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The European Union's accounting policy analyzed from an ethical perspective: The case of petroleum resources, prospecting and evaluation

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ABSTRACT

This article uses Habermasian philosophy as a reading grid to understand the eminently political aspect of international accounting standard-setting. We specifically analyze the accounting regulations specific to the exploration for and the evaluation of mineral resources in the European context. The rise of the IASC and its successor, the IASB, favors the emergence of a new phase in accounting standard-setting, with a shift from a ruling logic to regulations that put the economic and social actors at the forefront of the negotiations. This change is particularly obvious in the notorious exception allowed by IFRS 6 (Exploration for and evaluation of mineral resources) exempting applicants from paragraphs 10–12 of the IAS 8. This example allows us to question the legitimacy of international accounting standardization and the ethical problems it poses.

1. Introduction

Since the mid-1960s, European Union member states have been engaged in complex negotiations in an effort to harmonize their accounting rules because comparable financial statements from companies were viewed as a "cornerstone of a future common market" (Botzem and Quack, 2006). Finally, in 2002, the European Union decided to subcontract the production of accounting standards to a private entity: the IASB (International Accounting Standard Board). European accounting standard-setting constitutes a "unique institutional configuration" that is the result of collaboration between the IASB and the EU (Colasse, 2007). Chiapello and Medjad (2007) point out that this transfer of competencies is puzzling because it is much broader than the usual forms of delegation to the private sector. The European Union accounting policy could be analyzed as an "unprecedented privatization of legal rules" because IASB standards are incorporated in EU law (Chiapello and Medjad, 2007, 2009).

The accounting literature has focused mainly on the content of the International Financial Reporting Standards and their dissemination. Little attention has been paid to the ethical value of international standard-setting in accounting. Nevertheless, rationality, integrity and objectivity in accounting depend primarily on actors entrusted with standard-setting roles (Gerborth, 1987; Shapiro, 1997, 1998). This is why analysis of ethical issues in accounting must consider standard-setting

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procedures. International standard-setting in accounting is based on consultation between experts and interested economic actors, qualified as "due process." This aims to favor a transparent defense of all stakeholders' interests by involving them in the definition of the rules to be applied. However, it poses ethical problems, as highlighted in the literature of the 1970s (Armstrong, 1977; Solomons, 1978; Wyatts, 1986).

What are the consequences of the emergence of private or mixed sources of accounting standardization in Europe? Are the procedures at work in international accounting standardization reconcilable with the values of democratic society where the general interest prevails? Do they meet the requirements of financial markets in terms of reliability and accuracy of accounting information? This article aims to evaluate the procedures at work in international accounting standard-setting from an ethical point of view. This type of reflection is all the more crucial given that the accounting standard-setter must research and promote rules that provide stakeholders with the best information possible. However, the aims announced by the international accounting standard-setters, such as transparency of financial information and market efficiency, seem to be somewhat incompatible with the reality of the IASB's role as an adjudicator of conflicts of interest between pressure groups. This contradiction is all the more evident in sensitive economic areas like energy. For this reason we have chosen to analyze the ethical and political problems at play within international accounting standard-setting based on the specific case of the mineral resources industry, and more specifically, the mechanisms at work in the adoption of IFRS 6 (Exploration for and evaluation of mineral resources) that sets the rules for recording mineral prospecting and evaluation.

On the basis of the accounting regulations specific to prospecting and evaluation of mineral resources, this article highlights a characteristic of international standard-setting in accounting that is often ignored: its eminently political nature. The case of petroleum as a mineral resource is well-suited for this because the accounting, evaluation and recording of exploration costs imply high stakes with regard to the determination of future economic outlook and industrial competition. This specificity exacerbates the ethical questions posed in terms of accounting standard-setting. We use discourse ethics as developed by Jürgen Habermas as a framework because it captures the way actors can reach a common agreement and resolve conflicts about norms and values. Habermas seeks to develop a global system to validate ethical choices. His system is particularly relevant in a pluralistic society wherein values differ. Habermas provides a relevant framework for understanding the legitimacy of international accounting standard-setting and its ethical assumptions. Habermasian theories have been applied to many accounting scenarios in both public and private sector organizations (Davis and Sturt, 2008) but none have investigated international accounting standard-setting. Consequently, this article uses Habermas' philosophy to analyze the ethical problems raised by international accounting standard-setting.

The paper is organized as follows. The first section describes the international accounting standard-setting procedure. The second section introduces Habermas' philosophy as a grid for reading ethical problems related to this mode of standard-setting. The third section analyses the genesis of the IFRS 6 regarding the costs of petroleum exploration in order to reveal the ethical problems it raises. The conclusion underlines the relevance of Habermas ethics of discussion for analyzing international accounting standardization.

2. International accounting standard-setting: an application of Anglo-Saxon due process

Accounting standard-setting is the establishment of common rules with the "double aim of standardizing and rationalizing the presentation of accounting information likely to satisfy the presumed need of multiple users" (Hoarau, 2003). In Europe, this dual goal of standardizing and rationalizing has been entrusted to an independent private organization, the International Accounting Standard Board (IASB). In a directive issued on 19 July 2002, the EU delegated the mission of elaborating the accounting standards applicable to listed companies within the EU to the IASB, which until then had no public mandate. However, the European Commission reserves a supervisory right over the standards proposed by the IASB, which must be accepted or rejected after soliciting the opinion of an organization made up of representatives from different EU member countries: the Accounting Regulatory Committee (Comité Réglementaire Comptable Européen, CRCE).[1]

We will first describe the composition of IASB, and we will analyze due process as the key principle of the IASB's functioning.

2.1. The composition of the IASB

The IASB is a private, independent British law organization based in London and controlled by the IASC Foundation. This foundation is based in the United States and financed by large industrial and service companies, auditing firms and international and public organizations. Governance of the IASC Foundation rests with 22 trustees, individuals with executive experience from diverse geographical and professional backgrounds from both the private and public sectors. Standards developed by the IASB are interpreted by the International Financial Reporting Interpretations Committee (IFRIC). Their mandate is to review widespread accounting issues that have arisen within the context of current International Financial Reporting Standards (IFRSs). IFRIC aims to reach consensus on the appropriate accounting treatment interpretations and

[1] Such a procedure aims to make up for the absence of the regulatory power's expertise by nominating experts drawn from regulatory organizations who then submit their proposals to the decision-making bodies (regulatory). Thus decision-making is delegated, while political power is not (Aghion et al., 2006).