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

Lucia Mellado, Laura Parte*

Departamento de Economía de la Empresa y Contabilidad, Facultad de Ciencias Económicas y Empresariales, Universidad Nacional de Educación a Distancia (UNED), Paseo Senda del Rey, 11, 28040 Madrid, Spain

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ABSTRACT

The highly controversial lease standard-setting project that will replace the standards currently in place, establishes a new approach that includes the recognition of all assets and liabilities associated with lease contracts on the balance sheet, regardless of their classification. The complex standard-setting process and the heated debate among stakeholders makes the analysis of the lobbying phenomenon an important matter for study. The aim of this paper is to find explanatory factors that predict the behaviour of corporate groups with respect to the lease standard-setting process. To achieve this objective, we scrutinize the submission of comment letters by 306 non-financial listed companies in response to the discussion paper (DP 2009) and two exposure drafts (ED 2010 and ED 2013) elaborated jointly by the IASB and the FASB by distinguishing among three degrees of intensity in lobbying activities, depending on participation in the different discussion periods. Our empirical study is conducted through a multivariate analysis that shows the intensity of lobbying by considering participation in the three consultation periods. The results show that the intensity of lobbying is associated with size, profitability, age, industry and managerial ownership. The evidence can be used to predict lobbying behaviour. The research has implications for standard setters and contributes to prior lobbying research.

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Determinantes corporativos de la intensidad del lobby en el proceso de elaboración de la norma de arrendamientos

RESUMEN

El proyecto de NIIF de arrendamientos, elaborado conjuntamente por el IASB y el FASB, ha sido objeto de una gran controversia debido a que propone el registro de los activos y pasivos derivados de los contratos de arrendamientos en el balance, con la única excepción de los contratos a corto plazo. En este artículo se presenta un estudio empírico para identificar los factores explicativos de la intensidad de la participación en el proyecto de las entidades cotizadas no financieras a través de las cartas de comentarios. Para ello, se analizan las cartas de comentarios presentadas por 306 sociedades cotizadas no financieras, en respuesta a los 3 documentos publicados hasta el momento de la emisión definitiva de la norma por los reguladores (DP 2009, ED 2010 y ED 2013) y se realiza un análisis multivariante. Los resultados muestran que el grado de intensidad de la participación de las empresas se ve influido por características corporativas como el tamaño, la rentabilidad, la antigüedad, el sector económico y la propiedad de acciones o participaciones de los directivos. La investigación tiene implicaciones para los emisores de normas y contribuye a la línea de investigación del lobby.

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* Corresponding author.

E-mail address: lparte@cee.uned.es (L. Parte).

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Introduction

This paper aims to find explanatory factors that predict the behaviour of corporate groups with respect to the lease standard-setting process. To that end, we scrutinize comment letters submitted by 306 non-financial listed companies in response to the discussion paper –DP 2009 (IASB, 2009)– and two exposure drafts –ED 2010 (IASB, 2010) and ED 2013 (IASB, 2013)– elaborated jointly by the IASB and the FASB. In particular, our analysis distinguishes three degrees of lobbying intensity that depend on participation in the different discussion periods.

The setting of accounting standards is commonly viewed as a political or economic process rather than a technical one (Zeff, 2002). In this context, two private sector organizations, the IASB and the FASB, have established a formal process for issuing accounting standards in which transparency and participation are key elements to achieve legitimacy.

Building on the prior scholarship of Georgiou (2004, 2010), Orens, Jorissen, Lybaert, and Van Der Tas (2011) distinguish between different methods of exercising pressure: formal versus informal and direct versus indirect. With regard to formal methods, the most accessible avenue of participation for interested parties is to submit comment letters, which have been considered a proxy for lobbying as a reflection of invisible actions (Hansen, 2011; Holder, Karim, Lin, & Woods, 2013). Consequently, for our purposes, we identify as a lobbyist every writer of a comment letter submitted to the lease DP 2009, ED 2010 or ED 2013.

The lease accounting proposal was chosen as the subject of this study for several reasons, which makes it special because there are few projects with the same conditions. First, this project's character is global in nature because it was conceived as part of the convergence project of the IASB and the FASB. The lease accounting standard was a high-priority project for both standard setters and was introduced to the common agenda in 2006 after the SEC (2005) required a change in lease accounting upon finding \$1.25 trillion in off-balance sheet operating leases. As a result of the regulatory process, IFRS 16 (IASB, 2016) was issued in January 2016, with some divergence regarding certain aspects of its content.

Second, the lease accounting proposal is highly controversial and has resulted in substantive differences of opinion among constituents. This heated debate is reflected in the international media and in the substantial number of comment letters received by standard setters. During the lease standard-setting process, DP 2009, ED 2010 and ED 2013 received 302, 788 and 655 comment letters, respectively, a number surpassing the average for other projects (Barral Rivada, 2014). Additionally, the effective date of the final standard was delayed several times. The ongoing debate over the pros and cons of the new lease accounting standard has become an important matter that has attracted the attention of accounting academia, professionals and the media (see, e.g., The Economist, 2013; The New York Times, 2013). The new lease approach aims to help users' decision-making processes, but companies are concerned about its costs and consequences.

Third, the lease standard introduces important accounting modifications from a conceptual and practical perspective. Accounting for operating leases has evolved from a complete lack of registration of assets and liabilities to a capitalization model. All leases that are not freely cancellable by both parties (with the exception of short-term leases) would be reflected in the balance sheet. Both standard setters strongly support the adoption of a "right-of-use" model rather than an ownership model (Biondi et al., 2011). However, other critical issues have hindered the achievement of consensus during the process, such as the definition of a lease, recognition of expenses on the lease income statement, renewal periods and contingent payments.

The new approach might have significant economic consequences because it affects companies' financial statements across all sectors; however, industries with more intensive exposure to operating leases would naturally face greater consequences (e.g., Fito, Moya, & Orgaz, 2013; Fülbier, Silva, & Pferdehirt, 2008). Scholars such as Beattie, Edwards, and Goodacre (1998), Goodacre (2003), in addition to companies such as PwC (2010), have examined the impact of capitalized operating leases and have shown that some financial ratios would be substantially affected. However, other authors reveal that the amount of off-balance-sheet assets and liabilities resulting from operating leases have been adjusted by analysts and are already included in stock prices and interest rates (see, e.g., Altamuro, Johnston, Pandit, & Zhang, 2014; Krische, Sander, & Smith, 2012), thus reducing concerns about the recognition of assets and liabilities from lease contracts. Nonetheless, transparency would increase if companies calculated the adjustments directly (Nailor & Lennard, 2000).

Our findings show that the intensity of lobbying is positively associated with firm size, firm profitability, firm age, and industries that are traditionally more intensively involved in leases. Moreover, the results suggest that such intensity is negatively associated with managerial ownership. The results are consistent with positive accounting theory regarding firms' motivations to lobby (Watts and Zimmerman, 1978) and with rational choice theory proposed by Sutton (1984). Moreover, the outcomes are consistent with those streams in the accounting literature that predicted the economic effects of the lease proposal.

This paper adds a new perspective by examining the explanatory factors that determine lobbying intensity in terms of comment letters in the lease accounting standard-setting process. Drawing on the framework that explains the drivers for lobbying in accounting standards, this paper uses determinants such as size, firm age and managerial ownership to explore the lobbying intensity. The intensity of lobbying is measured by the attendance of submitting a comment letter and with qualitative variables such as the length of comment letters and the percentage of answered questions. The results show that the attendance of comment letters works differently than the length of comment letters and the percentage of questions answered. Thus, the proxy to measure lobbying behaviour might cause variance in the results, an issue that should be considered in future research. The combination of alternative variables helps extend the previous evidence on lobbying behaviour.

Moreover, this study also reveals that previous findings identifying factors that influence a company's decision to lease and the characteristics that explain preferences for off-balance-sheet financing may be related to companies' attitudes towards lobbying in this case. Thus, the results provide a complete picture of firms' participatory behaviour in the lease accounting standard-setting process. This study therefore represents a new step in predicting the behaviour of preparers in lease accounting, which is one of the most controversial project (Barral Rivada, Madueño, & Sobrino, 2014; Fito et al., 2013; Molina & Mora, 2015; Arimany, Fito, & Orgaz, 2015).

The structure of this paper is as follows. The second section presents the theoretical framework and hypothesis. The third section describes the methodology and variables. The fourth section contains the sample selection and descriptive analysis. The fifth section presents the results and discussions. Finally, the sixth section presents the conclusions.

Theoretical framework and hypothesis

Positive accounting theory is an accepted accounting framework that is used to explain company behaviour, particularly lobbying activities. From an economic perspective, accounting regulatory

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