governance Indicators 1996–2006. World Bank policy research working paper, (4280).

- Kaufmann, D., Kraay, A. and Mastruzzi, M. (2009). Governance Matters VIII: Aggregate and Individual Governance Indicators 1996–2008. World Bank Policy Research Working Paper No. 4978. SSRN. <<http://www.ssrn.com/abstract=1424591>>.
- Kelly, L. (1985). Corporate management lobbying on FAS No. 8: Some further evidence. *Journal of Accounting Research*, 23(2), 619-632
- Kenny, S. Y. and Larson, R. K. (1995). The development of International Accounting Standards: An analysis of constituent participation in standard-setting. *International Journal of Accounting*, 30(4), 283-301.
- Kimbro, M. B. (2002). A cross-country empirical investigation of corruption and its relationship to economic, cultural, and monitoring institutions: An examination of the role of accounting and financial statements quality. *Journal of Accounting, Auditing and Finance*, 17(4), 325-350.
- Knospe, O. and Dobler, M. (2014). Constituents' Formal Participation in the IASB's Due Process: New Insights into the Impact of Country and Due Process Document Characteristics. *European Accounting Association 37th Annual Congress, Tallinn 21-23 May*.
- Koh, W. C. (2011). What drives firms' decisions to lobby and determinants of their lobbying positions: Evidence from firms' comment letter submissions during FASB's stock option expensing proposal in 2004. *The International Journal of Accounting*, 46(1), 1-24.
- Kosi, U. and Reither, A. (2014). Determinants of Corporate Participation in the IFRS 4 (Insurance Contracts) Replacement Process. *Accounting in Europe*, 11(1), 89-112.
- Kort, N. C. J. (2011). *Self-interest in lobbying on accounting standards: The case of a new lease standard*. Master thesis Accountancy. Tilburg University.
- Kostolansky, J. and Stanko, B. (2011). The joint FASB/IASB lease project: discussion and industry implications. *Journal of Business and Economics Research*, 9(9), 29-36.

- Krische, S. D., Sander, P. R. and Smith, S. D. (2012). Lease transaction structuring, earning management, and management credibility. *Research in Accounting Regulation*, 24(1), 33-39.
- Kwok, W. C. C. and Sharp, D. (2005). Power and international accounting standard setting: Evidence from segment reporting and intangible assets projects. *Accounting, Auditing and Accountability Journal*, 18(1), 74-99.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. W. (1997). Legal determinant of external finance. *Journal of Finance*, 52(3), 1131-1150.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113-1155.
- Lanfranconi, C. and Wiedman, C. (2000). If one goes, will the other follow. Operating leases and off-balance sheet accounting. *Ivey Business Journal*, 64(6), 61-65.
- Larson, R. K. (1997). Corporate lobbying of the international accounting standards committee. *Journal of international financial management and accounting*, 8(3), 175-203.
- Larson, R. K. (2007). Constituent participation and the IASB's international financial reporting interpretations committee. *Accounting in Europe*, 4(2), 207-254.
- Larson, R. K. and Herz, P. J. (2013). A multi-issue/multi-period analysis of the geographic diversity of IASB comment letter participation. *Accounting in Europe*, 10(1), 99–151.
- Le Manh, A. (2011). Investigating the IASB's due process: the case of comprehensive income project. Working paper. Available at: [https://www.uni-bamberg.de/fileadmin/uni/fakultaeten/sowi_lehrstuehle/steuerlehre/Download Eier le/EUFIN_2011/Le_Manh.pdf](https://www.uni-bamberg.de/fileadmin/uni/fakultaeten/sowi_lehrstuehle/steuerlehre/Download_Eier_le/EUFIN_2011/Le_Manh.pdf) [last accessed May 2015]
- Leaseurope (2013). Annual Statistical Enquiry. Available at: <http://www.leaseurope.org/index.php?page=stats-surveys> [accessed May 2015]

- Lee, B., Paik, D. G. and Yoon, S. W. (2014). The Effect of Capitalizing Operating Leases on the Immediacy to Debt Covenant Violations. *Journal of Accounting and Finance*, 14(6), 44-70.
- Leuz C., Nanda D. and Wysocki, P. (2003). Earnings Management an Investor Protection: An International Comparison. *Journal of Financial Economics*, 69(3), 505-527.
- Lewis, C. and Schallheim, J. (1992). Are debt and leases substitutes? *Journal of Financial and Quantitative Analysis*, 27(4), 497-511.
- Libby, R., Nelson, M. W. and Hunton, J. E. (2006). Recognition v. disclosure, auditor tolerance for misstatement, and the reliability of stock-compensation and lease information. *Journal of Accounting Research*, 44(3), 533-560.
- Lim, S. C., de Mann, S. C. and Mihov, V. T. (2005). Market Evaluation of Off-Balance Sheet Financing: You Can Run but You Can't Hide, Working paper, Texas Christian University.
- Lindsey, B. P. (2006). A Value Relevance Examination of the Current Leasing Standards. Working paper, University of North Carolina at Chapel Hill.
- Loughran, T. and McDonald, B. (2014). Measuring readability in financial disclosures. *The Journal of Finance*, 69(4), 1643-1671.
- MacArthur, J. B. (1988). Some implications of auditor and client lobbying activities: A comparative analysis. *Accounting and business research*, 19(73), 56-64.
- MacArthur, J. B. (1999). The impact of cultural factors on the lobbying of the International Accounting Standards Committee on E32, Comparability of Financial Statements: An extension of MacArthur to accounting member bodies. *Journal of International Accounting, Auditing and Taxation*, 8(2), 315-335.
- Malagueño, R., Albrecht, C., Ainge, C. and Stephens, N. (2010). Accounting and corruption: a cross-country analysis. *Journal of Money Laundering Control*, 13(4), 372-393.

- McKee, A., Williams, P. and Frazier, B. (1991). A Case Study of Accounting Firm Lobbying: Advice or Consent. *Critical Perspectives in Accounting*, 2(3), 273–294.
- McGregor, W. (1996). *Accounting for Leases: A New Approach, recognition by lessees of assets and liabilities arising under lease contracts*. Norwalk, CT: FASB.
- McLeay, S., Ordelheide, D. and Young, S. (2000). Constituent lobbying and its impact on the development of financial reporting regulations: evidence from Germany, *Accounting, Organizations and Society*, 25(1), 79–98.
- Mehran, H., Taggart, R. and Yermack, D. (1999). CEO ownership, leasing and debt financing – statistical data included. *Financial Management*, 28(2), 5-14.
- Metcalf Report (1976). *The Accounting Establishment: A Staff Study*. U.S. Senate Committee on Government Operations.
- Mills, J. (2008). Leasing in Europe and the review of international lease accounting. *Leasing: Wissenschaft & Praxis, Forschungsinstitut für Leasing an der Universität zu Köln*, 6(2), 39-62.
- Molina, H. and Mora, A. (2015). Cambios conceptuales en la contabilidad de los arrendamientos: retos normativos y académicos. *Revista de Contabilidad*, 18(1), 99-113.
- Moody's (2006). Moody's approach to global standard adjustments in the analysis of financial statements for non-financial corporations.
- Mora, A. and Molina, H. (2014). Lobbying in the accounting standard setting: the case of the leasing project. *X Workshop de Investigación Empírica en Contabilidad Financiera, 2-4 abril, La Coruña*. Working paper.
- Morais, A.I. (2013). Why companies choose to lease instead of buy? Insights from academic literature. *Academia. Revista Latinoamericana de Administración*, 26(3), 432-446.
- Morck, R., Shleifer, A. and Vishny, R. W. (1988). Management ownership and market valuation: An empirical analysis. *Journal of financial economics*, 20(1-2), 293-315.

- Morck, R., Sepanski, J. and Yeung, B. (2001). Habitual and occasional lobbyists in the US steel industry: an EM algorithm pooling approach. *Economic Inquiry*, 39(3), 365–378.
- MSCI (2015). Index Definitions. Available at <https://www.msci.com/market-classification> [last accessed May 2015].
- Mulford, C. and Gram, M. (2007). The effects of lease capitalisation on various financial measures: an analysis of the retail industry. *Journal of Applied Research in Accounting and Finance*, 2(2), 3-13.
- Myers, S., Dill, D. and Bautista, A. (1976). Valuation of financial lease contracts. *Journal of Finance*, 31(3), 799-819.
- Nailor, H. and Lennard, A. (2000). *Leases: Implementation of a New Approach*. Norwalk: FASB.
- Ndubizu, G. A., Choi, Y. C. and Jain, R. (1993). Corporate lobbying strategy and pension accounting deliberations: An empirical analysis. *Journal of Accounting, Auditing and Finance*, 8(3), 277-287.
- Nelson, A. J. (1963). Capitalising leases - the effect on financial ratios. *Journal of Accountancy*, (July), 49-58.
- Nobes, C. (2006). The survival of international differences under IFRS: Towards a research agenda. *Accounting and Business Research*, 36(3), 233–245.
- Orens, R., Jorissen, A., Lybaert, N. and Van Der Tas, L. (2011). Corporate lobbying in private accounting standard setting: does the IASB have to reckon with national differences? *Accounting in Europe*, 8(2), 211-234.
- Ortúzar Solar, A. (1995). *El Contrato de leasing*. Santiago: Editorial Jurídica de Chile.
- Patelli, L. and Pedrini, M. (2013). Is Tone at the Top Associated with Financial Reporting Aggressiveness? *Journal of Business Ethics*, 126(1), 1-17.

- Peterson, S. and Brolin, D. (2014). Proposed new lease standard. Thesis master. University of Gothenburg.
- Polk, A. (2002). How Special Interests Shape Policy-A Survey. Working Paper, U of Zurich, Socioeconomic Institute.
- Powers, M. and Revsine, L. (1989). Lessors' accounting and residual values: Comdisco, Barron's, and GAAP. *Accounting Review*, 64(2), 346-368.
- Psillaki, M. and Daskalakis, N. (2009). Are the determinants of capital structure country or firm specific? *Small Business Economics*, 33(3), 319-333.
- Puro, M. (1984). Audit firm lobbying before the financial accounting standards board: An empirical study. *Journal of Accounting Research*, 22(2), 624-646.
- PwC (2010). *The future of leasing*. Available at: http://www.pwc.com/en_GX/gx/transportation-logistics/pdf/leasing-brochure-global-research-study.pdf [last accessed December 2013]
- PwC (2013). *Energy Spotlight. Lease accounting – transformational change*. Available at: <http://www.pwc.com/gx/en/oil-gas-energy/publications/energy-spotlight-lease-accounting.jhtml> [last accessed February 2015]
- Rahman, A. R., Wee, L. and Tower, G. D. (1994). Public choice and accounting standard setting in New Zealand: an exploratory study. *Abacus*, 30(1), 98-117
- Ramanna, K. (2008). The implications of unverifiable fair value accounting: Evidence from the political economy of goodwill accounting. *Journal of Accounting and Economics*, 45, 253-281.
- Ramanna, K. and Sletten, E. (2014). Network effects in countries' adoption of IFRS. *The Accounting Review*, 89(4), 1517-1543.
- Richardson, A. J. and Eberlein, B. (2011). Legitimizing transnational standard-setting: The case of the international accounting standards board. *Journal of Business Ethics*, 98(2), 217-245.

- Sadrieh, F. and Annavarjulia, M. (2003). Antecedents of corporate lobbying participation and intensity: a review of the literature. *Public Administration Quarterly*, 26(4), 465-502.
- Sadrieh, F. and Annavarjulia, M. (2005). Firm-specific determinants of corporate lobbying participation and intensity. *International Journal of Public Administration*, 28(1-2), 179-202.
- Sakai, E. (2010). The Market Reaction to the Finance Lease Capitalisation from the View Point of Risk Assessment. Working paper, Musashi University.
- Salter, S. and Douppnik, T. (1992). The relationship between legal systems and accounting practices: A classification exercise. *Advances in International Accounting*, 5(1), 3-22.
- Santos, O. M. D. and Santos, A. D. (2014). Lobbying on Accounting Regulation: Evidence from the Oil Industry. *Revista Contabilidade and Finanças*, 25(65), 124-144.
- Schwartz, S. H. (1994). *Beyond individualism/collectivism: New cultural dimensions of values*. Sage Publications, Inc.
- Seamann, G. (1999). Comment letters as indicators of overall corporate manager preferences: Employers' accounting for pensions, *Research in Accounting Regulation*, 11(1), 125-142.
- Securities and Exchange Commission, SEC (2005). Report and Recommendations Pursuant to Section 401(C) of the Sarbanes-Oxley Act of 2002 on Arrangements with off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers. Washington, D.C.: Government Printing Office.
- Sengupta, P. and Wang, Z. (2011). Pricing of off-balance sheet debt: how do bond market participants use the footnote disclosures on operating leases and postretirement benefit plans? *Accounting and Finance*, 51(3), 787-808.
- Sharpe, S. A. and Nguyen, H. H. (1995). Capital market imperfections and the incentive to lease. *Journal of Financial Economics*, 39(2), 271-294.

- Shin, H. H. and Stulz, R. M. (2000). *Firm value, risk, and growth opportunities* (No. w7808). National bureau of economic research.
- Shleifer, A. and Vishny, R. W. (1997). A survey of corporate governance. *The Journal of Finance*, 52(2), 737-783.
- Smith, C. and Wakeman, L. (1985). Determinants of corporate leasing policy. *Journal of Finance*, 40(3), 895-910.
- Song, X. (2014). The Impact of Capitalizing Lease Contingent Payments. Working paper.
- Standard and Poor's (2008). "Encyclopedia of analytical adjustments", *Corporate ratings criteria*.
- Stenka, R. (2013). Rhetoric in International Standard Setting Process: Constructing Accounting Reality. Working paper.
- Stenka, R. and Taylor, P. (2010). Setting UK standards on the concept of control: an analysis of lobbying behavior. *Accounting and Business Research*, 40(2), 109-130.
- Strand, N. C., Rose, J. M. and Suh, I. S. (2011). The effects of disclosure type and audit committee expertise on chief audit executives' tolerance for financial misstatements. *Accounting, Organizations and Society*, 36(2), 102-108.
- Suchman, M. (1995). Managing legitimacy: strategic and institutional approaches. *Academy of Management Journal*, 20(3), 571-610.
- Sugahara, S., Tsunogaya, N. and Chand, P. (2014). Perceptions of Professional Accountants on Lease Accounting Standards: Evidence from Japan. *European Accounting Association 37th Annual Congress, Tallinn 21-23 May*. Working paper.
- Sutton, T. G. (1984). Lobbying of accounting standard-setting bodies in the UK and the USA: a Downsian analysis. *Accounting, Organizations and Society*, 9(1), 81-95.
- Svensson, J. (2005). Eight questions about corruption. *The Journal of Economic Perspectives*, 19(3), 19-42.

- Tandy, P. R. and Wilburn, N. L. (1992). Constituent participation in standard-setting: The FASB's first 100 statements. *Accounting Horizons*, 6(2), 47-58.
- The Economist (2013). *The Lease bad solutions*. Available at: <http://www.economist.com/news/business/21589897-proposals-clean-up-lease-accounting-will-hit-many-firms-balance-sheets-lease-bad-solution> [last accessed July 2015].
- The New York Times (2013). *New accounting proposal on Leasing Portends Big Changes*. Available at: http://dealbook.nytimes.com/2013/05/16/significant-changes-proposed-in-lease-accounting/?_r=0 [last accessed July 2015].
- Thomson, S. J. (2003). The role of leasing in UK corporate financing decisions, accounting treatment and market impact. Thesis doctoral. University of Stirling.
- Transparency International (2015). Corruption Perceptions Index. Available at: <http://www.transparency.org/research/cpi/> [last accessed July 2015].
- Tsakumis, G. T. (2007). The influence of culture on accountants' application of financial reporting rules. *Abacus*, 43(1), 27-48.
- Tutticci, I., Dunstan, K. and Holmes, S. (1994). Respondent Lobbying in the Australian Accounting Standard-Setting Process: ED49, *Accounting, Auditing and Accountability Journal*, 7(2), 86-104.
- Van Lent, L. (1997). Pressure and politics in financial accounting regulation: the case of the financial conglomerates in the Netherlands. *Abacus*, 33(1), 88-114.
- Villanueva, E. and Mellado, L. (2013). Capítulo 10. Arrendamientos. En J.A. Gonzalo Angulo (Director), K. Tenant (Director), M. Alvarado Riquelme (Coord.) y L. Muro Royano (Coord.): *El camino hacia la convergencia: comparación y análisis crítico entre la normativa contable internacional (NIC/NIIF) y la estadounidense* (375-394). Madrid: EDISOFER, S.L.
- Walkling, R. A. and Long, M. S. (1984). Agency Theory, Managerial Welfare, and Takeover Bid Resistance. *Rand Journal of Economics*, 15 (Spring), 54-68.

- Watts, R. L. (2006). What has the invisible hand achieved? *Accounting and Business Research*, 36 (Supplement), 51-61.
- Watts, R. L. and Zimmerman, J. L. (1978). Towards a Positive Theory of the Determination of Accounting Standards. *Accounting Review*, 53(1), 112-134.
- Watts, R. L. and Zimmerman, J. L. (1982). Auditors and the Determination of Accounting Standards. Working Paper, University of Rochester.
- Watts, R. L. and Zimmerman, J. L. (1986). *Positive accounting theory*. New Jersey: Prentice-Hall.
- Weber, R. P. (1990). *Basic content analysis*. London: Sage.
- Wehrfried, M. and Haller, A. (2014). National influence on the application of IFRS: Interpretations and accounting estimates by German and British accountants. *Advances in Accounting, incorporating Advances in International*, 30(1), 196-208.
- Weymouth, S. (2012). Firm lobbying and influence in developing countries: a multilevel approach. *Business and Politics*, 14(4), 1-26.
- World Bank. (2013). Data-Indicators. Available at: <http://data.worldbank.org/> [accessed February 2015]
- Wysocki, P. (2011). New institutional accounting and IFRS. *Accounting and Business Research*, 41(3), 309-328.
- Yan, A. (2006). Leasing and debt financing: substitutes or complements? *Journal of Financial Quantitative Analysis*, 41(3), 709-731.
- Yen, A. C., Hirst, D. E. and Hopkins, P. E. (2007). A content analysis of the comprehensive income exposure draft comment letters. *Research in Accounting Regulation*, 19, 53-79.
- Zeff, S. A. (2002). "Political" lobbying on proposed standards: A challenge to the IASB. *Accounting Horizons*, 16(1), 43-54.

Zeff, S. A. (2014). The IASB and FASB stumble over the annuity method of depreciation. *Accounting in Europe*, 11(1), 55-57.

Zeghal, D. and Mhedhbi, K. (2006). An analysis of the factors affecting the adoption of international accounting standards by developing countries. *The International Journal of Accounting*, 41(4), 373-386.

Additional references: comment letters

Angel Trains (2013). CL-458- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]

Beacon Rail Leasing (2013). CL-96- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]

Canadian National Railway Corporation (2013). CL-324- Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]

ConocoPhillips (2013). CL-225- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]

Dow Chemical Company (2013). CL-284- Comment letters on 2013 Lease ED.
Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]

Exxon Mobil Corporation (2013). CL-392- Comment letters on 2013 Lease ED.
Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]

- General Electric Company (2013). CL-551- Comment letters on 2013 Lease ED.
Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- HSBC. CL-140- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- Koch Industries, Inc (2013). CL-75- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- KPMG (2013). CL-199 - Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- Lafarge (2013). CL-190- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- PHH Arval (2013). CL-204- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- PwC (2013). CL-301 - Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- Remke Market (2013). CL-306- Comment letters on 2013 Lease ED. Available at:
<http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx>
[accessed March 2015]
- Société Générale Group (2013). CL-567- Comment letters on 2013 Lease ED.
Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]

- Union Pacific Railroad Corporation (2013). CL-221- Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- Volkswagen Group (2013). CL- 303 - Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- Wal-Mart Store, Inc. (2013). CL-382 - Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- Washington Real Estate Investment Trust (2013). CL-113 - Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- WestJet airlines LTD (2013). CL-317 - Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]
- Zeff, S. A. (2013). CL-14 - Comment letters on 2013 Lease ED. Available at: <http://www.ifrs.org/Current-Projects/IASB-Projects/Leases/Pages/Leases.aspx> [accessed March 2015]