Accounting, Organizations and Society xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

Accounting, Organizations and Society

journal homepage: www.elsevier.com/locate/aos

Carriers of ideas in accounting standard-setting and financialization: The role of epistemic communities

Darlene Himick[a,*], Marion Brivot[b]

[a] University of Ottawa, Telfer School of Management, 55 Laurier Avenue East, Ottawa, Ontario K1N 6N5, Canada
[b] Université Laval, Faculté des Sciences de l'Administration, 2325 Rue de la Terrasse, Québec, Québec G1V 0A6, Canada

ARTICLE INFO

Keywords:
Discount rate
GASB
Pension accounting
Epistemic community
Standard setting
Financialization

ABSTRACT

We investigate one episode of the "financialization" of accounting: the debate over the "correct" method to discount defined benefit (DB) pension plan liabilities for US public sector financial reporting. We outline this issue from the pre-agenda, agenda-setting and alternatives selection phases of the standard setting process, through to the policy decision made by the Governmental Accounting Standards Board (GASB) in 2012. We find that one group of 15 individuals, which we propose acted as an epistemic community (EC) that was focused on financial economic theory, was disproportionally influential in all phases of the standard setting process, despite its small size. Ideas do not spontaneously travel from one jurisdiction (e.g., financial economics) to another (e.g., accounting) without agency. We thus add a focus on the *carriers* of ideas to the literature on accounting standard setting, which has so far predominantly examined this process from the standpoint of interests and institutions. We argue that framing theory helps to both empirically identify the hierarchies of the EC, but further helps to make visible the values and assumptions made by agents of financialization who push towards the adoption of financial computation techniques presented as axiologically neutral.

1. Introduction

> They [the Governmental Accounting Standards Board, GASB] are also being bombarded by public officials and a large share of the actuarial profession with misleading – but "good sounding" – arguments …. I look at it this way: imagine a sentient creature from another planet landed on the earth, and had no understanding of our system of mathematics. We decide to teach them math. But rather than teaching them math by standard instruction, we do it by debate. So we have a MIT-trained mathematician patiently explain why 1 + 1 = 2. On the other side, we had a Harvard-trained lawyer (someone really smart, but with a totally different area of expertise, and, in this hypothetical example, not particularly good at math) argue that 1 + 1 = 3. This alien creature would have the alien equivalent of cognitive dissonance, and then resolve it by "compromising" and learning that 1 + 1 = 2.5. (Brown, 2011)

This article's opening quotation illustrates the tension between the two main sides in a debate over an accounting standard, with its imaginary example suggesting how combining two very different technical approaches can lead to an illogical conclusion. The debate in question concerned the method used to discount defined-benefit (DB) pension plan liabilities for US public-sector financial reporting. We examine this debate – and more specifically, the carriers of its underlying ideas – from its initial emergence in a small group of epistemic actors in the late 1980s through to a policy decision made by the GASB in 2012. We find that one group of individuals, which we argue acts as an epistemic community (henceforth EC), was disproportionally influential in all the stages of this standard-setting process, despite its small size (the EC's core set of members only comprises 15 individuals).

Accounting, as we know, is made up of ideas drawn from elsewhere (Miller, 1988). One of the motivations for borrowing ideas from elsewhere is to 'modernize' accounting practice (Miller, 1988, p. 606), and one of the ways this modernization takes place is through standard-setting. One recent example of the updating of accounting practice and regulation is fair value accounting, an instance of accounting practice increasingly drawing upon market value and financial economics for measurement. In this article, we take the fair value approach to defined-benefit pension accounting as one empirical example of the broader phenomenon of accounting change. Our primary aim is to focus on the ideas which hold support for fair value accounting together, highlighting the carriers of these ideas in a particular instance of accounting change.

This case is an important empirical example of the importation of fair value and market value approaches in financial accounting for

* Corresponding author.
E-mail addresses: himick@telfer.uOttawa.ca (D. Himick), marion.brivot@fsa.ulaval.ca (M. Brivot).

https://doi.org/10.1016/j.aos.2017.12.003
Received 1 May 2014; Received in revised form 7 December 2017; Accepted 15 December 2017

several reasons. First, "getting the accounting right" in this context involves an inter-professional dispute between outsiders to accounting (including actuaries and financial economists) about what should happen in accounting, as well as an internal dispute within one profession (actuaries) about what would be best for another profession (accounting). This allows us to turn our analytical attention to the way knowledge is developed outside accounting, and how the accounting profession responds to that development. Secondly, given its relatively small size, the epistemic community studied had a surprisingly significant influence throughout, and observing the way its members carried certain ideas into the process offers both empirical and theoretical insights. Finally, while the debate is over measurement methodology, it has far-reaching socio-economic consequences, for the accounting methodology prescribed by the GASB for valuation of pension liabilities is related to multi-billion dollar government planning and spending (Novy-Marx, 2011). This last point warrants further explanation.

Pension obligations are just one of many liabilities that governments measure and report. The present value of this obligation is determined for two primary purposes: funding (the government knows how much cash to set aside to fund the obligation), and accounting (stakeholders are informed of the amount of the government's liability that shows up in its reported accounts). To calculate the present value, an interest rate must be selected at which to discount the future cash payments to benefit recipients. Rates may be selected using judgment (for instance, by estimating a future expected level of return in a portfolio), or by observation (for instance, by taking the rate observed from an index of specific bonds). At the heart of the debate in this paper is the practice through which actuaries have used their own judgement and standards of practice to select a discount rate, and the argument that this practice is out-dated and should be replaced by a rate which is observable in the market.

The arguments in favour of particular rates also involve the values they produce: reducing the discount rate by even a fraction of a percentage point would typically increase the liability values of DB pensions. Increasing the rate would lower the liability value, but would therefore hide the "true cost" of DB pension plans, and would amount to pushing costs into the future at the expense of coming generations of taxpayers in a "day of reckoning" (Bullock, 2016), upsetting intergenerational equity. For a recent example, in the state of Illinois a proposed change from 7.5% to 7.0% prompted the following memorandum from the state's senior advisor for revenue and pensions: "If the board were to approve a lower assumed rate of return taxpayers will be automatically and immediately on the hook for potentially hundreds of millions of dollars in higher taxes or reduced services." (Bullock, 2016). What appears, then, as a simple measurement issue involving no more than a half of a percentage point, is a catalyst for real impact on broader government spending concerns. This topic thus goes beyond pension plans, and is especially visible in today's focus on government finances, austerity, and debt levels.

This research advances our knowledge in three ways. First, bringing a carrier of ideas focus to this setting adds to our understanding of accounting standard-setting. ECs, unlike other types of lobbying groups, do not represent classic self-interest and thus offer an analytical focus unrelated to interests (Haas, 1992). This is not to say that ECs are entirely disinterested parties: they participate in the policy arena because they are motivated by their normative beliefs. They "aim to impose their view of the world by dint of their epistemic authority" (Dunlop, 2012, p. 239). They are, therefore, carriers of ideas, and it is possible to track the ideas they represent over time, which further allows us to contribute to the accounting literature on financialization. Chiapello (2015) argues that financialization is fundamentally an epistemic issue. Building on this, we suggest that financial economics is a set of ideas and associated methods that require carriers to garner support for their acceptability. As we show in this study, carriers of ideas do not always agree, even when they share a common layer of financial culture, and it is through these micro-episodes of epistemic conflict that the path of financialization is carved out. These are micro conflicts because groups of experts from outside the accounting profession agree that accountants should use financialized calculative devices, but disagree about *which ones* specifically.

The second contribution of this study is to the literature on epistemic communities. Our setting allows us to answer Dunlop's (2012) call for work on how ECs interact with other policy actors, including the amount of political savviness displayed in their bargaining tactics with policymakers, and the ways they get involved in the policy process. Dunlop also stresses the need for a temporal approach, to uncover aspects such as an EC's adjustment of its position over time. Temporally tracking an EC's activities also helps us to understand how ECs learn through the policy process, observing whether they change their approach, and whether they discover anomalies which could cause them to change their position. Accounting standard-setting processes can unfold over many years, from issue emergence, to agenda-setting, to alternative selection and the promulgation of a new rule, and this makes them a good potential setting for documenting an EC's participation over time. A longitudinal approach is also able to capture the EC in action as a carrier of ideas, since by looking at the backstory – i.e. what led up to a particular policy being put on the agenda – we can find and track the history of the idea itself, long before interests develop and agendas are set.

Combining Framing Theory (Benford & Snow, 2000; Snow & Benford, 1988, 1992) with the EC literature also enables us to answer Dunlop's (2012) call for work to better delineate the community component of ECs, and this constitutes a third contribution to research. We argue that longitudinal empirical observation of the framing activities of carriers of ideas throughout the policy-making process can identify an EC's "core set" of members (Collins, 1981). We suggest that ECs consist of concentric circles of members, who adhere to the frame created by the core set and contribute differently to its diffusion and success. Van Waarden and Drahos (2002, p. 930) note that ECs tend to have a hierarchical structure "where some actors are more equal than others". We confirm this observation: a leader – Jeremy Gold – clearly emerges from our analysis and plays the role of an "epistemic arbitrageur" (Seabrooke, 2014): his dual epistemic culture in both actuarial science and financial economics gives him the authority to arbitrate between the two sources of knowledge and promote what he considers the technically superior discounting method.

This paper continues as follows. We first review the literature on the financialization of accounting through standard-setting. We then explain why combining the concept of the epistemic community with framing theory is valuable, present our methods and describe our analysis, which starts with a description of the situation at the beginning of the process examined and continues with an overview of the EC's framing activities, in five distinct stages, the last of which concerns the role they played during the GASB's Pension Project debate. This is followed by an analysis of the frames and counter-frames advocated by participants in the GASB's consultation process, and the empirical section ends with an overview of the GASB's final decision. The implications of our results are then discussed before the conclusions.

2. The "financialization" of accounting

Research on financialization and accounting can be divided into five distinct yet non-mutually exclusive groups. A first group of studies explores the *broader political, economic and cultural context* within which accounting change has taken place over the last three decades, including (i) the birth of neoliberalism; (ii) a move away from long-term investment and profit-making in the real economy to a focus on short-term gains through speculation and trading activities in the financial markets, and (iii) the colonization of individuals' everyday decision-making processes by financial metrics and logics. Financialization is understood here as "the shift from industrial to financial capitalism, the